

**CITY OF GARDEN GROVE**  
**Garden Grove, California**

**SINGLE AUDIT REPORT ON EXPENDITURES**  
**OF FEDERAL AWARDS**

Year ended June 30, 2019

**CITY OF GARDEN GROVE**  
**SINGLE AUDIT REPORT ON EXPENDITURES OF FEDERAL AWARDS**

Year ended June 30, 2019

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**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***

**Independent Auditor's Report**

City Council  
City of Garden Grove, 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 Garden Grove, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the City of Garden Grove's basic financial statements, and have issued our report thereon dated December 4, 2019.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the City of Garden Grove'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 of Garden Grove's internal control. Accordingly, we do not express an opinion on the effectiveness of City of Garden Grove'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 defined to be 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. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questions costs as item 2019-001 that we consider to be a significant deficiency.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City of Garden Grove'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 Response to the Finding**

The City of Garden Grove's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The City of Garden Grove 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 of Garden Grove'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.

A handwritten signature in blue ink that reads "Davis Fan" followed by a stylized flourish.

Irvine, California  
December 4, 2019

**Report on Compliance for Each Major Federal Program; Report on Internal Control  
Over Compliance; and Report on Schedule of Expenditures of Federal Awards  
Required by the Uniform Guidance**

**Independent Auditor's Report**

City Council  
City of Garden Grove, California

**Report on Compliance for Each Major Federal Program**

We have audited the City of Garden Grove's 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 of Garden Grove's major federal programs for the year ended June 30, 2019. The City of Garden Grove'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***

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the City of Garden Grove'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 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 of Garden Grove'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 of Garden Grove's compliance.

### ***Opinion on Each Major Federal Program***

In our opinion, the City of Garden Grove 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, 2019.

### **Report on Internal Control Over Compliance**

Management of the City of Garden Grove 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 of Garden Grove'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 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 of Garden Grove'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 Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

### **Report on Schedule of Expenditures of Federal Awards Required by Uniform Guidance**

We have audited the financial statements of the City of Garden Grove as of and for the year ended June 30, 2019, and have issued our report thereon dated December 4, 2019 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 the Uniform Guidance 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.

A handwritten signature in blue ink that reads "Davis Fan" followed by a stylized flourish.

Irvine, California  
December 4, 2019

**CITY OF GARDEN GROVE**  
**Schedule of Expenditures of Federal Awards**  
Year ended June 30, 2019

Federal Grantor / Pass - Through Grantor / Program / Cluster Title	Federal Domestic Assistance Number	Program Identification Number	Program Expenditures	Amount Provided to Subrecipients
<u><b>U.S. Department of Housing and Urban Development</b></u>				
Direct Assistance:				
Community Development Block Grants (CDBG)	14.218	B-16-MC-06-0505	\$ 819,409	-
Community Development Block Grants (CDBG)	14.218	B-17-MC-06-0505	425,806	-
Total CDBG Cluster			1,245,215	-
Section 8 Housing Choice Vouchers	14.871	CA102	34,199,625	-
Total Housing Voucher Cluster			34,199,625	-
HOME Investment Partnerships Program	14.239	M-15-MC-06-0511	10,778	
HOME Investment Partnerships Program	14.239	M-16-MC-06-0511	75,565	
HOME Investment Partnerships Program	14.239	M-18-MC-06-0511	19,669	
Total HOME Investment Partnerships Program			106,012	-
Emergency Solutions Grant Program	14.231	E-17-MC-06-0505	179,555	129,146
Total U.S. Department of Housing and Urban Development			35,730,407	129,146
<u><b>U.S. Department of Transportation</b></u>				
Passed through California Department of Transportation:				
Highway Planning and Construction	20.205	ATP02-12-196M	21,429	21,429
Highway Planning and Construction	20.205	HSIPL-5328 (082)	584,759	-
Highway Planning and Construction	20.205	12-5328F15	208,777	208,777
Total Highway Planning and Construction Cluster			814,965	230,206
Passed through California Department of Transportation:				
State and Community Highway Safety	20.600	PT18049	87,351	-
State and Community Highway Safety	20.600	PT19041	144,211	-
Total Highway Safety Cluster			231,562	-
Total U.S. Department of Transportation			1,046,527	230,206
<u><b>U.S. Department of Health and Human Services</b></u>				
Passed through the County of Orange Social Services Agency:				
Promoting Safe and Stable Families	93.556	FFZ1015	115,810	-
Passed through Community SeniorServe, Inc:				
Special Programs for the Aging Title III, Part B Grants for Supportive Services and Senior Centers	93.044	17-27-0016	25,214	-
Total Aging Cluster			25,214	-
Total U.S. Department of Health and Human Services			141,024	-
<u><b>U.S. Department of Homeland Security</b></u>				
Direct Assistance:				
Assistance to Firefighters Grant	97.044	EMW-2016-FO-03037	46,537	-
Total U.S. Department of Homeland Security			46,537	-
Total Expenditures of Federal Awards			<u>\$ 36,964,495</u>	<u>359,352</u>

See accompanying notes to Schedule of Expenditures of Federal Awards



## CITY OF GARDEN GROVE

### NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year ended June 30, 2019

(1) Summary of Significant Accounting Policies Applicable to the Schedule of Expenditures of Federal Awards

(a) Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal grant activity of the City of Garden Grove (City) under programs of the federal government for the year ended June 30, 2019. 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. 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 position, changes in net assets or cash flows of the City. The City did not use the 10% de minimis indirect cost rate as covered in section 200.414 of the Uniform Guidance.

(b) Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the modified-accrual basis of accounting for those grants that were recorded in governmental funds, and on the accrual basis of accounting for those grants that were recorded in proprietary funds. Such expenditures for part of the year are recognized following the cost principles contained in OMB Circular 87, Cost Principles for State, Local, and Indian Tribal Governments, and for part of the year contained in Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

(c) Subrecipients

For the fiscal year ended June 30, 2019, payments to subrecipients consisted of the following:

Emergency Solutions Grant Program	E-17-MC-06-0505	\$ 129,146
Highway Planning and Construction	ATP02-12-196M	21,429
Highway Planning and Construction	12-5328F15	<u>208,777</u>
Total		<u>\$ 359,352</u>

**CITY OF GARDEN GROVE**  
**SUMMARY OF FINDINGS AND QUESTIONED COSTS**

Year ended June 30, 2019

**Section I – Summary of Auditor’s Results**

***Financial Statements:***

Type of auditor’s report issued:	Unmodified
Internal control over financial reporting:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified not Considered to be material weaknesses?	Yes
Noncompliance material to financial statements noted?	No

***Federal Awards:***

Internal control over major programs:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified not Considered to be material weaknesses?	No
Type of auditor’s report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance?	No

Identification of major programs:

<b><u>CFDA Number(s)</u></b>	<b><u>Name of Federal Program or Cluster</u></b>
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14.871	Housing Choice Voucher Cluster
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Dollar threshold used to distinguish between Type A and Type B programs:	\$1,108,935
Auditee qualified as a low-risk auditee?	No

**CITY OF GARDEN GROVE**  
**SUMMARY OF FINDINGS AND QUESTIONED COSTS**

(Continued)

**Section II – Findings Relating to the Basic Financial Statements Reported in Accordance with Government Auditing Standards**

There was one finding noted during the year under audit that is required to be reported in accordance with GAGAS.

**Reference Number:** **2019-001**

***Adjustments Detected During the Audit***

While the City has made improvements over the prior years with regard to audit adjustments, a material adjustment and several immaterial audit adjustments were identified during the audit process. A similar issue was also noted in the prior year. The material audit adjustment was related to the recording of unearned revenue in the Solid Waste Enterprise Fund. The auditing standards acknowledge that the auditor should not be part of the City's system of internal controls because adjusting material transactions in the financial statements creates an independence threat and reduces auditor transparency.

**Recommendation**

To minimize the need for audit adjustments, the City should establish procedures to, whenever possible, identify all adjustments in the reporting period in which the related transactions occurred. We recommend the City continue to improve its procedures to avoid audit adjustments at year end.

**Management's Comments Regarding Corrective Actions Planned**

We acknowledge and concur with the recommendation. The City will continue to work diligently in improving its month-end and year-end procedures to assure that the necessary adjustments are recorded on a timely basis.

**Section III – Federal Award Findings and Questioned Costs**

There were no findings required to be reported under 2 CFR 200, paragraph .16 of the Uniform Guidance.

**CITY OF GARDEN GROVE**  
**STATUS OF PRIOR AUDIT FINDINGS**

Year ended June 30, 2019

**Reference Number: 2018-001**

***Audit Adjustments and Prior Period Restatements***

While the City has made improvements over the prior years with regard to audit adjustments, certain material and immaterial audit adjustments were identified during the audit process. The material audit adjustments related to unearned revenue and other receivables. The auditing standards acknowledge that the auditor should not be part of the City's system of internal controls because adjusting material transactions in the financial statements creates an independence threat and reduces auditor transparency. There were also prior period restatements identified by the City during the City's year end closing procedures that were related to capital assets and notes receivable. The auditing standards also acknowledge that internal control concerns exist when restatements are made to previously issued financial statements.

***Status of Corrective Action***

This finding is partially resolved as there were no material prior period adjustments reflected in the 2019 financial statements. However, a material audit adjustment was noted during the current year audit and, as a result, that part of the finding is being repeated in the current year as finding 2019-001.

**Reference Number: 2018-002**

***Federal Awards – Allowable Costs***

During the year ended June 30, 2018, personnel costs were directly charged to the Section 8 Housing Choice Voucher program. These personnel costs included individuals that were 100% charged to the program and individuals that had only a portion of their salaries and benefits charged to the program. We noted that these personnel costs for individuals that had only a portion of their salaries charged to the program were based on predetermined allocation percentages (budget estimates) and were not based on the actual hours the employees worked on the program.

***Status of Corrective Action***

This finding has been cleared.

**Reference Number: 2018-003**

***Federal Awards - Reporting***

Certain federal grant programs require the submission of quarterly report Form SF-425. We noted during our review, that Form SF-425 was submitted for the quarters ending December

**CITY OF GARDEN GROVE**  
**STATUS OF PRIOR AUDIT FINDINGS**

(Continued)

31, 2017 and March 31, 2018, but was not submitted for the quarters ending September 30, 2017 or June 30, 2018.

***Status of Corrective Action***

This finding has been cleared.