

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

**JUNE 30, 2015**

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, California (the City), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated December 15, 2015.

**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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matter that are required to be reported under *Government Auditing Standards*.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*White Nelson Nick Evans LLP*

Irvine, California  
December 15, 2015

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, 2015. 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 complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

## **Other Matter**

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 Finding Number 2015-001. Our opinion on each major federal program is not modified with respect to this matter.

The City's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

## **Report on Internal Control over Compliance**

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. 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, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated December 15, 2015, 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 Diehl Evans LLP*

Irvine, California

February 29, 2016, except for the Schedule of Expenditures of Federal Awards to which the date is December 15, 2015

**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, 2015

Federal Grantor / Pass - Through Grantor / Program / Cluster Title	Catalog of Federal Assistance Number	Program Identification Number	Federal Expenditures
<u>United States Department of Housing and Urban Development</u>			
Direct Assistance:			
Community Development Block Grants (CDBG)	14.218	B - 14 - MC - 06 - 0503 B - 13 - MC - 06 - 0503	\$ 1,842,836
HOME Investment Partnerships Program	14.239	M - 14 - MC - 06 - 0507 M - 13 - MC - 06 - 0507	386,645
Total United States Department of Housing and Urban Development			<u>2,229,481</u>
<u>United States Department of Justice</u>			
Direct Assistance:			
Public Safety Partnership and Community Policing Grants - COPS Hiring Program	16.710	2010-UMWX-0035	479,531
Equitable Sharing Program - Asset Forfeiture	16.922	N/A	986,972
Passed through the Orange County Sheriff's Department:			
Edward Byrne Memorial Justice Assistance Grant	16.738	2013-DJ-BX-1065 2014-DJ-BX-0038	17,896 18,026
Total Edward Byrne Memorial Justice Assistance Grant			<u>35,922</u>
Total United States Department of Justice			<u>1,502,425</u>
<u>United States Department of Transportation</u>			
Passed through California Department of Transportation:			
Highway Planning and Construction	20.205	SRTSL-5312 (090) SRTSL-5312 (089) HSIPL-5312 (084) HSIPL-5312 (093) HSIPL-5312 (092) HSIPL-5312 (094) HSIPL-5312 (086) HSIPL-5312 (085) STPE-P055 (055) RPSTPLE-5312 (083) RPSTPLE-5312 (091)	13,250 20,071 52,239 72,607 32,080 55,072 81,839 172,200 20,900 121,685 485,500
Total passed through California Department of Transportation			<u>1,127,443</u>

(Continued)

See accompanying Notes to Schedule of Expenditures of Federal Awards.

CITY OF COSTA MESA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
(CONTINUED)

For the year ended June 30, 2015

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 (continued)</u>			
Passed through Orange County Transportation Authority: Highway Planning and Construction	20.205	CML-5312 (097)	\$ 65,320
Total Highway Planning and Construction			<u>1,192,763</u>
Passed through California Office of Traffic Safety: State and Community Highway Safety	20.600	PT1583	<u>22,418</u>
Passed through California Office of Traffic Safety: Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	PT1583 PT1494	43,518 <u>6,266</u>
Total Minimum Penalties for Repeat Offenders for Driving While Intoxicated			<u>49,784</u>
Total United States Department of Transportation			<u>1,264,965</u>
<u>United States Department of Treasury</u>			
Direct Assistance: Equitable Sharing Program - Asset Forfeiture	21.000	N/A	<u>26,724</u>
Total United States Department of Treasury			<u>26,724</u>
<u>United States Department of Homeland Security</u>			
Passed through the City of Santa Ana: Homeland Security Grant Program	97.067	2013-000110	<u>4,334</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 5,027,929</u>

See accompanying Notes to Schedule of Expenditures of Federal Awards.

CITY OF COSTA MESA

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended June 30, 2015

1. GENERAL:

The accompanying Schedule of Expenditures of Federal Awards presents only the expenditures incurred by the City of Costa Mesa (the "City") 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.

CITY OF COSTA MESA

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
(CONTINUED)

For the year ended June 30, 2015

6. SUBRECIPIENTS:

During the fiscal year ended June 30, 2015, the City disbursed federal funds to the following subrecipients under the Community Development Block Grants program (CFDA #14.218):

	<u>Amount Disbursed</u>
Community Senior Services - Congregate Meals	\$ 20,000
Community Senior Services - Home Delivered Meals	20,000
Youth Employment Services	19,000
Colette's Children's Home	20,000
Council on Aging	9,000
Mercy House	19,924
Fair Housing Foundation	<u>20,991</u>
 Total Disbursed to Subrecipients	 <u>\$ 128,915</u>



CITY OF COSTA MESA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(CONTINUED)

For the year ended June 30, 2015

2. FINDINGS RELATING TO FINANCIAL STATEMENTS:

None noted.

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

**COMPLIANCE AND OTHER MATTERS**

**Finding Number 2015-001**

Major Program

United States Department of Justice, Direct Assistance, Equitable Sharing Program - Asset Forfeiture, CFDA No. 16.922

United States Department of Treasury, Direct Assistance, Equitable Sharing Program - Asset Forfeiture, CFDA No. 21.000

Criteria

The United States Department of Justice, Guide to Equitable Sharing for State and Local Law Enforcement Agencies, states that “Agencies should not ‘spend it before you get it’ or budget anticipated receipts.”

Condition and Perspective Information

In fiscal year 2014-2015, the City budgeted for anticipated receipts (revenue) from the Equitable Sharing Program - Asset Forfeiture.

Questioned Costs

None.

Cause

The City was not aware that anticipated receipts could not be budgeted.

Effect

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

CITY OF COSTA MESA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(CONTINUED)

For the year ended June 30, 2015

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

**COMPLIANCE AND OTHER MATTERS (CONTINUED)**

**Finding Number 2015-001 (Continued)**

Recommendation

We recommend the City implement policies and procedures to ensure compliance with requirements of the United States Department of Justice, Guide to Equitable Sharing for State and Local Law Enforcement Agencies.

Management's Response

Budget instructions have been placed in the fund's file regarding the Federal revenue budgeting policy to be used going forward and the instructions have been discussed with the City's budget staff.

The City, as part of the FY 15-16 mid-year budget report presented to the City Council, reduced the FY 15-16 revenue budget for its Narcotics Forfeiture Fund by \$442,524. This removed the budgeted amount that was greater than the actual revenues received as of December 31, 2015. This adjustment was approved by City Council on February 16, 2016.

CITY OF COSTA MESA

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

For the year ended June 30, 2015

There were no findings reported for fiscal year 2013-2014.