

CITY OF BEVERLY HILLS
SINGLE AUDIT OF FEDERALLY
ASSISTED GRANT PROGRAMS

JUNE 30, 2012

CITY OF BEVERLY HILLS

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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 City Council
of the City of Beverly Hills
Beverly Hills, California

We have audited the financial statements of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of the City of Beverly Hills, California (the City), 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 February 6, 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.

Internal Control Over Financial Reporting (Continued)

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. However, we identified a deficiency in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs as Finding 2012-1, that we consider to be a significant deficiency in internal control over financial reporting. 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Beverly Hills, California'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 certain matters that we reported to management of City of Beverly Hills, California, in a separate letter dated February 6, 2013.

The City's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the City's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of City Council, management, and others within the City of Beverly Hills, California, and is not intended to be and should not be used by anyone other than these specified parties.

White Nelson Dick Evans LLP

February 6, 2013
Irvine, California

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 City Council
City of Beverly Hills
Beverly Hills, California

Compliance

We have audited the City of Beverly Hills, California'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'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's management. Our responsibility is to express an opinion on the City'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'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's compliance with those requirements.

In our opinion, the City 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. However, the results of our auditing procedures disclosed one instance of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of finding and questioned costs as item 2012-2.

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 as a basis for designing 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. However, we identified a certain deficiency in internal control over compliance that we consider to be a significant deficiency as described in the accompanying schedule of findings and questioned costs as Finding Number 2012-2. A significant deficiency in internal control over compliance is a deficiency, or 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.

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 Beverly Hills, 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 February 6, 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 accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB 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 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 City's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the City's response and, accordingly, we express no opinion on the response.

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 of Beverly Hills' 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 the 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 Dick Evans LLP

Irvine, California

March 15, 2013, except to the date for the Schedule of Expenditures of Federal Awards, to which the date is February 6, 2013.

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

CITY OF BEVERLY HILLS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended June 30, 2012

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>				
Pass-through from the County of Los Angeles:				
Community Development Block Grant:				
Handyman Service:				
Single Unit	14.218	D96095	\$ 115,118	\$ 115,118
Multiple Units	14.218	D99102	69,246	69,246
Services for Seniors	14.218	D96097	34,064	34,064
CDBG Program Management	14.218	D96096	19,610	-
Total U.S. Department of Housing and Urban Development			238,038	218,428
<u>U.S. Department of Justice:</u>				
Direct Assistance:				
Asset Forfeiture	16.000	CA0191000	893,951	-
Bullet Proof Vest Partnership	16.607	N/A	31,732	-
Pass-through from the City of Los Angeles				
Edward Byrne Memorial Justice Assistance Grant	16.738	C-118320	5,105	-
ARRA - Edward Byrne Memorial Justice Assistance Grant Program	16.803	2009-SB-B9-2024	60,909	-
Total U.S. Department of Justice			991,697	-
<u>U.S. Department of Transportation:</u>				
Pass-through from the California State Department of Transportation:				
ARRA - Highway Planning & Construction	20.205	5221011	552,736	-
<u>U.S. Department of Homeland Security:</u>				
Pass-through from the County of Los Angeles:				
08 Homeland Security Grant Program	97.067	2008 HSG	1,175,912	-
09 Homeland Security Grant Program	97.067	2009 HSG	19,055	-
Pass-Through from the City of Los Angeles:				
08 Urban Area Security Initiative	97.067	2008 UASI	23,096	-
09 Urban Area Security Initiative	97.067	2009 UASI	94,486	-
10 Urban Area Security Initiative	97.067	2010 UASI	4,220	-
Total U.S. Department of Homeland Security			1,316,769	-
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 3,099,240	\$ 218,428

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 through 5) and Notes to Schedule of Expenditures of Federal Awards (pages 7 and 8).

CITY OF BEVERLY HILLS

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 only the expenditures incurred by the City of Beverly Hills (the City) that are reimbursable under federal programs of federal assistance. For the purposes of this schedule, financial awards include both federal financial assistance received directly from a federal agency, as well as federal funds received indirectly by the City from non-federal organizations. Only the portion of program expenditures reimbursable with such federal funds is reported in the accompanying schedule. Program expenditures in excess of the maximum reimbursement authorized or the portion of the program expenditures that were funded with state, local or other non-federal funds are excluded from 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 of accounting for proprietary funds, which are described in the Note 1 of the notes to the City's financial statements. Expenditures reported include any property or equipment acquisitions incurred under the Federal program.

3. SUBRECIPIENT EXPENDITURES:

During the fiscal year ended June 30, 2012, the City disbursed \$218,428 to subrecipients, utilizing funds provided by the U.S. Department of Housing and Urban Development Community Development Block Grant.

4. 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.

5. RELATIONSHIP TO FEDERAL FINANCIAL REPORTS:

Amounts reported in the accompanying Schedule of Expenditures of Federal Awards agree with amounts reported in federal financial reports.

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 (page 6).

CITY OF BEVERLY HILLS

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 the Schedule of Expenditures of Federal Awards (page 6).

CITY OF BEVERLY HILLS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the year ended June 30, 2012

1. Summary of Auditors' Results:

- a. The auditors' report expresses an unqualified opinion on the financial statements of the City of Beverly Hills.
- b. One significant deficiency was identified in internal controls as a result of the audit of the financial statements. See Finding Number 2012-1. This finding is not considered a material weakness.
- c. No instances of noncompliance material to financial statements of the City of Beverly Hills, which would be required to be reported in accordance with Government Auditing Standards, were disclosed during the audit.
- d. One significant deficiency in internal control over compliance of major federal award programs was disclosed during the audit. See Finding Number 2012-2. This finding is not considered a material weakness.
- e. The auditors' report on compliance for the major federal award programs for the City of Beverly Hills expresses an unqualified opinion on all major federal programs.
- f. The audit disclosed one audit findings required to be reported in accordance with Section 510(a) of OMB Circular A-133. See Finding Number 2012-2.
- g. The threshold used for distinguish between type A and type B programs was \$300,000.
- h. The programs tested as major programs were:

U.S. Department of Transportation – ARRA - Highway Planning & Construction - CFDA No. 20.205
U.S. Department of Homeland Security - Homeland Security Grant Program - CFDA No. 97.067
- i. The City of Beverly Hills qualified as a low-risk auditee for the year ended June 30, 2012 for purposes of major program determination.

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 the Schedule of Expenditures of Federal Awards (pages 1 through 5).

CITY OF BEVERLY HILLS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

For the year ended June 30, 2012

2. FINDINGS RELATING TO FINANCIAL STATEMENTS:

SIGNIFICANT DEFICIENCY

Finding Number 2012-1

Criteria

Bank account reconciliations should be performed on a timely basis.

Condition and Context

During our audit we noted that bank account reconciliations are performed every six months. We believe that this is a control deficiency in that errors or defalcations that would be discovered during the bank reconciliation process would not necessarily be able to be corrected in a timely manner.

Recommendation

We recommend that all bank account statements be reconciled to the general ledger on a monthly basis and reviewed and approved by an appropriate level of management.

Management Response

Management agrees that this is an ideal practice and will work towards implementation, which will be automated with the implementation of the new financial software. The software that is currently available cannot automate this procedure. However, Management has already implemented many mitigating internal controls that address the risk areas within this observation

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 the Schedule of Expenditures of Federal Awards (pages 1 through 5).

CITY OF BEVERLY HILLS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

For the year ended June 30, 2012

3. Findings and Questioned Costs for Federal Awards as Defined in Paragraph .510(a) at OMB Circular A-133:

SIGNIFICANT DEFICIENCY

Finding Number 2012-2

Major Program

U.S. Department of Homeland Security - Homeland Security Grant Program (CFDA No. 97.067), Passed Through the County of Los Angeles, Grant Identification Numbers: 2008 HSG and 2009 HSG.

Criteria

The City is required to conduct a physical inventory of equipment purchased with Homeland Security Grant Program grant funds at least once every two years.

Condition

There was no evidence that a physical inventory of equipment purchased with Homeland Security Grant Program grant funds was conducted within the past two years.

Questioned Costs

None

Cause

An informal physical inventory of equipment purchased with grant funds is performed regularly, however this procedure has not been documented.

Effect

This finding was also noted in the sub-recipient monitoring report in 2012, which was conducted by the auditors for the County of Los Angeles, and no action has been taken against the City.

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 the Schedule of Expenditures of Federal Awards (pages 1 through 5).

CITY OF BEVERLY HILLS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

For the year ended June 30, 2012

3. Findings and Questioned Costs for Federal Awards as Defined in Paragraph .510(a) at OMB Circular A-133 (Continued):

Finding Number 2012-2 (Continued)

Recommendation

We recommend that the City document the inventory count of grant equipment and reconcile them against equipment records at least once every two years as required by the grant agreement. The City should also maintain evidence of the compliance in its files.

Management Response

The City will implement a system to document the review of equipment inventory for all inventory purchased with Homeland Security funds, by June 30, 2013. The inventory will be done once a year as of June 30th.

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 the Schedule of Expenditures of Federal Awards (pages 1 through 5).

CITY OF BEVERLY HILLS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

For the year ended June 30, 2012

There were no audit findings in the audit report for the year ended June 30, 2011.