

CITY OF TUSTIN, CALIFORNIA
SINGLE AUDIT OF FEDERALLY ASSISTED
GRANT PROGRAMS

JUNE 30, 2012

CITY OF TUSTIN

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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 Tustin
Tustin, California

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Tustin (the City), as of and for the year ended June 30, 2012, which collectively comprise the City of Tustin's basic financial statements and have issued our report thereon dated January 22, 2013. We conducted our audit in accordance with 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.

Internal Control Over Financial Reporting

Management of the City is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of 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.

We noted a certain matter that we reported to management of the City in a separate letter dated January 22, 2013.

This report is intended for the information of the City Council, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

White Nelson Dick Evans LLP

Irvine, California
January 22, 2013

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT
ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 AND ON
THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The Honorable Mayor and
Members of City Council
City of Tustin
Tustin, California

Compliance

We have audited the City of Tustin's (the City) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (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, 2012. The City of Tustin's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City of Tustin's management. Our responsibility is to express an opinion on the City of Tustin's compliance based on our audit.

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 of Tustin'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. Our audit does not provide a legal determination on the City of Tustin's compliance with those requirements.

In our opinion, the City of Tustin complied, in all material respects, with the 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, 2012.

Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance 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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Tustin as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements, and have issued our report thereon dated January 22, 2013, which contained unqualified opinions on those statements. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic 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 of the City 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 information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The purpose of this report is solely to describe the scope of our testing of compliance with the types of compliance requirements applicable to each of the City's major programs and our testing of internal control over compliance and the results of our testing, and to provide an opinion on the City's compliance but not to provide an opinion on the effectiveness of City's internal control over compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's compliance with requirements applicable to each major program and its internal control over compliance. Accordingly, this report is not suitable for any other purpose.

White Nelson Nick Evans LLP
Irvine, California
January 22, 2013

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

CITY OF TUSTIN

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended June 30, 2012

Federal Grantor / Pass - Through Grantor / Program / Cluster Title	Catalog of Federal Domestic Assistance Number	Program Identification Number	Federal Expenditures
<u>United States Department of Commerce</u>			
Passed through City of Santa Ana:			
Public Safety Interoperable Communications Grant (PSIC)	11.555	2007 - GS - H7 - 0008	\$ 630
<u>United States Department of Housing and Urban Development</u>			
Direct Assistance:			
Community Development Block Grant (CDBG)	14.218	B - 07 - MC - 06 - 0583	19,518
	14.218	B - 09 - MC - 06 - 0583	159,763
	14.218	B - 10 - MC - 06 - 0583	510,833
	14.218	B - 11 - MC - 06 - 0583	467,815
Total United States Department of Housing and Urban Development			<u>1,157,929</u>
<u>United States Department of Justice</u>			
Direct Assistance:			
Bulletproof Vest Partnership Program	16.607	52030019	30,420
Passed through the County of Orange:			
Edward Byrne Memorial Justice Assistance Grant (JAG)	16.738	2010 - DJ - BX - 0324	7,969
Total United States Department of Justice			<u>38,389</u>
<u>United States Department of Transportation</u>			
Passed through University of California, Berkeley:			
State and Community Highway Safety	20.600	CTT11439	1,417
Alcohol Impaired Driving Countermeasures Incentive Grants I	20.601	SC11439	20,311
Passed through City of Anaheim:			
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	20656	2,569
Total United States Department of Transportation			<u>24,297</u>

(Continued)

See Independent Auditors' Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133 and the Schedule of Expenditures of Federal Awards (pages 3 and 4) and Notes to Schedule of Expenditures of Federal Awards (pages 7 and 8).

CITY OF TUSTIN

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
(CONTINUED)

For the year ended June 30, 2012

Federal Grantor / Pass - Through Grantor / Program / Cluster Title	Catalog of Federal Domestic Assistance Number	Program Identification Number	Federal Expenditures
<u>United States Department of Energy</u>			
Direct Program:			
ARRA - Energy Efficiency and Conservation Block Grant	81.128	DE - SC0002328	<u>\$ 411,972</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u><u>\$ 1,633,217</u></u>

See Independent Auditors' Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133 and the Schedule of Expenditures of Federal Awards (pages 3 and 4) and Notes to Schedule of Expenditures of Federal Awards (pages 7 and 8).

CITY OF TUSTIN

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended June 30, 2012

1. GENERAL:

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal financial assistance programs of the City of Tustin (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 and the accrual basis for proprietary 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. SUBRECIPIENTS:

During the fiscal year ended June 30, 2012, the City disbursed federal funds to the following subrecipients under the Community Development Block Grant program (CFDA #14.218):

	Amount Disbursed
Community Senior Services	\$ 16,705
Boys and Girls Club of Tustin	14,199
Laurel House	6,682
Mercy House	4,176
Human Options	4,176
Olive Crest	2,088
Fair Housing Foundation	<u>14,545</u>
Total disbursed to subrecipients	<u>\$ 62,571</u>

See Independent Auditors' Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133 and on the Schedule of Expenditures of Federal Awards (pages 3 and 4) and the Schedule of Expenditures of Federal Awards (pages 5 and 6).

CITY OF TUSTIN

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
(CONTINUED)

For the year ended June 30, 2012

6. CONTINGENCIES:

Under the terms of federal and state grants, additional audits may be requested by the grantor agencies and certain costs may be questioned as not being appropriate expenditures under the terms of the grants. Such audits could lead to a request for reimbursement to the grantor agencies.

See Independent Auditors' Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133 and on the Schedule of Expenditures of Federal Awards (pages 3 and 4) and on the Schedule of Expenditures of Federal Awards (pages 5 and 6).

CITY OF TUSTIN

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the year ended June 30, 2012

1. SUMMARY OF AUDITORS' RESULTS:

Financial Statements:

Type of auditor's report issued:

- Unqualified

Internal control over financial reporting:

Material weakness(es) identified? ___ yes x no

Significant deficiency(es) identified? ___ yes x none reported

Noncompliance material to financial statements noted: ___ yes x no

Federal Awards:

Internal control over major programs:

- Material weakness(es) identified? ___ yes x no
- Significant deficiency(es) identified? ___ yes x none reported

Type of auditor's report issued on compliance for major programs:

- Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?

___ yes x no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
14.218	Community Development Block Grant
81.128	ARRA - Energy Efficiency and Conservation Block Grant

Dollar threshold used to distinguish between type A and type B programs: \$ 300,000

Auditee qualified as low-risk auditee? ___ yes x no

See 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 and Independent Auditors' Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133 and on Schedule of Expenditures of Federal Awards (pages 1 through 4).

CITY OF TUSTIN

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(CONTINUED)

For the year ended June 30, 2012

Financial Statement Findings

There were no significant deficiencies or noncompliance material to the financial statements which were disclosed by the audit of the financial statements of the City of Tustin for the year ended June 30, 2012.

Major Federal Award Program Audit Findings

None.

See 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 and Independent Auditors' Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133 and on Schedule of Expenditures of Federal Awards (pages 1 through 4).

CITY OF TUSTIN

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

For the year ended June 30, 2012

Financial Statement Findings

Finding Number 2011-01

Criteria

An important element of internal control over cash is the reconciliation process which enables City staff to identify differences between the bank and general ledger balances and resolve such differences in a timely manner.

Condition

During our testing of bank reconciliations, we noted several instances in which the monthly bank reconciliation process was not completed and reviewed timely.

Recommendation

We recommend that the monthly bank reconciliation process be completed and reviewed in a timely basis.

Current Status

This finding has been corrected this year.

See 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 and Independent Auditors' Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133 and on Schedule of Expenditures of Federal Awards (pages 1 through 4).

CITY OF TUSTIN

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
(CONTINUED)

For the year ended June 30, 2012

Major Federal Award Program Audit Findings

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Finding Number 2011-02: Community Development Block Grant

Criteria

The Davis-Bacon Act requires that all laborers and mechanics employed by contractors or subcontractors to work on construction contracts in excess of \$2,000 financed by federal assistance funds must be paid wages not less than those established for the locality of the project (prevailing wage rates) by the Department of Labor.

Condition

Per our review of certified payrolls, we noted that laborers used by contractors for several projects funded by the grant were paid less than the prevailing wage rates established for the locality of those projects. In addition, the City did not perform onsite interviews of laborers verifying if they were paid the prevailing wage rates.

Recommendation

We recommend that City performs random onsite interviews and implement procedures that will ensure laborers used by contractors for projects funded by the grant are paid the prevailing wage rates established for the locality of those projects.

Current Status

The finding has been corrected this year.

See 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 and Independent Auditors' Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133 and on Schedule of Expenditures of Federal Awards (pages 1 through 4).