

CITY OF TORRANCE, CALIFORNIA
SINGLE AUDIT OF FEDERAL AWARDS
JUNE 30, 2017

CITY OF TORRANCE
TABLE OF CONTENTS

June 30, 2017

	<u>Page Number</u>
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 <i>Government Auditing Standards</i>	1 - 2
Independent Auditors' Report on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance and on the Schedule of Expenditures of Federal Awards	3 - 5
Schedule of Expenditures of Federal Awards and Schedule of Findings and Questioned Costs:	
Schedule of Expenditures of Federal Awards	6 - 7
Notes to Schedule of Expenditures of Federal Awards	8
Schedule of Findings and Questioned Costs	9 - 11
Summary Schedule of Prior Audit Findings	12

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*

City Council
City of Torrance
Torrance, 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, the business-type activities, each major fund and the aggregate remaining fund information of the City of Torrance (the City) as of and for the year ended June 30, 2017, 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 20, 2017.

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 matters 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 Dick Evans LLP

Irvine, California
December 20, 2017

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE AND ON
THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

City Council
City of Torrance
Torrance, California

Report on Compliance for Each Major Federal Program

We have audited the City of Torrance's (the City) compliance with the types of compliance requirements described in the *OMB 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, 2017. 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 federal statutes, regulations, and the terms and conditions of its federal awards 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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, 2017.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as Finding Number 2017-001. 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 compliance 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 the Uniform Guidance, 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.

Report on Internal Control over Compliance (Continued)

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

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 Torrance, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated December 20, 2017, 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 the Uniform Guidance 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 Dick Evans LLP

Irvine, California

March 14, 2018, except for the Report on Schedule of Expenditures of Federal Awards to which the date is December 20, 2017.

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

CITY OF TORRANCE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended June 30, 2017

Federal Grantor / Pass - Through Grantor / Program / Cluster Title	Catalog of Federal Domestic Assistance Number	Program Identification Number	Federal Expenditures	Subrecipient Expenditures
<u>United States Department of Housing and Urban Development</u>				
Passed through Los Angeles County				
Community Development Commission:				
Community Development Block Grant - ADA Sidewalk Improvement	14.218	601647-14	\$ 246,735	\$ -
Community Development Block Grant - Sidewalk Repair for Handicap Accessibility	14.218	601792-16	427,964	-
			<u>674,699</u>	<u>-</u>
Direct Assistance:				
Section 8 Housing Choice Vouchers	14.871	CA-121	6,341,043	-
Total United States Department of Housing and Urban Development			<u>7,015,742</u>	<u>-</u>
<u>United States Department of Justice</u>				
Direct Assistance:				
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2016-DJ-BX-0034	5,017	-
Equitable Sharing Program - Asset Forfeiture	16.922	Not Available	637,424	-
Total United States Department of Justice			<u>642,441</u>	<u>-</u>
<u>United States Department of Transportation</u>				
Passed through State of California				
Department of Transportation:				
Highway Planning and Construction	20.205	STPL-5249(030)	1,735,886	-
Direct Assistance:				
Federal Transit_Formula Grant	20.507	CA-90-Y394	57,618	-
Federal Transit_Formula Grant	20.507	CA-90-Z247	71,032	-
Federal Transit_Formula Grant	20.507	CA-90-Y715	16,434	-
Federal Transit_Formula Grant	20.507	CA-90-Y816	62,605	-
Federal Transit_Formula Grant	20.507	CA-90-Y518	4,507	-
Federal Transit_Formula Grant	20.507	CA-90-Y949	866,006	-
Federal Transit_Formula Grant	20.507	CA-2016-041	36,904	-
Federal Transit_Formula Grant	20.507	1666-2017-1	2,250,000	-
			<u>3,365,106</u>	<u>-</u>
Passed through Los Angeles County				
Metropolitan Transportation Authority				
Federal Transit_Formula Grant	20.507	MOU/MOU.MRBCMAQ67	367	-
			<u>3,365,473</u>	<u>-</u>

See accompanying notes to the Schedule of Expenditures of Federal Awards.

CITY OF TORRANCE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
(CONTINUED)

For the year ended June 30, 2017

Federal Grantor / Pass - Through Grantor / Program / Cluster Title	Catalog of Federal Domestic Assistance Number	Program Identification Number	Federal Expenditures	Subrecipient Expenditures
<u>United States Department of Transportation (Continued)</u>				
Passed through State of California Office of Traffic Safety:				
State and Community Highway Safety	20.600	PT16138	\$ 33,642	\$ -
State and Community Highway Safety	20.600	PT17130	36,580	-
			<u>70,222</u>	<u>-</u>
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	PT16138	90,163	-
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	PT17130	102,175	-
			<u>192,338</u>	<u>-</u>
Total United States Department of Transportation			<u>5,363,919</u>	<u>-</u>
<u>United States Department of the Treasury</u>				
Direct Assistance:				
Asset Forfeiture	21.016	Not Available	13,458	-
<u>United States Department of Homeland Security</u>				
Direct Assistance:				
Asset Forfeiture	97.000	Not Available	16,550	-
Homeland Security Grant Program	97.067	2014-00093	997,970	-
Homeland Security Grant Program	97.067	2015-0078	22,269	-
			<u>1,020,239</u>	<u>-</u>
Total United States Department of Homeland Security			<u>1,036,789</u>	<u>-</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 14,072,349</u>	<u>\$ -</u>

See accompanying notes to the Schedule of Expenditures of Federal Awards.

CITY OF TORRANCE

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended June 30, 2017

1. BASIS OF PRESENTATION:

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of the City of Torrance, California (the City), under programs of the federal government, as well as federal financial assistance passed through other government agencies for the year ended June 30, 2017. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the City, it is not intended to, and does not, present the financial statements of the City. The City's reporting entity is defined in Note 1 of the notes to the City's financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Expenditures reported on the Schedule are reported using the modified accrual basis of accounting for governmental funds and the accrual basis for proprietary funds, which are described in Note 1 of the notes to the City's financial statements. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

3. INDIRECT COST RATE:

The City has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

4. RELATIONSHIP TO COMPREHENSIVE ANNUAL FINANCIAL REPORT:

Amounts reported in the accompanying Schedule agree to amounts reported within the City's Comprehensive Annual Financial Report.

5. RELATIONSHIP TO FEDERAL FINANCIAL REPORTS:

Amounts reported in the accompanying Schedule agree with amounts reported in federal financial reports.

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.

CITY OF TORRANCE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(CONTINUED)

For the year ended June 30, 2017

2. FINDINGS RELATING TO FINANCIAL STATEMENTS:

None.

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

Finding Number 2017-001 – Noncompliance: Timeliness of Housing Quality Standards Inspections

Major Program

United States Department of Housing and Urban Development, Direct Assistance, Section 8 Choice Vouchers, CA-121 (CFDA No. 14.871).

Criteria

Housing Quality Standards (“HQS”) inspections must be completed every two years.

Condition

HQS were not completed timely.

Questioned Costs

None noted.

Perspective Information

7 out of a sample of 40 HQS inspections were not completed within the two year time period requirement. Inspections for the 7 were completed between 8 and 47 days late.

Cause

The City had an unexpected departure of its Senior Housing Specialist, who oversaw and historically conducted many HQS inspections. Due to the unexpected departure, the schedule for performing the inspections became compacted amongst other City employees.

Effect

The City was not in compliance with the requirement to conduct HQS inspections biennially.

CITY OF TORRANCE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(CONTINUED)

For the year ended June 30, 2017

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

Finding Number 2017-001 – Noncompliance: Timeliness of Housing Quality Standards Inspections
(Continued)

Recommendation

We recommend that City management review its procedures for cross-training employees to ensure that compliance requirements may be met regardless of the departure of a key employee.

Management's Response

During the fiscal year, we lost two senior staff members; one passed away in October 2016 and one retired in December 2016. Until the end of May 2017, we had part time temporary staff. This made it difficult to complete work on schedule. We have also experienced problems with tenants re-scheduling inspections that were originally scheduled within the 24 month period.

We are now fully staffed, and all of the caseworkers have received HQS inspection training. We are using the HAPPY software system to monitor when inspections are due and scheduling inspections earlier to allow time for re-scheduling. We are confident that we will be able to comply with the deadlines in the future.

CITY OF TORRANCE

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

For the year ended June 30, 2017

FINDINGS RELATED TO THE FINANCIAL STATEMENTS:

Finding Number 2016-001 - Compensated Absences

Condition

The balance of the compensated absences for the governmental activities was overstated, which resulted in a significant audit adjustment to the balance of the compensated absences liability and beginning balance of the net position.

Recommendation

We recommend that the total compensated absences balance be reconciled to the detailed schedule to ensure accuracy of balance reported in the financial statements.

Current Status

No similar finding was noted in the 2017 audit.

FINDINGS AND QUESTIONED COSTS FOR MAJOR FEDERAL AWARD PROGRAMS

There were no findings or questioned costs related to major federal awards programs reported for the year ended June 30, 2016.