

CITY OF ORANGE, CALIFORNIA

SINGLE AUDIT REPORT

JUNE 30, 2013

CITY OF ORANGE, CALIFORNIA

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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, 2013, 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 11, 2013.

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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as findings 2013-001 and 2013-002 to be material weaknesses in internal control.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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



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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*.

Management'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 it.

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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Lance, Soll & Loughard, LLP

Brea, California
December 11, 2013

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE 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, 2013. 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 law, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express opinions 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 the *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB 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 legal determination of the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City of Orange 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, 2013.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2013-003. Our opinion on each major federal program is not modified with respect to these matters.



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The City's response to the noncompliance findings identified on our audit is described in the accompanying schedule of findings and questioned costs and/or corrective action plan. 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 type 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 controls 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 a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that a 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 weakness 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 certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2013-003 that we consider to be a significant deficiency.

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, 2013, and have issued our report thereon dated December 11, 2013, which contained an unmodified opinion on those financial statements. Our audit was performed for the purpose of forming opinions on the financial statements as a whole. The schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133 and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit



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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, schedule of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

The City's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs and/or corrective action plan. 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 communication is not suitable for any other purpose.

Lance, Soll & Lingham, LLP

Brea, California
December 11, 2013

CITY OF ORANGE

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Expenditures
<u>U.S. Department of Housing and Urban Development</u>			
Direct Programs:			
Community Development Block Grant*	14.218	B-12-MC-06-0507	\$ 33,955
		B-11-MC-06-0507	1,197,252
		B-10-MC-06-0507	54,118
Community Development Block Grant - ARRA*	14.253	B-09-MY-06-0507	10,916
Program Total			<u>1,296,241</u>
Home Investment Partnership Program	14.239	M-10-MC-06-0544	31,760
Self-Help Homeownership Opportunity Program	14.247	S-09-MY-06-0507	62,200
Total U.S. Department of Housing and Urban Development			<u>1,390,201</u>
<u>U.S. Department of Justice</u>			
Direct Program:			
Federal Asset Forfeiture Program	16.000	CA0301500	203,979
Bullet Proof Vest Partnership Program	16.607	-	1,952
Passed through the County of Orange			
Edward Byrne Memorial Justice Assistance Grant	16.738	2012-DJ-BX-0057	11,423
		2011-DJ-BX-2532	1,925
Program Total			<u>13,348</u>
Total U.S. Department of Justice			<u>219,279</u>
<u>U.S. Department of Transportation</u>			
Passed through the State of California			
Department of Transportation:			
Highway Planning & Construction	20.205	SR2SL-5073(066)	106,796
		HSIP4-12-016	22,197
		HSIPL-5073(071)	5,918
		HSIPL-5073(070)	7,696
		HSIPL-5073(069)	8,905
Program Total			<u>151,512</u>
Passed through the State of California			
Office of Traffic Safety			
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	SC13294	50,150
Total U.S. Department of Transportation			<u>201,662</u>
<u>U.S. Department of Energy</u>			
Direct Program:			
Energy Efficiency and Conservation Block Grant - ARRA	81.128	SC0002955	8,238
Total U.S. Department of Energy			<u>8,238</u>

CITY OF ORANGE

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Expenditures
<u>U.S. Department of Homeland Security</u>			
Passed through the City of Santa Ana: Homeland Security Grant Program	97.067	2009-0019	1,146
Passed through the City of Anaheim: Homeland Security Grant Program	97.067	G10-UPA-62	20,710
	97.067	-	14,781
Total U.S. Department of Homeland Security			36,637
Total Federal Expenditures			\$ 1,856,017

* 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 \$75,923.

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2013**

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, 2013**

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unqualified 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: Unqualified 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:

CFDA Number(s)

Name of Federal Program or Cluster

14.218 & 14.253

Community Development Block Grant - ARRA

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, 2013

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.

CITY OF ORANGE

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

Finding 2013-003 (Continued)

Condition:

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

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.

CITY OF ORANGE

SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS FOR THE FISCAL YEAR ENDED JUNE 30, 2012

SECTION II - FINANCIAL STATEMENT FINDINGS

Finding 2012-001 - Year End Audit Adjustments

During our testwork, we noted exceptions in which invoices relating to services performed prior to the end of the fiscal year were not recorded as payables in the proper accounting period. Proper cutoffs are critical for the accuracy of the accrual basis of accounting. Audit adjusting entries have been provided to accrue these invoices.

Current Status: Controls were established to prevent this kind of adjustment from being necessary in the 2013 fiscal year.

Finding 2012-002 - Fund Balance restatements

During our test work we noted instances where fund balance restatements were necessary. These adjustments were needed to correct errors in prior year relating to the capitalization of assets in both the Governmental and Business Type Activities, and to correct prior misclassification of revenue in the Housing In Lieu Fund in the former Redevelopment Housing Fund rather than the Other Governmental Funds.

Current Status: Similar adjustments were necessary, see finding 2013-2

Finding 2012-003 - Posting Journal Entries

During our test work, it was noted that entries were posted during the year to fund balance accounts, which results in an erroneous fund balance restatement. Journal entries to reverse a \$1 million restatement related to the principle payments made from the former Redevelopment Agency to the City regarding the parking lots. We recommend that management implement a procedure to verify fund balance accounts are used only when correcting errors from prior periods.

Current Status: Controls were established to prevent this kind of adjustment from being necessary in the 2013 fiscal year.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding 2012-004

Federal Program:

CFDA number: 14.218

Title: Community Development Block Grant

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

Grant number: B-10-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.

CITY OF ORANGE

**SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

Finding 2012-004 (Continued)

Condition:

The City did not file the required quarterly reports outlined in the A-133 compliance requirement.

Questioned Costs:

None.

Current Status:

The City submitted the four quarterly reports for the 2012 fiscal year in April 2013 after receiving the finding during the 2012 Single Audit.