

CITY OF NEWPORT BEACH, CALIFORNIA
SINGLE AUDIT OF FEDERALLY ASSISTED
GRANT PROGRAMS

JUNE 30, 2015

CITY OF NEWPORT BEACH

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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 City Council
City of Newport Beach
Newport Beach, 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 Newport Beach, 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 January 26, 2016.

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 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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as Finding 2015-001 and 2015-002 that we consider to be significant deficiencies.

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*.

City's Responses to Comments and Recommendations

The City's responses to the comments and recommendations 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 Diehl Evans LLP

Irvine, California
January 26, 2016

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 City Council
City of Newport Beach
Newport Beach, California

Report on Compliance for Each Major Federal Program

We have audited the City of Newport Beach'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.

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, the business-type 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 January 26, 2016, 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.

**Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133
(Continued)**

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 financial statements taken as a whole.

White Nelson Dick Evans LLP

Irvine, California

February 19, 2016, except to the date of the Schedule of Expenditures of Federal Awards to which the date is January 26, 2016

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

CITY OF NEWPORT BEACH

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

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	Subrecipient Expenditures
<u>United States Department of Housing and Urban Development</u>				
Direct Assistance:				
Community Development Block Grants/ Entitlement Grants	14.218	B-13-MC-06-0546	\$ 50,240	\$ -
		B-14-MC-06-0546	276,350	51,527
Total United States Department of Housing and Urban Development			<u>326,590</u>	<u>51,527</u>
<u>United States Department of Justice</u>				
Direct Assistance:				
Bulletproof Vest Partnership Program	16.607	(1)	5,694	-
Equitable Sharing Program - Asset Forfeiture	16.922	(1)	733,228	-
Passed through the County of Orange:				
ARRA - Edward Byrne Memorial Justice Assistance Grant (JAG) Program	16.738	2012-DJ-BX-0057	1,005	-
Total United States Department of Justice			<u>739,927</u>	<u>-</u>
<u>United States Department of Transportation</u>				
Passed through the State of California Department of Transportation:				
Highway Planning and Construction	20.205	BRLO-5151 (026)	456,443	-
Passed through the State of California Office of Traffic Safety:				
State and Community Highway Safety	20.600	PT1409	23,756	-
		PT15114	42,390	-
Total State and Community Highway Safety			<u>66,146</u>	<u>-</u>
Passed through the State of California Office of Traffic Safety:				
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	PT1409	80,228	-
		PT15114	203,542	-
		SC14284	16,903	-
Total Minimum Penalties for Repeat Offenders for Driving While Intoxicated			<u>300,673</u>	<u>-</u>

(Continued)

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

CITY OF NEWPORT BEACH

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	Subrecipient Expenditures
<u>United States Department of Transportation</u>				
<u>(Continued)</u>				
Passed through the State of California Office of Emergency Services: Interagency Hazardous Materials Public Sector Training and Planning Grants	20.703	HMEP-059-51182	\$ 5,796	\$ -
Total United States Department of Transportation			<u>829,058</u>	<u>-</u>
<u>United States Department of Treasury</u>				
Direct Assistance:				
Equitable Sharing Program - Asset Forfeiture	21.000	(1)	18,623	-
United States Immigration and Customs Enforcement - State and Local Overtime Reimbursement Program (SLOT)	21.000	(1)	<u>15,015</u>	<u>-</u>
Total United States Department of Treasury			<u>33,638</u>	<u>-</u>
<u>United States Department of Homeland Security</u>				
Passed through the County of Orange:				
Emergency Management Performance Grants	97.042	2013-0047	13,417	-
Passed through the Federal Emergency Management Agency:				
Assistance to Firefighters Grant	97.044	EMW-2013-FO-04005	<u>69,570</u>	<u>-</u>
Total United States Department of Homeland Security			<u>82,987</u>	<u>-</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 2,012,200</u>	<u>\$ 51,527</u>

(1) Program identification numbers were not provided by the Grantor. As such, this information was not available.

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

CITY OF NEWPORT BEACH

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 the activity of all federal financial assistance programs of the City of Newport Beach (the City). The City's reporting entity is defined in Note 1 of the notes to the City's financial statements. All financial assistance received directly from federal agencies as well as federal financial assistance passed through other government agencies to the City is included in 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, 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.

6. SUBRECIPIENT EXPENDITURES:

During the fiscal year ended June 30, 2015, the City of Newport Beach disbursed \$51,527 to subrecipients to be used for the federally allowable expenditures in accordance with the grant agreements.

CITY OF NEWPORT BEACH

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the year ended June 30, 2015

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 Findings 2015-001 and 2015-002

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:

CFDA Number

14.218

Name of Federal Program or Cluster

United States Department of Housing and Urban Development, Direct Assistance, Community Development Block Grants/
Entitlement Grants

20.205

United States Department of Transportation, Passed through State of California Department of Transportation, Highway Planning and Construction

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

\$ 300,000

Auditee qualified as low-risk auditee?

yes no

CITY OF NEWPORT BEACH
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(CONTINUED)

For the year ended June 30, 2015

2. FINDINGS - FINANCIAL STATEMENT AUDIT:

SIGNIFICANT DEFICIENCIES

Finding Number 2015-001

Criteria

Uncollectible accounts receivable should be written off when identified.

Condition

During our review of accounts receivable and deferred inflows of resources, unavailable revenues, we noted the City had identified receivables as uncollectible, but left the uncollectible amounts in the year-end balances.

Cause

The City identified the uncollectible amounts and did not write off the balances.

Effect

Accounts receivable and unavailable revenue was overstated.

Recommendation

We recommend the City write-off receivable balances when they have been deemed uncollectible.

Management's Response

We concur with the recommendation. Failure to remove the receivable and deferred inflow from the balance sheet was a simple oversight.

CITY OF NEWPORT BEACH
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(CONTINUED)

For the year ended June 30, 2015

2. FINDINGS - FINANCIAL STATEMENT AUDIT (CONTINUED):

SIGNIFICANT DEFICIENCIES (CONTINUED)

Finding Number 2015-002

Criteria

The City should have minimal debit balances in liability accounts.

Condition

During our review of liabilities, we noted a liability account with a significant debit balance.

Cause

The City's payroll system was not correctly calculating the balance in the liability account.

Effect

Due to our inquiry, an audit adjustment was needed to remove the debit balance resulting in an increase in expenses in the fund.

Recommendation

We recommend the City investigate all significant debit balances within liability accounts for reasonableness.

Management's Response

The City concurs with this comment and recommendation. While the amount was significant, it was not unusual as it relates to the magnitude of our bi-weekly payroll and timing of events at year-end.

3. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAM AUDIT:

None

CITY OF NEWPORT BEACH
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

For the year ended June 30, 2015

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