

CITY OF FOUNTAIN VALLEY, CALIFORNIA
SINGLE AUDIT OF FEDERALLY ASSISTED
GRANT PROGRAMS

JUNE 30, 2015

CITY OF FOUNTAIN VALLEY

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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*

The Honorable Mayor and
Members of City Council
City of Fountain Valley
Fountain Valley, 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 Fountain Valley (the City), as of and for the year ended June 30, 2015, 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 15, 2015.

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 City'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*.

We noted certain matters that we have reported to management and the City Council in a separate letter dated December 15, 2015.

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.

White Nelson Dick Evans LLP

Irvine, California
December 15, 2015

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

The Honorable Mayor and
Members of City Council
City of Fountain Valley
Fountain Valley, California

Report on Compliance for Each Major Federal Program

We have audited the City of Fountain Valley's (the City) compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (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, 2015. The City's major federal programs are identified in the summary of auditors' 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.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for the City's major federal program 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 of Fountain Valley 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, 2015.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item numbers 2015-001 and 2015-002. Our opinion on each major federal program is not modified with respect to these matters.

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

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 our 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified deficiencies in internal control over compliance, as described in the accompanying schedule of finding and questioned costs as item numbers 2015-001 and 2015-002, that we consider to be significant deficiencies.

Report on Internal Control over Compliance (Continued)

The City's responses to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questions costs. The City's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

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.

Report on 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 Fountain Valley, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated December 15, 2015, which contained unmodified opinions 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 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.

White Nelson Dick Evans LLP

March 22, 2016, except for the Schedule of Expenditures of Federal Awards to which the date is December 15, 2015
Irvine, California

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

CITY OF FOUNTAIN VALLEY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended June 30, 2015

| Federal Grantor / Pass - Through Grantor / Program / Cluster Title | Catalog of Federal Domestic Assistance Number | Program Identification Number | Federal Expenditures | Subrecipient Expenditures |
|---|---|-------------------------------------|-------------------------|------------------------------|
| <u>United States Department of Housing and Urban Development</u> | | | | |
| Direct Assistance: | | | | |
| Community Development Block Grants/ Entitlement Grants | 14.218 | B-13-MC-06-0550 | \$ 502,287 | \$ 41,405 |
| Total United States Department of Housing and Urban Development | | | <u>502,287</u> | <u>41,405</u> |
| <u>United States Department of Transportation</u> | | | | |
| Passed through State of California: | | | | |
| State and Community Highway Safety | 20.600 | SC14148 | 4,387 | - |
| | | PT1493 | 8,928 | - |
| | | AL1440 | 797 | - |
| | | PT1556 | <u>25,867</u> | <u>-</u> |
| Total United States Department of Transportation | | | <u>39,979</u> | <u>-</u> |
| <u>United States Department of Homeland Security</u> | | | | |
| Passed through County of Orange: | | | | |
| Emergency Management Performance | 97.042 | n/a | <u>8,720</u> | <u>-</u> |
| TOTAL EXPENDITURES OF FEDERAL AWARDS | | | <u>\$ 550,986</u> | <u>\$ 41,405</u> |

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

CITY OF FOUNTAIN VALLEY

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended June 30, 2015

1. GENERAL:

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal financial assistance programs of the City of Fountain Valley (the City). The City's reporting entity is defined in note 1 of the notes to the City's financial statements. All financial assistance received directly from federal agencies as well as federal financial assistance passed through other government agencies to the City is included in the accompanying schedule.

2. BASIS OF ACCOUNTING:

The accompanying Schedule of Expenditures of Federal Awards is presented using the modified accrual basis of accounting for governmental funds and the accrual basis of accounting for proprietary funds, which is described in the Note 1 of the notes to the City's financial statements.

3. RELATIONSHIP TO COMPREHENSIVE ANNUAL FINANCIAL REPORT:

Amounts reported in the accompanying Schedule of Expenditures of Federal Awards agree to amounts reported within the City's Comprehensive Annual Financial Report.

4. RELATIONSHIP TO FEDERAL FINANCIAL REPORTS:

Amounts reported in the accompanying Schedule of Expenditures of Federal Awards agree with amounts reported in federal financial reports.

5. CONTINGENCIES:

Under the terms of federal and state grants, additional audits may be requested by the grantor agencies and certain costs may be questioned as not being appropriate expenditures under the terms of the grants. Such audits could lead to a request for reimbursement to the grantor agencies.

CITY OF FOUNTAIN VALLEY

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
(CONTINUED)

For the year ended June 30, 2015

6. FEDERALLY FUNDED LOANS:

The City administers loans, primarily deferred loans, made from funds provided by the following federal programs:

| <u>Federal Programs</u> | <u>Loans Expended During the Year Ended June 30, 2015</u> | <u>Loans Outstanding as of June 30, 2015</u> |
|--|---|--|
| Community Development Block Grants/ Entitlement Grants (CFDA 14.218) | \$ - | \$ 118,752* |
| Home Investment Partnerships Program (CFDA 14.239) | - | 63,689* |

* All of the loans outstanding as of June 30, 2015 are forgivable and the City does not expect to receive repayment.

CITY OF FOUNTAIN VALLEY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(CONTINUED)

For the year ended June 30, 2015

2. FINDINGS RELATING TO FINANCIAL STATEMENTS:

None noted.

3. FINDINGS AND QUESTIONED COSTS RELATING TO MAJOR FEDERAL AWARDS:

Finding Number 2015-001

Noncompliance and Significant Deficiency - Program Income

Major Program

United States Department of Housing and Urban Development, Direct Assistance, Community Development Block Grants / Entitlement Grants (CFDA #14.218), Grant Identification Number: B-13-MC-06-0550

Criteria

24 CFR 570.504 states, that substantially all other program income (program income not related to a revolving fund) shall be disbursed for eligible activities before additional cash withdrawals are made from the U.S. Treasury. This section also states that at the end of each program year, the aggregate amount of program income cash balances and any investment thereof (except those needed for immediate cash needs, cash balances of a revolving loan fund, cash balances from a lump-sum drawdown, or cash or investments held for section 108 loan guarantee security needs) that, as of the last day of the program year, exceeds 1/12th of the most recent grant made shall be remitted to HUD as soon as practicable thereafter, to be placed on the recipient's line of credit.

Condition

The City had \$76,040 of program income on hand as of June 30, 2015. These funds represent prior year program income retained by the City that was not utilized prior to drawing down CDBG funds in fiscal year 14-15. Also, the City did not remit the \$76,040 of program income to HUD until performing the first drawdown for the subsequent fiscal year (15-16) in February 2016.

Perspective Information

The \$76,040 of program income on hand as of June 30, 2015 represents program income from prior fiscal years.

Questioned Costs

None.

CITY OF FOUNTAIN VALLEY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(CONTINUED)

For the year ended June 30, 2015

3. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAM AUDIT
(CONTINUED):

Finding Number 2015-001 (Continued)

Noncompliance and Significant Deficiency - Program Income (Continued)

Cause

The City did not have policies and procedures in place to ensure the timely utilization of program income prior to drawing down CDBG funds.

Effect

The City may be penalized or fined for its noncompliance with program compliance requirements.

Recommendation

We recommend that the City put policies and procedures in place to ensure the timely utilization of program income prior to drawing down CDBG funds.

Management Response

Management has established policies and procedures that require accounting staff to review the CDBG drawdown requests prior to submittal for the purpose of reviewing the proper disclosure and reporting of the program income.

CITY OF FOUNTAIN VALLEY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(CONTINUED)

For the year ended June 30, 2015

3. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAM AUDIT
(CONTINUED):

Finding Number 2015-002

Noncompliance and Significant Deficiency - Indirect Cost Rates

Major Program

United States Department of Housing and Urban Development, Direct Assistance, Community Development Block Grants / Entitlement Grants (CFDA #14.218), Grant Identification Number: B-13-MC-06-0550

Criteria

OMB Circular A-87 states that the rates proposed in indirect cost rate plans must be supported by subsidiary work sheets and other relevant data. In addition, OMB Circular A-87 states that indirect cost rate plans must be based on the actual costs of the period.

Condition

The City charged indirect costs to the grant for vehicle maintenance, general government buildings, and information processing; however, the support for how the rates were determined was not maintained. Also, the City charged employee benefits and self-insurance based on estimated hours worked by employees and did not adjust the amount charged to actual at the end of the grant year.

Perspective Information

Questioned costs for the vehicle maintenance, general government buildings, and information processing charges consist of all amounts charged to the grant. Questioned costs for employee benefits and self-insurance consist of the total amount charged to the grant less the actual costs incurred.

Questioned Costs

Questioned costs for the vehicle maintenance, general government buildings, and information processing charges total \$12,988. Questioned costs for employee benefits and self-insurance total \$14,248. Aggregate questioned costs are \$27,236.

CITY OF FOUNTAIN VALLEY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(CONTINUED)

For the year ended June 30, 2015

3. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAM AUDIT
(CONTINUED):

Finding Number 2015-002 (Continued)

Noncompliance and Significant Deficiency - Indirect Cost Rates (Continued)

Cause

The City utilized rates determined by a previous administration and could not locate the support for how the rates were determined. Also, the City did not adjust the estimated charges for employee benefits and self-insurance to actual at the end of the grant year.

Effect

The City may be penalized or fined for its noncompliance with program compliance requirements.

Recommendation

Since the rules for indirect cost rates will change for fiscal year 2015-2016 funding, we recommend the City review the new Uniform Guidance rules to determine the appropriate methods and documentation for utilizing indirect costs rates in the future.

Management Response

Management will review and follow the new Uniform Guidance for Federal Awards rules to determine the appropriate methods and documentation for utilizing indirect cost rates in the future.

CITY OF FOUNTAIN VALLEY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

For the year ended June 30, 2015

The City had federal expenditures of less than \$500,000 for fiscal year 2013-2014; therefore, no single audit was required.