

CITY OF ORANGE, CALIFORNIA

SINGLE AUDIT REPORT

JUNE 30, 2012

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CERTIFIED PUBLIC ACCOUNTANTS

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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 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, 2012, which collectively comprise the City's basic financial statements and have issued our report thereon dated March 19, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the City is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below or in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses but no other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as finding 2012-1, 2012-2, and 2012-3 to be material weaknesses in internal control.



To the Honorable Mayor and Members of the City Council
City of Orange, California

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

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

Lance, Soll & Lingham, LLP

Brea, California
March 19, 2013



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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Honorable Mayor and Members of the City Council
City of Orange, California

Compliance

We have audited the City of Orange California (the City)'s 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, 2012. 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. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, 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 2012-4.

Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.



To the Honorable Mayor and Members of the City Council
City of Orange, California

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as item 2012-4. *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.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Orange, California, as of and for the year ended June 30, 2012, and have issued our report thereon dated March 19, 2013, which contained unqualified opinions 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, Audits of States, Local Governments, and Non-Profit Organizations, 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 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

The City's response to the findings identified in our audit is described above or in the accompanying schedule of findings and questioned costs. We did not audit the City's responses and, accordingly, we express no opinion on it.

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

Lance, Soll & Lughard, LLP

Brea, California
March 19, 2013

CITY OF ORANGE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
<u>U.S. Department of Housing and Urban Development</u>			
Direct Programs:			
Community Development Block Grant*	14.218	B-10-MC-06-0507	\$ 1,299,272
HOME Investment Partnerships Program*	14.239	M-10-MC-06-0544	1,264,255
Self-Help Home Ownership Opportunity Program	14.247	S-09-MY-06-0507	175,102
Total U.S. Department of Housing and Urban Development			2,738,629
<u>U.S. Department of Justice</u>			
Direct Program:			
Federal Asset Forfeiture Program	16.000	CA0301500	155,890
Bullet Proof Vest Partnership Program	16.607	-	132
Passed through the County of Orange			
Edward Byrne Memorial Justice Assistance Grant	16.738	2010-DJ-BX-0324	22,661
		2011-DJ-BX-2532	13,901
Program Total			36,562
Recovery Edward Byrne Memorial Justice Assistance Grant - ARRA	16.803	2009-SB-B9-0271	1,635
Total U.S. Department of Justice			194,219
<u>U.S. Department of Transportation</u>			
Passed through the State of California			
Department of Transportation			
ARRA - Highway Planning & Construction*	20.205	ESPLE-5073(065)	688,525
Highway Planning & Construction*	20.205	HSIPL-5073(064)	1,353
		SRTSL-5073(063)	1,600
		-	64,700
		HSIPL-5073(066)	113,198
		HSIPL-5073(055)	2,132
Program Total			871,508
Passed through the State of California			
Office of Traffic Safety:			
State and Community Highway Safety	20.600	AL0958	71,224
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	-	86,196
Total U.S. Department of Transportation			1,028,928
<u>U.S. Department of Energy</u>			
Direct Program:			
Energy Efficiency and Conservation Block Grant - ARRA	81.128	SC0002955	469,761
Total U.S. Department of Energy			469,761

CITY OF ORANGE

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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 -	42,155 72,129
Total U.S. Department of Homeland Security			114,284
Total Federal Expenditures			\$ 4,545,821

* 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 \$247,086.

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012**

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, 2012**

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
14.239
20.205

Community Development Block Grant
Home Investment Partnership Program
Highway Planning and Construction

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, 2012**

SECTION II - FINANCIAL STATEMENT FINDINGS

Finding 2012-1 - 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.

Finding 2012-2 - 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.

Finding 2012-3 - 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.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding 2012-4

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.

Condition:

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

Questioned Costs:

None.

CITY OF ORANGE

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

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)

Context:

The City's grants are decentralized and the department administering the grant did not properly file the quarterly reports in a timely manner. We believe this resulted from a systemic issue of internal control.

Effect:

The City is not in compliance with the A-133 requirements.

Recommendation:

We recommend that management designate personnel who will be responsible for the timely submission of these reports.

CITY OF ORANGE

**SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

SECTION II - FINANCIAL STATEMENT FINDINGS

Finding 2011-1 - Grants:

During our year end testwork, we noted that several grants were excluded from the Schedule of Federal Expenditures. Management is responsible for including all federal grants regardless of whether they are passed through another agency or the City receives the award directly. We believe this is an isolated instance due to limited staffing and management is aware of the grants that should be included on the Schedule of Federal Expenditures

Management Comment:

The City has assigned a staff member to update the current list of federal grants with new grants as they are awarded. The list of federal grants will be reviewed by each City Department prior to the annual Single Audit.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.