

CITY OF GARDEN GROVE, CALIFORNIA

Single Audit Report

For the Year Ended June 30, 2015



Certified
Public
Accountants

CITY OF GARDEN GROVE, CALIFORNIA
For the Year Ended June 30, 2015

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Independent Auditor’s 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 City Council
City of Garden Grove, 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 Garden Grove, California (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 22, 2015. Our report includes an emphasis of matter paragraph indicating that the City adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment to GASB No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an Amendment of GASB Statement No. 68*.

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*.

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.

Macias Gini & O'Connell LLP

Newport Beach, CA
December 22, 2015



Independent Auditor’s Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

To the Honorable City Council
City of Garden Grove, California

Report on Compliance for Each Major Federal Program

We have audited the City of Garden Grove, California’s (the City) compliance with the types of compliance requirements described in the *OMB 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 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, 2015.

Other Matters

The results of our auditing procedures disclosed an 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 item 2015-001. Our opinion on each major federal program is not modified with respect to this matter.

The City's response to the noncompliance 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.

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 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 have identified a certain deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2015-001, 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.

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, business-type activities, each major fund and the aggregate remaining fund information of 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. We issued our report thereon dated December 22, 2015, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements, which 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 basic 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.

Macias Gini & O'Connell LLP

Newport Beach, CA
December 22, 2015

CITY OF GARDEN GROVE
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2015

Federal Grantor/ Pass-through Grantor Program Title	Catalog of Federal Domestic Assistance (CFDA) Number	Program Identification Number	Federal Financial Assistance Expenditures	Amount Provided to Subrecipients
U.S. Department of Housing and Urban Development:				
Direct programs:				
Community Development Block Grant	14.218	B-14-MC-06-0505	\$ 1,901,712	\$ 54,923
HOME Investment Partnerships Programs	14.239	M-14-MC-06-0511	1,238,423	-
Emergency Solutions Grants Program	14.231	S-14-MC-06-0505	152,055	140,089
Section 8 Housing Assistance Payments - Housing Choice Vouchers	14.871	CA102	<u>30,706,654</u>	<u>-</u>
Total U.S. Department of Housing and Urban Development			<u>\$ 33,998,844</u>	<u>\$ 195,012</u>
U.S. Department of Justice:				
Direct programs:				
FED-EDA TELACU Grant	11.010	07-46-06579	254,179	254,179
EDA-Harbor Blvd Improvement Project	11.307	09-79-06911	1,582,041	-
Bulletproof Vest Program	16.607	OMB# 1121-0235	641	-
Justice Assistance Grant	16.738	2014-DJ-BX-0038	35,480	-
Total U.S. Department of Justice			<u>\$ 1,872,341</u>	<u>\$ 254,179</u>
U.S. Department of Transportation:				
Passed through California				
Department of Transportation:				
Highway Planning and Construction	20.205	HSIPL-5328(065)(to be amended to FTIP)	<u>6,979</u>	<u>-</u>
Subtotal CFDA 20.205			6,979	-
Passed through California				
Office of Traffic Safety:				
State and Community Highway Safety	20.600	20656	1,100	-
	20.600	PT1492	46,765	-
	20.600	SC14154	36,263	-
	20.600	PT1538	<u>164,922</u>	<u>-</u>
Subtotal CFDA 20.600			249,050	-
Total U.S. Department of Transportation			<u>\$ 256,029</u>	<u>\$ -</u>

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

CITY OF GARDEN GROVE
Schedule of Expenditures of Federal Awards (Continued)
For the Year Ended June 30, 2015

Federal Grantor/ Pass-through Grantor Program Title	Catalog of Federal Domestic Assistance (CFDA) Number	Program Identification Number	Federal Financial Assistance Expenditures	Amount Provided to Subrecipients
U.S. Environmental Protection Agency:				
Water infrastructure - Twintree Storm Drain Project	66.202	XP-00T10201-3	420,342	-
Total U.S. Environmental Protection Agency			<u>\$ 420,342</u>	<u>\$ -</u>
U.S. Department of Health and Human Services:				
Passed through the County of Orange Social Services Agency:				
FACT: Families and Communities Together (Magnolia Park)	93.556	FNH0710	346,103	78,775
Passed through Community SeniorServe, Inc.:				
Senior Mobility PRG	93.044	ID# Not Provided	21,168	-
Total U.S. Department of Health and Human Services			<u>\$ 367,271</u>	<u>\$ 78,775</u>
U.S. Department of Homeland Security:				
UASI - BACKFILL	97.067	2013-00110 Cal-EMA ID#059-95010	27,507	-
Total U.S. Department of Homeland Security			<u>\$ 27,507</u>	<u>\$ -</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 36,942,334</u>	<u>\$ 527,966</u>

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

CITY OF GARDEN GROVE, CALIFORNIA
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2015

(1) BASIS OF ACCOUNTING

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) presents the federal activity of all federal award programs of the City of Garden Grove, California (the City) for the year ended June 30, 2015. The Schedule includes federal awards received directly from federal agencies, as well as federal awards passed through other agencies. The City's reporting entity is defined in Note 1 to the City's basic financial statements. Because the Schedule presents only a selected portion of the operations of the City, it is not intended to, and does not, present the financial position, changes in financial position, or cash flows of the City.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the modified-accrual basis of accounting for those grants that were recorded in governmental funds, and on the accrual basis of accounting for those grants that were recorded in proprietary funds. Expenditures are recognized following the cost principles contained in Office of Management and Budget (OMB) Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements. Pass-through entity identifying numbers are identified where available.

CITY OF GARDEN GROVE, CALIFORNIA
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2015

Section I – Summary of Auditor’s Results

Financial statements:

Type of auditor’s report issued:	Unmodified
Internal control over financial reporting:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified not considered to be material weaknesses?	None noted
Noncompliance material to financial statements noted?	No

Federal Awards:

Internal control over major programs:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified not considered to be material weaknesses?	Yes
Type of auditor’s report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?	No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
CFDA No. 14.218	Community Development Block Grant
CFDA No. 14.871	Section 8 Housing Assistance Payments- Housing Choice Vouchers
CFDA No. 20.205	Highway Planning and Construction

Dollar threshold used to distinguish between Type A and Type B programs:	\$1,108,270
Auditee qualified as a low-risk auditee?	Yes

CITY OF GARDEN GROVE, CALIFORNIA
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2015

Section II – Findings Relating to the Basic Financial Statements Reported in Accordance with Government Auditing Standards

None noted.

Section III – Federal Award Findings and Questioned Costs

Reference Number:	2015-001
Federal Program Title(s):	Community Development Block Grant
Federal Catalog Number:	14.218
Federal Agency:	U.S. Department of Housing and Urban Development
Pass-Through Entity:	N/A
Federal Award Number(s) and Year(s):	B-14-MC-06-0505 (2014)
Category of Finding:	Subrecipient Monitoring – Non-compliance with OMB Circular A-133 requirements.

Criteria

U.S. Office of Management and Budget Circular A-133 Compliance Supplement Part 3, Subrecipient Monitoring, states:

“A pass-through entity is responsible for:

Award Identification – At the time of the subaward, identifying to the subrecipient the Federal award information (i.e., CFDA title and number; award name and number; if the award is research and development; and name of Federal awarding agency) and applicable compliance requirements.”

Condition

During our review of two agreements between the City of Garden Grove and subrecipients, both agreements did not include the CFDA number as required by OMB Circular A-133.

Cause

The City does not have a written policy to ensure compliance with OMB Circular A-133 subrecipient monitoring requirements.

CITY OF GARDEN GROVE, CALIFORNIA
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2015

Effect

Failure to provide the subrecipient with the CFDA number may result in non-compliance with OMB Circular A-133.

Questioned Costs

N/A

Recommendation

We suggest that the City revise their policies and procedures to ensure that subrecipients are provided with complete Federal award information as required by OMB Circular A-133.

Views of Responsible Officials and Planned Corrective Action

The Community Development Department will update its policies and procedures to ensure that subrecipients are provided with complete Federal award information as required by OMB Circular A-133. The department will ensure that all future grant agreements in FY 16-17 will include grant CFDA numbers.

CITY OF GARDEN GROVE, CALIFORNIA
Summary Schedule of Prior Audit Findings
For the Year Ended June 30, 2014

Reference Number: 2014-01
Federal Program Titles: Community Development Block Grant (CDBG)
Federal Catalog Numbers: 14.218
Federal Agency: Department of Housing and Urban
Development (HUD)
**Federal Award
Numbers and Years:** B-13-MC-07-0505
Category of Finding: Reporting

Condition and Context

During our review of the reporting requirements, we noted that the City submitted the Federal Funding Accountability and Transparency Act Subaward Report for one of the subawards in November 2014, which is later than 30 days after the subaward contract was signed on July 1, 2013.

Corrective Action Taken

Staff have included the Federal Funding Accountability and Transparency Act Subaward report on its centralized division calendar to ensure timely reporting.

Status of Corrective Action

The City has fully implemented the corrective action.