

**CITY OF IRVINE
IRVINE, CALIFORNIA**

**SINGLE AUDIT OF FEDERAL
AND SELECTED STATE
ASSISTED GRANT PROGRAMS**

FOR THE YEAR ENDED JUNE 30, 2017

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
of the City of Irvine
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 the City of Irvine (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 October 31, 2017. Our report includes a reference to other auditors who audited the financial statements of the Irvine Community Land Trust, as described in our report on the City of Irvine's financial statements. The financial statements of the Irvine Community Land Trust were not audited in accordance with *Government Auditing Standards*. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and a significant deficiency.

Internal Control over Financial Reporting (Continued)

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs, as Finding 2017-001, to be a material weakness.

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs, as Finding 2017-002 and 2017-003, 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 Findings

The City's responses to the findings 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 Dick Evans LLP

Irvine, California
October 31, 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 AND SELECTED STATE AWARDS

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

Report on Compliance for Each Major Federal Program

We have audited the City of Irvine'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 the federal statutes, regulations, and 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.

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 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.

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 and Selected State Awards Required by the Uniform Guidance

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of 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. We issued our report thereon dated October 31, 2017, which contained unmodified opinions on those financial statements. Our report includes a reference to other auditors who audited the financial statements of the Irvine Community Land Trust, a component unit of the City, as described in our report. 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 and selected state 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 and selected state 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
October 31, 2017

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

CITY OF IRVINE

SCHEDULE OF EXPENDITURES OF FEDERAL AND SELECTED STATE AWARDS

For the year ended June 30, 2017

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>				
Direct Assistance:				
Community Development Block Grant	14.218	B14-MC-06-0557	\$ 719,581	\$ -
		B15-MC-06-0557	501,736	-
		B16-MC-06-0557	445,566	192,546
		Program Income	80,125	-
Total Community Development Block Grant			1,747,008	192,546
HOME Investment Partnership Program	14.239	M-14-MC-06-0561	51,978	-
		M-15-MC-06-0561	11,080	-
		M-16-MC-06-0561	199,253	-
		Program Income	41,767	-
Total HOME Investment Partnership Program			304,078	-
Total U.S. Department of Housing and Urban Development			2,051,086	192,546
<u>U.S. Department of Justice:</u>				
Direct Assistance:				
Equitable Sharing Program - Asset Forfeiture	16.922	CA0302600	58,980	-
Total U.S. Department of Justice			58,980	-
<u>U.S. Department of Transportation:</u>				
Passed Through the California State Department of Transportation:				
Highway Planning and Construction	20.205	HSIPL-5410(082)	575	-
Passed Through the Orange County Transit Authority:				
Highway Planning and Construction	20.205	CML-5410(079)	683	-
		CML-5410(080)	52,169	-
Total Highway Planning and Construction			53,427	-
Passed Through the State of California Office of Traffic Safety:				
Selective Traffic Enforcement Program	20.600	PT1601	34,067	-
		PT1757	91,445	-
Total Selective Traffic Enforcement Program			125,512	-
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	PT1601	70,577	-
		PT1757	99,590	-
Total Minimum Penalties for Repeat Offenders for Driving While Intoxicated			170,167	-
Total U.S. Department of Transportation			349,106	-

See accompanying notes to schedule of expenditures of federal and selected state awards.

CITY OF IRVINE

SCHEDULE OF EXPENDITURES OF FEDERAL AND SELECTED STATE AWARDS
(CONTINUED)

For the year ended June 30, 2017

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 Health and Human Services</u>				
Aging Cluster 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	\$ 53,474	\$ -
Special Programs for the Aging Title III, Part C Nutrition Services	93.045	AP-1011-22	243,068	-
Nutrition Services Incentive Program	93.053	AP-1011-22	<u>57,627</u>	<u>-</u>
Total Aging Cluster/U.S. Department of Health and Human Services			<u>354,169</u>	<u>-</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 2,813,341</u>	<u>\$ 192,546</u>
<u>Selected State Awards</u>				
California Department of Aging:				
Passed Through the County of Orange:				
CSA Senior Services Title III C-1 Nutrition Services - Congregate	N/A	AP-1011-22	\$ 12,626	\$ -
CSA Senior Services Title III C-2 Nutrition Services - Home Delivered Meals	N/A	AP-1011-22	\$ 23,083	\$ -

See accompanying notes to schedule of expenditures of federal and selected state awards.

CITY OF IRVINE

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AND SELECTED STATE AWARDS

For the year ended June 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES APPLICABLE TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AND SELECTED STATE AWARDS:

A. Scope of Presentation:

The accompanying schedule of expenditures of federal and selected state awards presents the expenditures incurred by the City of Irvine (the City) that are reimbursable under programs of federal agencies providing federal awards. 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 nonfederal 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 was funded with other state, local, or other nonfederal funds are excluded from the accompanying schedule, except for certain program expenditures for selected state awards requested to be reported by the California Department of Aging in conjunction with certain related federal grant programs.

B. Basis of Accounting:

The accompanying schedule of expenditures of federal and selected state awards is presented using the modified accrual basis of accounting for governmental funds, which is described in Note 1 of the City's notes to the basic financial statements. Such expenditures, as the federal awards were both awarded prior to and after December 26, 2014, are recognized following the cost principles contained in the Uniform Guidance and OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

C. Relationship to Comprehensive Annual Financial Report:

Amounts reported in the accompanying schedule of expenditures of federal and selected state awards agree to amounts reported within the City's Comprehensive Annual Financial Report.

D. Relationship to Federal Financial Report:

Amounts reported in the accompanying schedule of expenditures of federal and selected state awards agree with amounts reported in federal financial reports.

E. 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.

F. Indirect Cost Rate:

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

CITY OF IRVINE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the year ended June 30, 2017

1. SUMMARY OF AUDITORS' RESULTS:

Financial Statements:

Type of auditors' report issued:

- Unmodified

Internal control over financial reporting:

- Material weakness identified? yes no
See Finding Numbers 2017-001
- Significant deficiency identified? yes none reported
See Finding Number 2017-002 and 2017-003
- 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 2 CFR Section 200.516(a)? yes no

Identification of major programs:

CFDA Number
14.218

Name of Federal Program or Cluster
U.S. Department of Housing and Urban Development -
Community Development Block Grant

Dollar threshold used to distinguish between Type A and Type B programs: \$ 750,000

Auditee qualified as low-risk auditee? yes no

CITY OF IRVINE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(CONTINUED)

For the year ended June 30, 2017

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS:

MATERIAL WEAKNESS

Finding Number 2017-001

Condition

Revenue related to a certain material receivable balance in the City's Capital Project Improvement Fund was recorded as both unearned revenue and a deferred inflow of resources on the balance sheet.

Criteria

Governmental funds are accounted for on the modified accrual basis. As such, revenues are recognized only when they are measurable and available. Availability is defined as being collected within the current period or within 60 days after year-end. Those accrued revenues that are not available are recorded on the balance sheet as a deferred inflow of resources.

Cause

The cause for this duplication was an incorrect prior period adjustment made in fiscal year 2015-16.

Effect

Fund balance in the City's Capital Project Improvement Fund was understated.

Recommendation

We recommend that a more thorough review of capital project related reimbursements occur during the year-end closing process to ensure the accuracy of the revenue recognition related to specific capital projects.

Management's Response

This was an isolated event involving a construction project with complicated cooperative agreements as well as amendments with several other agencies. Going forward all projects with multiple agreements that involve more than one agency are subject to an additional review by Fiscal Services before any billings and/or reimbursements are recorded.

CITY OF IRVINE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(CONTINUED)

For the year ended June 30, 2017

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS:

SIGNIFICANT DEFICIENCIES

Finding Number 2017-002

Condition

The City had certain capital improvement projects, where construction was completed and the projects were placed in service; however, the asset value had not been transferred from the capital asset classification "Construction in Progress" (CIP) to the appropriate capital asset category (e.g., infrastructure, improvements, etc.). As a result, depreciation had not yet been computed on these capital assets.

Criteria

The City is responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement. An important part of financial reporting is ensuring the accuracy of capital asset classifications and appropriately estimating the use of those capital assets in the form of depreciation expense. As these projects are completed and placed in service, the assets should be transferred to the appropriate capital asset category and depreciation of the capital assets should commence.

Cause

The City has procedures in place to have capital projects reviewed in November annually to determine which projects have been completed and placed in service during the past fiscal year. Those projects are then transferred to an appropriate capital asset classification. However, certain projects that have already been completed and placed in service as of year-end were not appropriately classified in the City's general ledger as of year-end.

Effect

Capital asset classifications in the financial statement note disclosures were misstated and commencement of depreciation was delayed.

Recommendation

We recommend that during the year, the City departments responsible for overseeing the CIP projects, review the status of them and determine when a CIP project is substantially complete and has been placed in service, and promptly notify the Fiscal Services Division of this fact to ensure accurate financial reporting and proper accounting for completed capital projects.

CITY OF IRVINE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(CONTINUED)

For the year ended June 30, 2017

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS:

SIGNIFICANT DEFICIENCIES (CONTINUED)

Finding Number 2017-002 (Continued)

Management's Response

Fiscal Services follows an established capitalization practice where all Construction in Progress (CIP) projects are not capitalized or transferred into the appropriate capital asset category until the City Council approves the project closure. After discussion with the auditor, White Nelson Diehl Evans, staff will update the capital asset policy to include a section on the timing of the transfer of projects categorized as construction in progress to coincide with the requirements of generally accepted accounting principles.

Finding Number 2017-003

Condition

The City had two current year additions to the capital asset classification, Land, should have been recorded in prior years. These two additions represented the second and third installments relate to a long-term existing agreement whereby the third party was obligated to contribute land to the City for affordable housing. The Fiscal Services Division only identified the existence of this unrecorded land as a result of monitoring the minutes of recent council meetings in which discussions occurred about transferring this contributed land to the Irvine Community Land Trust.

Criteria

The City is responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement.

Cause

The City entered into an agreement with a third party, which provided a various contributions of land to the City. The City Council accepted the land but the land was not recorded on the City general ledger in the fiscal year in which it was accepted.

Effect

Capital assets in the City's government-wide statement of net position in prior years were understated as a result of the unrecorded land.

CITY OF IRVINE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(CONTINUED)

For the year ended June 30, 2017

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS:

SIGNIFICANT DEFICIENCIES (CONTINUED)

Finding Number 2017-003 (Continued)

Recommendation

We recommend that the City departments responsible for monitoring activity related to multi-year agreements affecting City assets and obligations such as the one identified above, improve their communications with the Fiscal Services Division to ensure the timely and accurate recording of events involving the multi-year agreements.

Management's Response

Fiscal Services has a standard procedure in place with Public Works to receive all donations of land, streets, parks, and other capital assets as a result of development. Staff will issue direction to guide the other departments on the proper procedure and processes for accepting and notifying Fiscal Services of the donation of capital assets.

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

None noted.

CITY OF IRVINE

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

For the year ended June 30, 2017

FINDINGS RELATING TO FINANCIAL STATEMENTS:

SIGNIFICANT DEFICIENCY

Finding Number 2016-001

Condition

The City had a lack of controls related to the maintenance of capital asset records related to information technology equipment that resulted in the write-off of a significant amount of fully depreciated capital assets by management during the year. Inaccurate capital asset records related to technology equipment can result in the misstatement of the machinery and equipment asset classification reported in the financial statements and, potentially, the misappropriation of City assets.

Recommendation

We recommend that the City work with its current third-party vendor to establish procedures and controls to ensure that an inventory of the City's technology equipment is maintained and that adequate supporting records of purchases, dispositions, and retirements of technology equipment are received in order to accurately report such equipment for financial reporting purposes.

Current Status

This finding has been corrected.

FINDINGS AND QUESTIONED COSTS FOR MAJOR FEDERAL AWARDS PROGRAMS:

There were no prior audit findings relative to federal programs to report.