

**CITY OF IRVINE
IRVINE, CALIFORNIA**

**SINGLE AUDIT OF FEDERALLY
ASSISTED GRANT PROGRAMS**

FOR THE YEAR ENDED JUNE 30, 2016

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, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated November 1, 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 a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as Finding Number 2016-001, that we consider to be a significant deficiency.

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 Response to Finding

The City's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on it.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

White Nelson Dick Evans LLP

Irvine, California
November 1, 2016

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, 2016. 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, 2016.

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, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated November 1, 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 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
November 1, 2016

**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, 2016

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	\$ 215,765	\$ -
		B15-MC-06-0557	568,733	173,163
		Program Income	222,967	-
HOME Investment Partnership Program	14.239	M-14-MC-06-0561	314,284	-
		M-15-MC-06-0561	358,130	-
		Program Income	1,526	-
Total U.S. Department of Housing and Urban Development			1,681,405	173,163
<u>U.S. Department of Justice:</u>				
Direct Assistance:				
Equitable Sharing Program - Asset Forfeiture	16.922	CA0302600	518,353	-
Total U.S. Department of Justice			518,353	-
<u>U.S. Department of Transportation:</u>				
Passed Through the California State Department of Transportation:				
Highway Planning and Construction	20.205	HSIPL-5410(082)	48,438	-
Passed Through the Orange County Transit Authority:				
Highway Planning and Construction	20.205	CML-5410(079)	331	-
		CML-5410(080)	21,465	-
Passed Through the California State Department of Transportation:				
Highway Training and Education	20.215	12-5410R	61,269	-
Passed Through the State of California Office of Traffic Safety:				
Selective Traffic Enforcement Program	20.600	PT1601	93,040	-
		PT15120	41,257	-
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	PT1601	111,212	-
		PT15120	40,834	-
Total U.S. Department of Transportation			417,846	-

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, 2016

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 Energy</u>				
Direct Assistance:				
Energy Efficiency and Renewable Energy	81.117	DE-EE0006677	267,000	-
Total U.S. Department Energy			267,000	-
<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	55,451	-
Special Programs for the Aging Title III, Part C Nutrition Services	93.045	AP-1011-22	246,936	-
Nutrition Services Incentive Program	93.053	AP-1011-22	60,259	-
Total Aging Cluster/U.S. Department of Health and Human Services			362,646	-
<u>U.S. Department of Homeland Security</u>				
Passed Through the City of Anaheim:				
Urban Area Security Initiative - 2013	97.067	2013-00110	3,135	-
Total U.S. Department of Homeland Security			3,135	-
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 3,250,385</u>	<u>\$ 173,163</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	\$ 14,001	\$ -
CSA Senior Services Title III C-2 Nutrition Services - Home Delivered Meals	N/A	AP-1011-22	\$ 14,178	\$ -

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, 2016

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.

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
(CONTINUED)

For the year ended June 30, 2016

2. FINDINGS RELATED TO THE 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.

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 contracts with a third-party vendor to provide information technology services and has been experiencing difficulties in obtaining proper supporting documentation related to technology equipment replacements and retirements from the former third-party vendor.

Effect

The City wrote off a significant amount of fully depreciated capital assets during the year.

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.

CITY OF IRVINE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(CONTINUED)

For the year ended June 30, 2016

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS (CONTINUED):

SIGNIFICANT DEFICIENCY (CONTINUED)

Finding Number 2016-001 (Continued)

Management's Response

The City has experienced some turnover in the staff managing the information technology division and its third-party vendor. Over a year ago, the City began the process of requesting proposals from information technology firms to ensure the City had the best-qualified firm assisting the City in its technology requirements.

In August 2016, the City hired a new Manager of Technology and Innovation to oversee the third-party vendor and staff. In September 2016, the City Council approved a new information technology firm as a result of the request for proposal process. The sixty-day transition period between the old and new firm has begun.

The Manager of Technology and Innovation has put into practice the following changes during the first few months of his tenure to strengthen the internal controls over information technology equipment: a physical inventory of the City's technology, including all hardware and software assets; instituted procedures for an annual hardware and software physical inventory; and procurement for technology is now managed by City staff.

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, 2016

There were no findings reported for fiscal year 2014-2015.