

CITY OF IRVINE, CALIFORNIA

SINGLE AUDIT REPORT

JUNE 30, 2013

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CITY OF IRVINE

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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 Irvine, 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 City of Irvine, 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 October 28, 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.

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.

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 matters that are required to be reported under *Government Auditing Standards*.



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

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, Solt & Luyhard, LLP

Brea, California
October 28, 2013

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF
FEDERAL AWARDS REQUIRED BY OMB CIRCULAR A-133

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

Report on Compliance for Each Major Federal Program

We have audited the City of Irvine, California'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 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 for the Financial Statements

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 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 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 Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 2013-001 and 2013-002. Our opinion on each major program is not modified with respect to these matters.



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

The City's responses to the noncompliance findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs and/or corrective action plan. The City's responses were 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 deficiencies, material weaknesses or, significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as described above. 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.



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

Report on Schedule of Expenditures of Federal Awards Required by OMB A-133

We have audited the financial statements of the City as of and for the year ended June 30, 2013, and have issued our report thereon dated October 28, 2013, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. 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 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 schedule of expenditure of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Lance, Soll & Lingham, LLP

Brea, California
October 28, 2013

CITY OF IRVINE

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

| <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: | | | |
| Farmers' Market Promotion Program | 10.168 | 12-25-G-1302 | \$ 22,182 |
| Total U.S. Department of Agriculture | | | 22,182 |
| <u>U.S. Department of Housing and Urban Development</u> | | | |
| Direct Programs: | | | |
| Community Development Block Grant* | 14.218 | B-11-MC-06-0557 B-12-MC-06-0557 Program income | 936,747 273,804 337,395 |
| Home Investment Partnership Program (HOME) | 14.239 | M-10-MC-06-0561 M-11-MC-06-0561 M-12-MC-06-0561 Program income | 245,008 563,122 203,837 43,751 |
| Total U.S. Department of Housing and Urban Development | | | 2,603,664 |
| <u>U.S. Department of Justice</u> | | | |
| Direct Programs: | | | |
| Bulletproof Vest Partnership Program | 16.607 | 2011 | 3,628 |
| Equitable Sharing Program | 16.922 | CA0302600 | 33,000 |
| Passed through County of Orange: | | | |
| Edward Byrne Memorial Justice Assistance Grant | 16.738 | 2012-DJ-BX-0057 | 2,500 |
| Total U.S. Department of Justice | | | 39,128 |
| <u>U.S. Department of Transportation</u> | | | |
| Passed through the State of California: | | | |
| Department of Transportation: | | | |
| Highway Planning and Construction | 20.205 | HSIPL-5410(066) RSTP-5410(047) HSIPL-5410(072) STPL-5410(074) | 69,431 13,586 900,000 157,356 |
| Passed through OCTA: | | | |
| Highway Planning and Construction | 20.205 | RPSTPLE-5410(073) | 152,808 |
| Passed through the State of California: | | | |
| Department of Transportation: | | | |
| Highway Training and Education | 20.215 | 12-5410R | 62,285 |
| Passed through OCTA: | | | |
| Congestion Mitigation and Air Quality Improvement | 20.507 | C-0-1892 | 781,378 |
| Passed through the State of California: | | | |
| Department of Transportation: | | | |
| Enhanced Mobility of Seniors and Individuals with Disabilities | 20.517 | 641541-10 | 93,100 |
| Passed through the City of Anaheim: | | | |
| State and Community Highway Safety - Avoid the 26 | 20.600 | AL1325 | 3,384 |
| Passed through the State of California Office of Traffic Safety | | | |
| Selective Traffic Enforcement Program | 20.600 | 20863 PT1333 | 11,193 33,666 |

CITY OF IRVINE

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

| <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 Transportation (Continued)</u> | | | |
| Passed through California Highway Patrol: | | | |
| Alcohol Impaired Driving Countermeasures Incentive Grants I | 20.601 | 9C051148 | 9,858 |
| Passed through University of California Berkley | | | |
| Minimum Penalties for Repeat Offenders for Driving While Intoxicated | 20.608 | SC13194 | 45,015 |
| Total U.S. Department of Transportation | | | <u>2,333,060</u> |
| <u>U.S. Department of Treasury</u> | | | |
| Direct Program: | | | |
| Asset Forfeiture | 21.000 | CA0302600 | 206,279 |
| Total U.S. Department of Treasury | | | <u>206,279</u> |
| <u>U.S. Department of Energy</u> | | | |
| Direct Program | | | |
| Energy Efficiency and Renewable Energy Showcase Event * | 81.117 | DE-EE0005711 | 325,569 |
| Direct Program: | | | |
| ARRA - Energy Efficiency and Conservation Block Grant | 81.128 | DE-EE-0000865 | 41,538 |
| Total U.S. Department of Energy | | | <u>367,107</u> |
| <u>U.S. Department of Health and Human Services</u> | | | |
| Passed through the County of Orange Area Agency on Aging: | | | |
| Special Programs for the Aging_Title III, Part B_Grants for Supportive Services and Senior Centers | 93.044 | AP-1011-22 | 38,599 |
| Special Programs for the Aging_Title III, Part C_Nutrition Services | 93.045 | AP-1011-22 | 178,287 |
| Nutrition Services Incentive Program | 93.053 | AP-1011-22 | 51,791 |
| Total U.S. Department of Health and Human Services | | | <u>268,677</u> |
| <u>U.S. Department of Homeland Security</u> | | | |
| Passed through the City of Anaheim: | | | |
| Urban Area Security Initiative - 2010 | 97.067 | 2010-SS | 22,448 |
| Passed through the City of Santa Ana: | | | |
| Urban Area Security Initiative - 2011 | 97.067 | 2011-SS-0077 | 37,517 |
| Total U.S. Department of Homeland Security | | | <u>59,965</u> |
| Total Federal Expenditures | | | <u>\$ 5,900,062</u> |

* 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.

**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 Irvine, 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 IRVINE

**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 Xno
- Material weaknesses identified? ___yes Xnone reported

Noncompliance material to financial statements noted? ___yes Xno

Federal Awards

Internal control over major programs:

- Significant deficiencies identified? ___yes Xno
- Material weaknesses identified? ___yes Xnone 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? Xyes ___no

Identification of major programs:

| <u>CFDA Number(s)</u> | <u>Name of Federal Program or Cluster</u> |
|-----------------------|--|
| 14.218 81.117 | Community Development Block Grant (CDBG) Energy Efficiency and Renewable Energy |

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

Auditee qualified as low-risk auditee? Xyes ___no

CITY OF IRVINE

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

SECTION II - FINANCIAL STATEMENT FINDINGS

No matters were reported.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding Number 2013-001

Federal Program

CFDA Number: 81.117
Title: Energy Efficiency and Renewable Energy
Federal Grantor: Department of Energy
Grant Number: DE-EE-0005711

Criteria or Specific Requirement

The City is required to file quarterly SF-425 Federal Financial Reports and Research Performance Progress Reports within 30 days of the end of each quarter.

Condition

Management indicated they are aware of the compliance requirement. The employee responsible for filing the reports acknowledged they were under the impression the reports were due by the end of the month following the end of the quarter.

Questioned Costs

None. All costs were adequately reported in the subsequent quarterly report.

Effect

The City did not meet the applicable deadline to file the third quarter RPPR and SF-425 reports. Filed one day late.

Prevalence and Consequence

This appears to be an isolated situation which only occurred due to the misunderstanding of the compliance requirement. The information applicable to the third quarter was accurate, but was filed late.

Recommendation

The City should be sure that employees responsible for filing reports and monitoring compliance requirements are well aware of all submission deadline and specific requirements.

Management's Response

The filing deadline for the financial and progress report is 30 days after the end of the quarter. An isolated instance occurred where the financial and progress report was filed one day late due to unavailability of management to sign the reports within the required timeframe. DOE did not change the reporting status to delinquent as a result of this circumstance.

CITY OF IRVINE

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

Finding Number 2013-002

Federal Program

CFDA Number: 81.117
Title: Energy Efficiency and Renewable Energy
Federal Grantor: Department of Energy
Grant Number: DE-EE-0005711

Criteria or Specific Requirement

Pursuant to the A-133 compliance supplement and the City/Contact Purchasing Policy Section 4.2, the City is required to perform a verification check for covered transactions to ensure that contracts are not awarded to suspended or debarred parties. This verification is required to be performed by the project manager prior to the contract being awarded.

Condition

Although the City Contract/Purchasing Policy Section 4.2 "Verification of Contractor Status" indicates prior to the contract being awarded, the project manager should be verifying the state contractor license is valid and in good standing, and verify that the contractor has not been debarred or suspended according to the EPLS website. This was not performed by the project manager prior to the contract being awarded.

Questioned Costs

None. All costs were adequately reported in the subsequent quarterly report.

Effect

The City has no evidence proving that a verification check was performed prior to contracts being award with the use of federal funds.

Prevalence and Consequence

This appears to be an isolated situation which occurred due to a lack of communication between the project manager and the City purchasing manager, and a lack of understanding of both the A-133 compliance requirements and the City purchasing policy.

Recommendation

The City needs to have better lines of communication with all employees and project managers involved with monitoring grant compliance requirements. They need to be sure that employees are well trained on A-133 compliance requirements, and all employees are aware of their responsibilities relating to grant compliance.

Management's Response

The City has notified that employee and department responsible for performing the verification check and will ensure that this procedure is performed properly and in a timely manner moving forward.

CITY OF IRVINE

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

SECTION II - FINANCIAL STATEMENT FINDINGS

No matters were reported.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding Number 2012-1

Federal Program

CFDA Number: 81.128
Title: ARRA Energy Efficiency and Conservation Block Grant
Federal Grantor: Department of Energy
Grant Number: DE-EE-000865

Criteria or Specific Requirement

The City is required to file quarterly Section 1512 ARRA reports on the FederalReporting.gov website.

Condition

Management indicated they are aware of the compliance requirement. However, the employee that was responsible for filing the quarterly ARRA reports left the City without giving adequate notice to management.

Questioned Costs

None. All costs were adequately reported in the subsequent quarterly report.

Effect

The City was unable to meet the applicable deadline to file the second quarter Section 1512 ARRA report for the 2011-12 fiscal year.

Prevalence and Consequence

This appears to be an isolated situation which only occurred due to the untimely departure of a City employee. The information applicable to the second quarter was subsequently provided in the third quarter report.

Recommendation

The City should develop procedures or train another employee to ensure there is more than one person that is able to file the Section 1512 ARRA reports in the event that one of the employees were to leave the City.

CITY OF IRVINE

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

Management's Response

The Department has reorganized the Environmental Programs section to provide clear roles and responsibilities in the event an employee is absent from work and tasks need to be completed on time by another staff member. In addition, the reporting dates are included in the Administrator's calendar and communication of all section deadlines, including EECBG, are reviewed in biweekly staff meetings.

Status

The City has submitted all required ARRA reports during the 2013 fiscal year.