

CITY OF FOUNTAIN VALLEY
Fountain Valley, California

Single Audit Report on Federal Awards

Year ended June 30, 2011

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Year ended June 30, 2011

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City Council
City of Fountain Valley, California

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

Independent Auditor's Report

We have audited the basic financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Fountain Valley as of and for the year ended June 30, 2011, and have issued our report thereon dated February 3, 2012. We conducted our audit in accordance with 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Fountain Valley's financial statements are free of 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*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Fountain Valley's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

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 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.

City Council
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Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all the deficiencies in the internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

We noted certain matters that we reported to management of the City in a separate letter dated February 3, 2012.

This report is intended solely for the information of the City Council, management of the City of Fountain Valley, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Mayer Hoffman McCann P.C.

Irvine, California
February 3, 2012



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**REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A
DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM, INTERNAL
CONTROL OVER COMPLIANCE AND ON THE SCHEDULE OF EXPENDITURES
OF FEDERAL AWARDS IN ACCORDANCE WITH OMB CIRCULAR A-133**

Independent Auditor's Report

Compliance

We have audited the compliance of the City of Fountain Valley (the City), California, 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, 2011. The City's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

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. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City of Fountain Valley complied, in all material respects, with the 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, 2011. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, 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 item 2011-1.

Internal Control Over Compliance

The management of the City of Fountain Valley is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Fountain Valley's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing

procedures for the purpose of expressing our opinion on compliance 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 of Fountain Valley'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.

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 deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Fountain Valley as of and for the year ended June 30, 2011, and have issued our report thereon dated February 3, 2012. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise the City of Fountain Valley's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended for the information and use of the City Council, management of the City of Fountain Valley, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Mayer Hoffman McCann P.C.

Irvine, California
March 12, 2012, except for the Schedule of Expenditures of Federal Awards as to which the date is February 3, 2012

CITY OF FOUNTAIN VALLEY
Schedule of Expenditures of Federal Awards
Year ended June 30, 2011

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal Domestic Assistance Number	Program Identification Number	Federal Share of Program Expenditures	Payments to Subrecipients
U.S. Department of Housing and Urban Development				
Direct Assistance:				
Community Development Block Grant	14.218	B-10-MC-06-0550	\$ 402,247	56,950
U.S. Department of Justice				
Passed-through the Orange County Sheriff's Office:				
Edward Byrne Memorial Justice Assistance Grant	16.738	2010-DJ-BX-0324	5,540	-
Edward Byrne Memorial Justice Assistance Grant (ARRA)	16.804	111950874	2,298	-
Subtotal			<u>7,838</u>	<u>-</u>
U.S. Department of Transportation				
Passed-through the California Department of Transportation:				
Highway Planning and Construction	20.205	ESPL-5341(028)	4,500	-
Highway Planning and Construction	20.205	RPSTPLE-5341(029)	55,069	-
Highway Planning and Construction	20.205	RPSTPLE-5341(030)	42,098	-
Subtotal			<u>101,667</u>	<u>-</u>
U.S. Department of Transportation				
Direct Assistance:				
State and Community Highway Safety	20.600	PT1015	12,703	-
State and Community Highway Safety	20.600	PT1101	53,559	-
Passed-through State of California - Office of Traffic Safety through the University of California, Berkeley :				
Click It or Ticket Mini Grant	20.600	CT11194	2,078	-
Passed-through the City of Anaheim:				
State and Community Highway Safety - Avoid The 26	20.608	AL1178	4,459	-
State and Community Highway Safety - Avoid The 28	20.608	AL0694	873	-
Subtotal			<u>73,672</u>	<u>-</u>
U.S. Department of Energy				
Direct Assistance:				
Energy Efficient Conservation Block Grant (ARRA)	81.128	SC0003377	30,898	-
U.S. Department of Homeland Security				
Passed-through the City of Santa Ana Police Department:				
Non-Profit Security Program	97.008	OES 059-950210	9,733	-
Passed-through California Emergency Management Agency				
Hazard Mitigation Grant Program	97.039	FEMA 1810-DR-CA	4,561	-
Passed-through the City of Orange:				
Emergency Management Performance Grant	97.042	OES 059-000000	5,084	-
Homeland Security Grant Program	97.067	CALEMA 059-000000	14,450	-
Subtotal			<u>33,828</u>	<u>-</u>
Total			<u>\$ 650,150</u>	<u>56,950</u>

See accompanying Notes to the Schedule of Expenditures of Federal Awards.

CITY OF FOUNTAIN VALLEY

Notes to the Schedule of Expenditures of Federal Awards

Year ended June 30, 2011

(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 Fountain Valley that are reimbursable under federal programs of federal awards. For the purposes of this schedule, federal awards include federal awards 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 are 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 recognized when the City becomes obligated for payment as a result of the receipt of the related goods and services. Expenditures reported include any property or equipment acquisitions incurred under the federal program.

(c) Subrecipients

During the fiscal year ended June 30, 2011, the City disbursed \$56,950 to subrecipients, utilizing funds provided by the U.S. Department of Housing and Urban Development Community Development Block Grant.

CITY OF FOUNTAIN VALLEY
Schedule of Findings and Questioned Costs
Year ended June 30, 2011

(A) Summary of Auditors' Results

1. An unqualified opinion was issued by the auditors on the financial statements of the auditee.
2. No material weaknesses in internal control were reported for the period under audit.
3. The audit disclosed no noncompliance which is material to the financial statements of the auditee.
4. There were no material weaknesses in internal control over the major program of the auditee.
5. An qualified report was issued by the auditors on compliance for major programs.
6. The audit disclosed one audit findings required to be reported under paragraph .510(a) of OMB Circular A-133.
7. The major program of the auditee was CFDA No. 14.218 Community Development Block Grant.
8. The dollar threshold used to distinguish Type A and Type B programs was \$300,000.
9. The auditee met the criteria to be classified as a low risk auditee for the year ended June 30, 2011 for purposes of major program determination.

(B) Findings Related to the Financial Statements which are Required to be Reported in Accordance with Generally Accepted Government Auditing Standards

There are no auditors' findings required to be reported in accordance with GAGAS.

(C) Findings and Questioned Costs for Federal Awards as Defined in Paragraph .510(a) of OMB Circular A-133

(2011-1) Community Development Block Grant - Reporting

Federal Agency: Department of Housing and Urban Development
CFDA No.: 14.218
Federal Program Income: Community Development Block Grant
Federal Award Program No.: B-10-MC-06-0550
Federal Award Year: 2011

CITY OF FOUNTAIN VALLEY
Schedule of Findings and Questioned Costs
(Continued)

(2011-1) Community Development Block Grant – Reporting, (Continued)

Control Category: Reporting

Questioned Costs: \$0

During our testwork performed over the City's compliance with reporting requirements related to the Community Development Block Grant (CDBG), we found that for the fiscal year ended June 30, 2011, the City had not submitted the fourth quarter form SF-425 report. This report is required to be submitted by the City to the Department of Housing and Urban Development.

Recommendation

We recommend that the City ensure compliance with all federal reporting requirements.

Management's Response Regarding Corrective Action Taken or Planned

Management has established an automated quarterly task reminder to ensure that Form SF-425 will be filled out on a quarterly basis as required by the Department of Housing and Urban Development.

CITY OF FOUNTAIN VALLEY

Summary Schedule of Prior Audit Findings

Year ended June 30, 2011

There were no audit findings for the year ended June 30, 2010 that required follow-up during the year ended June 30, 2011.