

CITY OF ORANGE, CALIFORNIA
SINGLE AUDIT OF FEDERALLY ASSISTED
GRANT PROGRAMS
FOR THE YEAR ENDED JUNE 30, 2018

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*

The Honorable Mayor and
Members of City Council
of the City of Orange
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, 2018, 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 10, 2018.

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, which are described in the accompanying schedule of findings and questioned costs as Finding Number 2018-001 and 2018-002.

City's Response to Findings

The City's responses to the 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 the financial statements and, accordingly, we express no opinion on them.

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 10, 2018

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY THE UNIFORM GUIDANCE AND ON THE SCHEDULE OF
EXPENDITURES OF FEDERAL AWARDS

The Honorable Mayor and
Members of City Council
of the City of Orange
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 Office of Management and Budget *Compliance Supplement* that could have a direct and material effect on the City's major federal program for the year ended June 30, 2018. The City's major federal program is 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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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, 2018.

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 the Uniform Guidance, 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.

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

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, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated December 10, 2018, 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 the Uniform Guidance 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

Irvine, California
December 10, 2018

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

CITY OF ORANGE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended June 30, 2018

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-14-MC-06-0507	\$ 1,101,337	\$ 62,468
HOME Investment Partnerships Program	14.239	M-10-MC06-0544	28,962	-
Total United States Department of Housing and Urban Development			<u>1,130,299</u>	<u>62,468</u>
<u>United States Department of Justice</u>				
Direct Assistance:				
Equitable Sharing Program - Asset Forfeiture	16.922	CA0301500	579,266	-
Total United States Department of Justice			<u>579,266</u>	<u>-</u>
<u>United States Department of Transportation</u>				
Passed-through State of California Department of Transportation:				
Highway Planning and Construction	20.205	12-ORA-0-ORA(077)	6,762	-
Highway Planning and Construction	20.205	HSIP4-12-016(068)	9,218	-
Passed-through Orange County Transportation Authority:				
Highway Planning and Construction	20.205	HSIP4-12-016 (082)	1,413	-
Highway Planning and Construction	20.205	HSIP4-12-016	151	-
Passed-through California Office of Traffic Safety:				
Highway Planning and Construction	20.205	HSIPL-5073(081)	13,573	-
Highway Planning and Construction	20.205	HSIPL-5073(079)	12,558	-
Highway Planning and Construction	20.205	HSIPL-5073(078)	4,889	-
Highway Planning and Construction	20.205	HSIPL-5073(080)	2,033	-
Highway Planning and Construction	20.205	OCTA-5073(083)	2,725	-
Highway Planning and Construction	20.205	OCTA-5073(084)	2,108	-
Highway Planning and Construction	20.205	OCTA-5073(086)	7,819	-
Highway Planning and Construction	20.205	OCTA-5073(085)	5,284	-
Highway Planning and Construction	20.205	OCTA-5073(088)	625	-
Highway Planning and Construction	20.205	OCTA-5073(087)	1,052	-
Total Highway Planning and Construction			<u>70,210</u>	<u>-</u>
Highway Safety passed-through California Office of Traffic Safety:				
State and Community Highway Safety	20.600	PT1785	112,435	-
State and Community Highway Safety	20.600	PT18107	162,901	-
Total Selective Traffic Enforcement Program			<u>275,336</u>	<u>-</u>
Total United States Department of Transportation			<u>345,546</u>	<u>-</u>
<u>United States Department of Homeland Security</u>				
Direct Assistance: Federal Emergency Management Agency:				
Pre-Disaster Mitigation	97.047	Unknown	5,126	-
Passed-through the County of Orange:				
Emergency Management Performance Grant	97.042	Unknown	20,359	-
Total United States Department of Homeland Security			<u>25,485</u>	<u>-</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 2,080,596</u>	<u>\$ 62,468</u>

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

CITY OF ORANGE

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended June 30, 2018

1. BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of the City of Orange (the City) under programs of the federal government for the year ended June 30, 2018. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). 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 statements of the City. The City's reporting entity is defined in Note 1 of the notes to the City's financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported using the modified accrual basis of accounting for governmental funds and the accrual basis for proprietary funds, which is described in Note 1 of the notes to the City's financial statements. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

3. INDIRECT COST RATE

The City has elected not to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

4. RELATIONSHIP TO COMPREHENSIVE ANNUAL FINANCIAL REPORT

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

5. RELATIONSHIP TO FEDERAL FINANCIAL REPORTS

Amounts reported in the accompanying Schedule agree with amounts reported in federal financial reports.

6. 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 ORANGE

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
(CONTINUED)

For the year ended June 30, 2018

7. SUBRECIPIENTS

During the fiscal year ended June 30, 2018, the City disbursed federal funds to the following subrecipients under the Community Development Block Grant program (CFDA #14.218):

	<u>Amount Disbursed</u>
Fair Housing Foundation	\$ 24,522
Helping Our Mentally Ill Experience Success, Inc.	9,375
Assistance League of Orange	12,571
Friendly Center, Inc.	8,371
Mariposa Women and Family Center	<u>7,629</u>
Total Disbursed to Subrecipients	<u>\$ 62,468</u>

CITY OF ORANGE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the year ended June 30, 2018

1. SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditor's report issued:

- Unmodified

Internal control over financial reporting:

- Material weakness identified? yes no
- Significant deficiency identified? yes none reported

Noncompliance material to financial statements noted: yes no
 Finding Numbers 2018-001 and 2018-002

Federal Awards:

Internal control over major programs:

- Material weakness(es) identified? yes no
- Significant deficiency(es) identified? yes none reported

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 2 CFR Section 200.516(a) of the Uniform Guidance? yes no

Identification of major programs:

<u>CFDA Number(s)</u> 14.218	<u>Name of Federal Program or Cluster</u> United States Department of Housing and Urban Development - Community Development Block Grants/Entitlement Grants
---------------------------------	--

Dollar threshold used to distinguish between type A and type B programs: \$ 750,000

Auditee qualified as low-risk auditee? yes no

CITY OF ORANGE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(CONTINUED)

For the year ended June 30, 2018

2. FINDINGS - FINANCIAL STATEMENT AUDIT

COMPLIANCE AND OTHER MATTERS

Finding Number 2018-001

Criteria

Senate Bill 341 (SB 341) requires all successor housing entities to comply with annual report requirements. One requirement is for the City to report housing financial and activity information by including specified information with the Annual Progress Report (APR) required to be annually submitted to the Department of Housing and Community Development (HCD) by April 1 of the subsequent year pursuant to the State of California housing law in reporting progress in implementing the housing element.

Condition

The City submitted the APR for the fiscal year ended June 30, 2017 on June 21, 2018, which was after the due date of April 1, 2018.

Cause

The City staffing resources limited the ability to meet the requirement.

Effect

The effect is unknown.

Recommendation

We recommend that the City implement policies and procedures to ensure timely reporting of the APR to HCD.

Management's Response

Staff resource limitations and competing project demands resulted in a delay to accumulate the required information and submit the report to the State. The City continues to make efforts to submit this report on a timely basis.

CITY OF ORANGE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(CONTINUED)

For the year ended June 30, 2018

2. FINDINGS - FINANCIAL STATEMENT AUDIT (CONTINUED)

COMPLIANCE AND OTHER MATTERS (CONTINUED)

Finding Number 2018-002

Criteria

Assembly Bill 2766 (AB2766), Chapter 1705 (Health and Safety Code Sections 44220 through 44247) as it relates to the Air Pollution Reduction Special Revenue Fund (AQMD) requires the City which operates a trip reduction program to have required documentation of compliance with program requirements for each employee that participates.

Condition

The City did not have proper support for one employee that participated in the program during fiscal year 2017-2018.

Cause

The City staffing resources limited the ability to meet the requirement.

Effect

The effect is unknown.

Recommendation

We recommend that the City implement policies and procedures to ensure all participating employees submit the required documentation.

Management's Response

The City has established monthly internal auditing procedures to specifically address participants' eligibility and the required documentation to support trip reduction payments.

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

None noted.

CITY OF ORANGE

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

For the year ended June 30, 2018

1. FINDINGS - FINANCIAL STATEMENT AUDIT:

COMPLIANCE AND OTHER MATTERS

Finding Number 2017-001

Condition

The City submitted the Annual Progress Report (APR) for the fiscal year ended June 30, 2016 on July 20, 2017, which was after the due date of April 1, 2017.

Recommendation

We recommend that the City implement policies and procedures to ensure timely reporting of the APR to Department of Housing and Community Development (HCD).

Current Status

This finding has not been corrected. See Finding 2018-001.

2. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAM AUDIT:

None noted.