

**CITY OF ORANGE, CALIFORNIA**

**SINGLE AUDIT REPORT**

**JUNE 30, 2014**

CITY OF ORANGE, CALIFORNIA

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JUNE 30, 2014

**CITY OF ORANGE**

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH *GOVERNMENT AUDITING STANDARDS*

To the Honorable Mayor and Members of the City Council  
City of Orange, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Orange, California, (the City) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated December 18, 2014.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.



To the Honorable Mayor and Members of the City Council  
City of Orange, California

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Lance, Solt & Luyhard, LLP*

Brea, California  
December 18, 2014

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND  
ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES  
OF FEDERAL AWARDS REQUIRED BY OMB CIRCULAR A-133

To the Honorable Mayor and Members of the City Council  
City of Orange, California

**Report on Compliance for Each Major Federal Program**

We have audited the City of Orange's (the City) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2014. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

**Opinion on Each Major Federal Program**

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.



To the Honorable Mayor and Members of the City Council  
City of Orange, California

### **Other Matters**

The results of our auditing procedures disclosed one instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as items 2014-001. Our opinion on each major federal program is not modified with respect to these matters.

The City's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

### **Report on Internal Control over Compliance**

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. However, we identified a deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2014-001 that we consider to be a significant deficiency.

The City's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.



To the Honorable Mayor and Members of the City Council  
City of Orange, California

**Report on the Schedule of Expenditures of Federal Awards Required by OMB Circular A-133**

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Orange, California, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated December 18, 2014, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*Lance, Solt & Lingham, LLP*

Brea, California  
December 18, 2014



CITY OF ORANGE

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
<u>U.S. Department of Housing and Urban Development</u>			
Direct Programs:			
Community Development Block Grant*	14.218	B-13-MC-06-0507 B-12-MC-06-0507	\$ 91,784 1,104,443
Program Total:			<u>1,196,227</u>
Home Investment Partnership Program	14.239	M-10-MC-06-0544	<u>35,749</u>
<b>Total U.S. Department of Housing and Urban Development</b>			<b><u>1,231,976</u></b>
<u>U.S. Department of Justice</u>			
Direct Program:			
Federal Asset Forfeiture Program*	16.922	CA0301500	215,887
Passed through the County of Orange:			
Edward Byrne Memorial Justice Assistance Grant	16.738	2013-DJ-BJ-1065	<u>10,181</u>
<b>Total U.S. Department of Justice</b>			<b><u>226,068</u></b>
<u>U.S. Department of Transportation</u>			
Passed through the State of California			
Department of Transportation:			
Highway Planning and Construction	20.205	HSIP4-12-016 HSIPL-5073(071) HSIPL-5073(070) HSIPL-5073(069)	328,277 170,132 188,804 158,693
Program Total:			<u>845,906</u>
Office of Traffic Safety:			
Highway Planning and Construction	20.205	HSIPL-5073(073) HSIPL-5073(076) HSIPL-5073(075) HSIPL-5073(074) HSIP5-12-013	5,642 5,909 2,139 5,812 1,179
Program Total:			<u>20,681</u>
Selective Traffic Enforcement Program 2013	20.600	PT1431	7,729
Selective Traffic Enforcement Program 2014	20.600	PT1515	27,204
Program Total:			<u>34,933</u>
Minimum Penalties for Repeat Offenders for Driving While Intoxicated Program 2013	20.608	PT1431	7,049
Minimum Penalties for Repeat Offenders for Driving While Intoxicated Program 2014	20.608	PT1515	24,812
Sobriety Checkpoint Grant Program	20.608	SC14294	113,956
Program Total:			<u>145,817</u>
National Priority Safety Program 2013	20.616	PT1431	2,208
National Priority Safety Program 2014	20.616	PT1515	7,773
Program Total:			<u>9,981</u>
<b>Total U.S. Department of Transportation</b>			<b><u>1,057,318</u></b>
<u>U.S. Department of Homeland Security</u>			
Passed through the County of Orange:			
Emergency Management Performance Grant	97.042	2013-0047	<u>1,478</u>
Passed through the City of Santa Ana:			
Homeland Security Grant Program	97.067	2009-0019	22,823
Homeland Security Grant Program	97.067	A-2011-225-10	36,849
Program Total:			<u>59,672</u>
<b>Total U.S. Department of Homeland Security</b>			<b><u>61,150</u></b>
<b>Total Federal Expenditures</b>			<b><u>\$ 2,576,512</u></b>

\* Major Program

Note a: Refer to Note 1 to the schedule of expenditures of federal awards for a description of significant accounting policies used in preparing this schedule.

Note b: There was no federal awards expended in the form of noncash assistance and insurance in effect during the year.

Note c: Total amount provided to subrecipients during the year was \$71,660.

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2014**

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**Note 1: Summary of Significant Accounting Policies Applicable to the Schedule of Expenditures of Federal Awards**

**a. Scope of Presentation**

The accompanying schedule presents only the expenditures incurred by the City of Orange, California, that are reimbursable under federal programs of federal financial assistance. For the purposes of this schedule, federal awards include both federal financial assistance received directly from a federal agency, as well as federal funds received indirectly by the City from a non-federal agency or other organization. Only the portion of program expenditures reimbursable with such federal funds is reported in the accompanying schedule. Program expenditures in excess of the maximum federal reimbursement authorized or the portion of the program expenditures that were funded with state, local or other non-federal funds are excluded from the accompanying schedule.

**b. Basis of Accounting**

The expenditures included in the accompanying schedule were reported on the modified accrual basis of accounting. Under the modified accrual basis of accounting, expenditures are incurred when the City becomes obligated for payment as a result of the receipt of the related goods and services. Expenditures reported included any property or equipment acquisitions incurred under the federal program.

CITY OF ORANGE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unmodified Opinion

Internal control over financial reporting:

- Significant deficiencies identified? yes no
- Material weaknesses identified? yes none reported

Noncompliance material to financial statements noted? yes no

Federal Awards

Internal control over major programs:

- Significant deficiencies identified? yes no
- Material weaknesses identified? yes none reported

Type of auditors' report issued on compliance for major programs: Unmodified Opinion

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? yes no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
14.218	Community Development Block Grant
16.922	Federal Asset Forfeiture Program

Dollar threshold used to distinguish between type A and type B program \$300,000

Auditee qualified as low-risk auditee? yes no

**CITY OF ORANGE**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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**SECTION II - FINANCIAL STATEMENT FINDINGS**

No matters were reported.

**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

**Finding 2014-001**

Significant Deficiency:

Equipment and Real Property Management

Federal Program:

Federal Agency: U.S. Department of Justice

CFDA number: 16.922

Title: Federal Asset Forfeiture Program

Grant number: CA0301500

Criteria or specified requirement:

The *March 2014 Office of Budget and Management (OMB) Circular A-133 Compliance Supplement* states that equipment records acquired by Federal grants shall be adequately maintained. This includes documentation of Federal Source used and the Percentage of Federal Participation in the cost.

Condition:

During our examination of one of the equipment purchased with the federal grant, we noted that the Federal source as well as the Percentage of Federal Participation in the cost was not documented in the City's capital asset addition records.

Questioned Costs:

None

Context:

The condition was identified through the testing of the Equipment and Real Property Management requirements of the program.

Effect:

The City is not in compliance with the OMB Circular A-133 requirements with respect to equipment management. The City increases its risk of noncompliance with laws and procedures for equipment acquired under a Federal grant.

Recommendation:

We recommend that the City include the Funding Source as well as the Percentage of Federal Participation of the acquisition cost on their Fixed Asset Addition forms as well as their Surplus/Disposition forms.

Management's Response:

Management concurs with the finding. The City will now implement procedures in which Funding Source as well as Percentage of Federal Participation will be included in their capital asset records.

**SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

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**SECTION II - FINANCIAL STATEMENT FINDINGS**

**Finding 2013-001 – Deposits Payable Reconciliation**

During our test work we noted a portion of the Deposits Payable accounts relating to asset seizures, and developer permits and deposits that have not been properly reconciled for an extended period of time. We noted that there is uncertainty whether these are actual deposits or if they should be recognized as revenue of the City. We recommend that management properly reconcile the deposits payable accounts each year, and determine whether these amounts need to be written off or recognized as revenue.

**Management Response:** The City believes this item does not affect the balances or financial statements that pertain to this Single Audit report; i.e., federal grants and awards. Management does not believe this amount is material to the government-wide Statement of Net Position totaling \$800,717,461. The City is continuing to reconcile this account and identify the proper disposition of the described amounts. We anticipate that the account will be fully reconciled by the end of fiscal year 2014.

**Finding 2013-002 – Restatements to Net Position and Fund Balance**

Restatements to Net Position were caused by corrections of prior year capitalization of governmental assets, to record deferred promissory notes issued in prior years but not recorded, and to correct the duplicate posting of an invoice in the prior year. Restatements to Fund Balance were caused by corrections to the classification of unavailable revenue in the prior year which should have been posted as revenue, and to correct the duplicate posting on an invoice in the prior year.

**Management Response:** The city feels that these items do not affect the balances or financial statements that pertain to this Single Audit report; i.e., federal grants and awards. Additionally while these items affected prior year balances overall the impact of these adjustments was \$2,104,154 and therefore immaterial. The Restatements to Net Position of \$1,863,154 and to Fund Balance of \$141,590 were due to non-recurring financial transactions and staff's interpretations of transactions at the time of occurrence. Controls have been strengthened to identify issues and properly classify the accounts on a go-forward basis.

**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

**Finding 2013-003**

Federal Program:

CFDA number: 14.218 & 14.253

Title: Community Development Block Grant

Federal Grantor: U.S. Department of Housing and Urban Development

Grant number: B-09-MY-06-0507, B-10-MC-06-0507, B-11-MC-06-0507, B-12-MC-06-0507

Criteria or specified requirement:

The U.S. Department of Housing and Urban Development A-133 compliance requires quarterly reports (SF-425) be submitted to within 30 days following the end of the quarter periods ending September 30, December 30, March 30, and June 30.

Condition:

The City is required to submit SF-425 reports for all four quarters of the 2013 fiscal year.

**CITY OF ORANGE**

**SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013 (CONTINUED)**

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**Finding 2013-003 (Continued)**

Questioned Costs:

None.

Context:

Of the four reports examined, we noted that three of them were submitted greater than 30 days after the end of the quarter. The quarters ending September 30, 2012 and December 31, 2012, were submitted April 8, 2013 and the quarter ending June 30, 2013, was submitted October 16, 2013.

Effect:

Three of the four required reports were not submitted timely.

Cause:

The City was unaware of the requirement until this was a finding during the 2012 single audit that was conducted in March 2013. This is why the first three reports of the 2013 fiscal year were not submitted till April 8, 2013. The final report of the 2013 fiscal year was submitted late because the department has not established procedures to ensure that the reports are completed and timely submitted.

Recommendation:

The City needs to establish procedures and controls to ensure that the required reports are prepared and submitted timely.

Management's Response:

While the SF-425 quarterly reports were not filed in a timely manner, due to staffing shortages, they were eventually filed with the appropriate federal agency. Staff is currently unaware of any federal "penalty" for the late filing of these reports. Additionally the city was unaware of this requirement until last year's audit brought this issue to light. Therefore the reports were filed once staff was made aware of the requirement and when staff had sufficient time to file a thorough and accurate report. Going forward staff has implemented procedures that will be used to notify the reporting department of the deadlines for these reports.