

CITY OF COSTA MESA, CALIFORNIA
SINGLE AUDIT OF FEDERALLY ASSISTED
GRANT PROGRAMS

JUNE 30, 2013

CITY OF COSTA MESA

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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 the City Council
of the City of Costa Mesa
Costa Mesa, 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, each major fund, and the aggregate remaining fund information of the City of Costa Mesa (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 26, 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 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. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we considered 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 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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as Finding Numbers 2013-01 and 2013-02 to be material weaknesses.

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 a certain matter that we have reported to management and the City Council in a separate letter dated December 26, 2013.

City of Costa Mesa's Responses to the 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 26, 2013

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 the City Council
of the City of Costa Mesa
Costa Mesa, California

Report on Compliance for Each Major Federal Program

We have audited the City of Costa Mesa'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 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 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 of Costa Mesa 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 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 2013-03. Our opinion on each major federal program is not modified with respect to this matter.

The City's response to the noncompliance findings 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. 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 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, each major fund, and the aggregate remaining fund information of the City of Costa Mesa, 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. We issued our report thereon dated December 26, 2013, 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 Nick Evans LLP

Irvine, California
December 26, 2013

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

CITY OF COSTA MESA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended June 30, 2013

Federal Grantor / Pass - Through Grantor / Program / Cluster Title	Catalog of Federal Domestic Assistance Number	Program Identification Number	Federal Expenditures
<u>United States Department of Housing and Urban Development</u>			
Direct Assistance:			
Community Development Block Grant (CDBG)	14.218	B - 12 - MC - 06 - 0503 B - 11 - MC - 06 - 0503	\$ 1,043,082
HOME Investment Partnerships Program	14.239	M - 12 - MC - 06 - 0507 M - 11 - MC - 06 - 0507	328,713
Total United States Department of Housing and Urban Development			<u>1,371,795</u>
<u>United States Department of the Interior</u>			
Passed through California Department of Parks and Recreation: Outdoor Recreation, Acquisition, Development and Planning - Fairview Park Channel			
	15.916	RT - 30 - 014	<u>35,862</u>
<u>United States Department of Justice</u>			
Direct Assistance:			
Federal Asset Forfeiture	16.000	N/A	1,136,220
Bulletproof Vest Partnership Program	16.607	N/A	4,182
COPS Hiring Program	16.710	2010-UMWX-0035	659,834
DEA - State and Local Task Force	16.710	N/A	17,202
Passed through the Orange County Sheriff's Department:			
Edward Byrne Memorial Justice Assistance Grant	16.738	2010-DJ-BX-0324 2011-DJ-BX-2532	6,790 25,102
Edward Byrne Memorial JAG Recovery	16.804	2009-SB-B9-0271	<u>7,174</u>
Total United States Department of Justice			<u>1,856,504</u>

(Continued)

See 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 (pages 3, 4 and 5) and Notes to Schedule of Expenditures of Federal Awards (pages 9 and 10).

CITY OF COSTA MESA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
(CONTINUED)

For the year ended June 30, 2013

Federal Grantor / Pass - Through Grantor / Program / Cluster Title	Catalog of Federal Domestic Assistance Number	Program Identification Number	Federal Expenditures
<u>United States Department of Transportation</u>			
Passed through California Department of Transportation:			
Highway Planning and Construction	20.205	SRTSLNI-5312 (078) SRTSL-5312 (076)	\$ 1,084 <u>939,600</u> 940,684
Passed through Orange County Transportation Authority:			
Highway Planning and Construction	20.205	C-0-1802	<u>69,417</u>
Total Highway Planning and Construction			<u>1,010,101</u>
Passed through California Office of Traffic Safety:			
State and Community Highway Safety	20.600	PT 1370 20413	30,579 <u>10,012</u>
Total State and Community Highway Safety			<u>40,591</u>
Passed through California Office of Traffic Safety:			
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	PT 1370 20413	25,505 <u>2,356</u> <u>27,861</u>
Passed through City of Anaheim:			
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	20656	<u>2,505</u>
Passed through University of California, Berkeley:			
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	SC13096	<u>72,291</u>
Total United States Department of Transportation			<u>1,153,349</u>
<u>United States Department of Energy</u>			
Direct Program:			
ARRA - Energy Efficiency and Conservation Block Grant	81.128	DE - SC0001495	<u>20,970</u>

(Continued)

See 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 (pages 3, 4 and 5) and Notes to Schedule of Expenditures of Federal Awards (pages 9 and 10).

CITY OF COSTA MESA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
(CONTINUED)

For the year ended June 30, 2013

Federal Grantor / Pass - Through Grantor / Program / Cluster Title	Catalog of Federal Domestic Assistance Number	Program Identification Number	Federal Expenditures
<u>United States Department of Homeland Security</u>			
Direct Assistance:			
Assistance to Firefighter Grant	97.044	EMW-2010-FO-05149	\$ 8,946
Passed through the City of Anaheim:			
Homeland Security Grant Program	97.067	2010-0085	11,907
Passed through the City of Santa Ana:			
Homeland Security Grant Program	97.067	2011-0019	20,303
Total Homeland Security Grant Program			32,210
Total United States Department of Homeland Security			41,156
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 4,479,636

See 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 (pages 3, 4 and 5) and Notes to Schedule of Expenditures of Federal Awards (pages 9 and 10).

CITY OF COSTA MESA

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended June 30, 2013

1. GENERAL:

The accompanying Schedule of Expenditures of Federal Awards presents only the expenditures incurred by the City of Costa Mesa that are reimbursable under federal programs of federal financial assistance. For the purposes of this schedule, federal financial assistance includes both federal financial assistance received directly from a federal agency, as well as federal funds received indirectly by the City from a nonfederal agency or other organization. Only that portion of program expenditures reimbursable with such federal funds are 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.

2. BASIS OF ACCOUNTING:

The accompanying Schedule of Expenditures of Federal Awards is presented using the modified accrual basis of accounting 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.

See 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 (pages 3, 4, and 5) and the Schedule of Expenditures of Federal Awards (pages 6, 7, and 8).

CITY OF COSTA MESA

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
(CONTINUED)

For the year ended June 30, 2013

6. SUBRECIPIENTS:

During the fiscal year ended June 30, 2013, the City disbursed federal funds to the following subrecipients under the Community Development Block Grant program (CFDA #14.218):

	<u>Amount Disbursed</u>
Community Senior Services	\$ 27,500
Youth Employment Services	19,000
Costa Mesa HCD - Homeless Outreach	35,000
Serving People In Need	10,000
Alzheimer's Family Services	7,500
Community and Schools Collaboration	5,000
Women Helping Women	10,000
Costa Mesa Senior Corp	10,000
Mercy House	19,002
Project Independence	7,500
Elwyn	<u>7,000</u>
Total Disbursed to Subrecipients	<u>\$ 157,502</u>

See 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 (pages 3, 4, and 5) and the Schedule of Expenditures of Federal Awards (pages 6, 7, and 8).

CITY OF COSTA MESA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the year ended June 30, 2013

1. SUMMARY OF AUDITORS' RESULTS:

Financial Statements:

Type of auditors' report issued:

- Unmodified

Internal control over financial reporting:

Material weakness identified? x yes no
• See Finding reference numbers 2013-01 and 2013-02

Significant deficiency identified? yes x none reported

Noncompliance material to financial statements noted: yes x no

Federal Awards:

Internal control over major programs:

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

Type of auditors' 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? x yes no
• See Finding reference number 2013-03

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
14.218	Community Development Block Grant
14.239	HOME Investment Partnership Program
16.000	Federal Asset Forfeiture

Dollar threshold used to distinguish between type A and type B programs: \$ 300,000

Auditee qualified as low-risk auditee? yes x no

See 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* and 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 (pages 1 through 5).

CITY OF COSTA MESA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(CONTINUED)

For the year ended June 30, 2013

2. FINDINGS RELATING TO FINANCIAL STATEMENTS:

MATERIAL WEAKNESS

Finding Number 2013-01

Condition

City related expenditures are being paid directly by an outside organization and are not being recorded on the City's general ledger.

Criteria

The City is required to appropriate all expenditures through the budget process and record all transactions on the general ledger.

Cause

The City has an arrangement with an outside organization to provide funding to the City for promotional activities without a written agreement which allows for the payment of certain City-related promotional expenditures directly by the outside organization

Effect

This results in City-related expenditures being incurred without formal budget approval by the City Council. The absence of not having budget approval of these expenditures and related revenue allows for a lack of accountability and could result in misuse of the funds provided by the outside organization.

Recommendation

We recommend that the City enter into a written agreement with this organization in which the City would receive the funding directly and expenditures and revenues for this program be approved by the City Council.

See 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* and 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 (pages 1 through 5).

CITY OF COSTA MESA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(CONTINUED)

For the year ended June 30, 2013

2. FINDINGS RELATING TO FINANCIAL STATEMENTS (CONTINUED):

MATERIAL WEAKNESS (CONTINUED):

Finding Number 2013-01 (Continued)

Management Response

The City has had a close and informal working relationship with the outside organization with the intent of accomplishing certain promotional activities efficiently and effectively. The City recognizes the benefits to formalize this relationship in future activities and plans to prepare written agreements for Chief Executive Officer (CEO) or Council approval as needed.

Finding Number 2013-02

Condition

The City did not follow the established purchasing policies and procedures.

Criteria

The purchasing policy requires the following procedures:

1. Purchases over \$1,000 are required to be done through a purchase requisition process, which includes issuance of the Purchase Order upon the receipt of the purchase requisition approved by the appropriate personnel.
2. Informal bids are required for purchases up to \$50,000.
3. Formal bids are required for contracts greater than \$50,000 and must be approved by City Council.
4. Bidding process may be exempt in some cases including “emergency” or “sole source” suppliers.
5. Formal professional service agreements must be reviewed and signed.

Cause

Failure to follow established purchasing policies and procedures.

See 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* and 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 (pages 1 through 5).

CITY OF COSTA MESA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(CONTINUED)

For the year ended June 30, 2013

2. FINDINGS RELATING TO FINANCIAL STATEMENTS (CONTINUED):

MATERIAL WEAKNESS (CONTINUED):

Finding Number 2013-02 (Continued)

Effect

For the sample of cash disbursements we tested, we noted incidents where purchase orders were not issued for some purchases over \$1,000. Additionally, some purchases did not go through the required procurement process, and there was no documentation that those purchases were exempt from the bidding process. We also tested a contract that was greater than \$50,000, which required formal bidding and the City Council approval. In this instance, there was no documentation that formal bidding was performed nor that the City Council had approved of the contract. Failure to follow the established purchasing policies and procedures could result in misappropriation of assets.

Recommendation

We recommend that management review its process for following these procedures and include additional steps, if needed, to allow for the proper functioning of the purchasing policies and procedures.

Management Response

The City's purchasing policies and procedures are in need of revision and some of the City staff need further training and awareness of the purchasing procedures. A temporary update to the Purchasing Policies & Procedures Manual was done in January 2010 by way of adding a "Forward" section. A complete update to the Manual is needed to ensure consistency with existing City ordinances and administrative regulations. In September 2013 the CEO created a Purchasing & Quality Control Committee led by the Finance Department and including a representative from each City department. The Committee's responsibilities are to revise the Manual, train staff and recommend ways to streamline the purchasing process.

See 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* and 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 (pages 1 through 5).

CITY OF COSTA MESA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(CONTINUED)

For the year ended June 30, 2013

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

Finding Number 2013-03

Major Program

United States Department of Housing and Urban Development, Direct Assistance, Community Development Block Grant (CDBG) (CFDA #14.218) Grant Identification Numbers: B-12-MC-06-0503, B-11-MC-06-0503

Condition

The City, a prime recipient, made sub-awards of \$35,000 and \$27,500 subsequent to October 1, 2010 and did not report the required information on the FFATA Subaward Reporting System.

Criteria

As of October 1, 2010, the Federal Funding Accountability and Transparency Act (FFATA) requires a prime recipient of non-recovery act grants to report sub-awards of \$25,000 or more on the FFATA Subaward Reporting System (FSRS - www.fsrs.gov). The prime awardee is required to file a FFATA sub-award report by the end of the month following the month in which the prime recipient awards any sub-grant greater than or equal to \$25,000.

Context

The City had two sub-awards over \$25,000 for the year ended June 30, 2013 and was unsuccessful in filing the required FFATA sub-award report.

Questioned Costs

None.

Cause

The City staff was not aware of the FFATA requirement.

See 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* and 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 (pages 1 through 5).

CITY OF COSTA MESA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(CONTINUED)

For the year ended June 30, 2013

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

Finding Number 2013-03 (Continued)

Effect

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

Recommendation

We recommend that the City establish procedures that will ensure the reporting of required information for sub-awards greater than or equal to \$25,000 on the FFATA Subaward Reporting System.

Management Response

The City has implemented procedures to ensure the reporting of required information for sub-awards greater than or equal to \$25,000 on the FFATA Subaward Reporting System.

See 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* and 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 (pages 1 through 5).

CITY OF COSTA MESA

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

For the year ended June 30, 2013

Finding Number 2012-01

Major Program

United States Department of Housing and Urban Development, Direct Assistance, HOME Investment Partnership Program (CFDA #14.239), Grant Identification Number: M-11-MC-06-0507

Condition

The results of our program income test work indicated the City does not exhaust its own funding available in their HOME Investment Trust Fund account before requesting draw downs from HUD.

Recommendation

We recommend that the City establish procedures to ensure program income received related to the HOME Program are used before the City draws down funds from HUD. The performance of these procedures should be documented to ensure compliance with the monitoring and review programs.

Current Status

For fiscal year 2012-2013, we noted that the City used program income prior to requesting additional funding from HUD. This finding has been corrected.

See 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* and 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 (pages 1 through 5).