

CITY OF BEVERLY HILLS
SINGLE AUDIT OF FEDERALLY
ASSISTED GRANT PROGRAMS

JUNE 30, 2013

CITY OF BEVERLY HILLS

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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 City Council
of the City of Beverly Hills
Beverly Hills, 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, business-type activities, each major fund and the aggregate remaining fund information of the City of Beverly Hills, 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 February 14, 2014.

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 statement, 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 over financial reporting.

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.

Internal Control Over Financial Reporting (Continued)

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. 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. We did identify a deficiency in internal control, described in the accompanying schedule of findings and questioned costs as Finding 2013-1, that we consider to be a significant deficiency in internal control.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Beverly Hills, California'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. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

City of Beverly Hills, California Response to Finding

The City's response to the 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 the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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

February 14, 2014
Irvine, California

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133 AND ON THE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The Honorable Mayor and City Council
City of Beverly Hills
Beverly Hills, California

Report on Compliance for Each Major Federal Program

We have audited the City of Beverly Hills, California's (the City) compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (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 the compliance for each major federal program. Our audit does not provide a legal determination on 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.

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, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on a 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.

Purpose of this Report

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 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, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Beverly Hills, 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 have issued our report thereon dated February 14, 2014, 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 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 taken as a whole.

White Nelson Dick Evans LLP

Irvine, California

March 7, 2014, except to the date for the Schedule of Expenditures of Federal Awards, to which the date is February 14, 2014.

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

CITY OF BEVERLY HILLS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended June 30, 2013

| Federal Grantor / Pass - Through Grantor / Program | Catalog of Federal Domestic Assistance Number | Program Identification Number | Federal Expenditures | Amount Provided to Subrecipients |
|---|---|-------------------------------------|-------------------------|--|
| <u>U.S. Department of Housing and Urban Development:</u> | | | | |
| Pass-through from the County of Los Angeles: | | | | |
| Community Development Block Grant: | | | | |
| Handyman Service: | | | | |
| Single Unit | 14.218 | D96095-12 | \$ 82,415 | \$ 82,415 |
| Multiple Units | 14.218 | D99102-12 | 51,000 | 51,000 |
| Services for Seniors | 14.218 | D96097-12 | 27,046 | 27,046 |
| Total U.S. Department of Housing and Urban Development | | | 160,461 | 160,461 |
| <u>U.S. Department of Justice:</u> | | | | |
| Direct Assistance: | | | | |
| Asset Forfeiture | 16.000 | CA0191000 | 1,071,620 | - |
| Edward Byrne Memorial Justice Assistance Grant 10 | 16.738 | 2010-DJ-BX-0335 | 15,176 | - |
| Edward Byrne Memorial Justice Assistance Grant 11 | 16.738 | 2011-DJ-BX-2556 | 2,509 | - |
| Pass-through from the City of Los Angeles: | | | | |
| Edward Byrne Memorial Justice Assistance Grant 09 | 16.738 | C-118320 | 10,800 | - |
| Total U.S. Department of Justice | | | 1,100,105 | - |
| <u>U.S. Department of Homeland Security:</u> | | | | |
| Pass-through from the County of Los Angeles: | | | | |
| 09 Homeland Security Grant Program | 97.067 | 2009 HSG | 15,855 | - |
| 10 Homeland Security Grant Program | 97.067 | 2010 HSG | 55,973 | - |
| Pass-Through from the City of Los Angeles: | | | | |
| 10 Urban Area Security Initiative | 97.067 | C-119728 | 577,719 | - |
| 11 Urban Area Security Initiative | 97.067 | C-120913 | 21,283 | - |
| Total U.S. Department of Homeland Security | | | 670,830 | - |
| TOTAL EXPENDITURES OF FEDERAL AWARDS | | | \$ 1,931,396 | \$ 160,461 |

See Independent Auditors' Report on Compliance for Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133 and on the Schedule of Expenditures of Federal Awards (pages 3 through 5) and Notes to Schedule of Expenditures of Federal Awards (pages 7 and 8).

CITY OF BEVERLY HILLS

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 Beverly Hills (the City) that are reimbursable under federal programs of federal assistance. For the purposes of this schedule, financial awards include both federal financial assistance received directly from a federal agency, as well as federal funds received indirectly by the City from non-federal organizations. Only the portion of program expenditures reimbursable with such federal funds is reported in the accompanying schedule. Program expenditures in excess of the maximum 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 for governmental funds and the accrual basis of accounting for proprietary funds, which are described in the Note 1 of the notes to the City's financial statements. Expenditures reported include any property or equipment acquisitions incurred under the Federal program.

3. SUBRECIPIENT EXPENDITURES:

During the fiscal year ended June 30, 2013, the City disbursed \$160,461 to subrecipients, utilizing funds provided by the U.S. Department of Housing and Urban Development Community Development Block Grant.

4. 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.

5. RELATIONSHIP TO FEDERAL FINANCIAL REPORTS:

Amounts reported in the accompanying Schedule of Expenditures of Federal Awards agree with amounts reported in federal financial reports.

See Independent Auditors' Report on Compliance for Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133 and on the Schedule of Expenditures of Federal Awards (pages 3 and 4) and the Schedule of Expenditures of Federal Awards (page 6).

CITY OF BEVERLY HILLS

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
(CONTINUED)

For the year ended June 30, 2013

6. 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 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 and on the Schedule of Expenditures of Federal Awards (pages 3 and 4) and the Schedule of Expenditures of Federal Awards (page 6).

CITY OF BEVERLY HILLS

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? yes no
- Significant deficiency identified? yes none reported
See Finding No. 2013-1

Noncompliance material to financial statements noted: yes no

Federal Awards:

Internal control over major programs:

- Material weakness identified? yes no
- Significant deficiency identified? yes 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?

yes no

Identification of major programs:

| <u>CFDA Numbers</u> | <u>Name of Federal Program or Cluster</u> |
|---------------------|---|
| 97.067 | Department of Homeland Security – Homeland Security Grant Program |
| 16.000 | Department of Justice – Asset Forfeiture |

Dollar threshold used to distinguish between type A and type B programs:

\$ 300,000

Auditee qualified as low-risk auditee?

yes 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 in Accordance with OMB Circular A-133 and on the Schedule of Expenditures of Federal Awards (pages 1 through 5).

CITY OF BEVERLY HILLS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

For the year ended June 30, 2013

2. FINDINGS RELATING TO FINANCIAL STATEMENTS:

SIGNIFICANT DEFICIENCY

Finding Number 2013-1

Criteria

Bank account reconciliations should be performed on a timely basis.

Condition and Context

During our audit we noted that bank account reconciliations are performed every six months. We believe that this is a control deficiency in that errors or defalcations that would be discovered during the bank reconciliation process would not necessarily be able to be corrected in a timely manner.

Recommendation

The City should reconcile all bank account statements to the general ledger on a monthly basis and these reconciliations should be reviewed and approved by an appropriate level of management.

Management Response

Management agrees that this is a necessary practice and is working towards implementation. Our plan is to automate this practice as part of the implementation of the new financial software which began February 3. The current software that is being transitioned out cannot automate this procedure. However, management has already implemented many mitigating internal controls that address the risk areas within this observation, such as the positive pay service with the banking institution as well as dual authorization requirements for all out-going wires.

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 in Accordance with OMB Circular A-133 and on the Schedule of Expenditures of Federal Awards (pages 1 through 5).

CITY OF BEVERLY HILLS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

For the year ended June 30, 2013

3. FINDINGS AND QUESTIONED COSTS FOR MAJOR FEDERAL AWARDS PROGRAMS:

None noted

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 in Accordance with OMB Circular A-133 and on the Schedule of Expenditures of Federal Awards (pages 1 through 5).

CITY OF BEVERLY HILLS

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

For the year ended June 30, 2013

Finding Number 2012-1

Condition and Context

During our audit we noted that bank account reconciliations are performed every six months. We believe that this is a control deficiency in that errors or defalcations that would be discovered during the bank reconciliation process would not necessarily be able to be corrected in a timely manner.

Recommendation

The City should reconcile all bank account statements to the general ledger on a monthly basis and these reconciliations should be reviewed and approved by an appropriate level of management.

Current Status

The City is working towards implementation of this recommendation. They plan is to automate this practice as part of the implementation of the new financial software which began February 3, 2014.

This finding is repeated in fiscal year 2012-2013. See Finding Number 2013-1

Finding Number 2012-2

Major Program

U.S. Department of Homeland Security - Homeland Security Grant Program (CFDA No. 97.067), Passed Through the County of Los Angeles, Grant Identification Numbers: 2008 HSG and 2009 HSG.

Condition

There was no evidence that a physical inventory of equipment purchased with Homeland Security Grant Program grant funds was conducted within the past two years.

CITY OF BEVERLY HILLS

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS (CONTINUED)

For the year ended June 30, 2013

Finding Number 2012-2 (Continued)

Recommendation

We recommend that the City document the inventory count of grant equipment and reconcile them against equipment records at least once every two years as required by the grant agreement. The City should also maintain evidence of the compliance in its files.

Current Status

City management addressed this finding and is now maintaining adequate documentation of inventory count of grant equipment.