

**CITY OF SIGNAL HILL, CALIFORNIA**  
**SINGLE AUDIT OF FEDERALLY ASSISTED**  
**GRANT PROGRAMS**

**JUNE 30, 2010**

CITY OF SIGNAL HILL

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December 23, 2010

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 Signal Hill  
Signal Hill, California

We have audited the financial statements of the governmental activities, the business-type activity, each major fund and the aggregate remaining fund information of the City of Signal Hill (the City), as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 23, 2010. 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

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 misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

## 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 certain deficiency in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs as Finding Number 2010-01 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 Signal Hill'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.

The City of Signal Hill'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.

This report is intended solely for the information and use of the management, City Council, others within the City 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.

*Diehl, Evans and Company, LLP*



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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 Signal Hill  
 Signal Hill, California

Compliance

We have audited the City of Signal Hill'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 its major federal programs for the year ended June 30, 2010. 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 that could have a direct and material effect on 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 of Signal Hill'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 of Signal Hill 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 identified in the accompany schedule of findings and questioned costs for the year ended June 30, 2010.

### 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 the 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 2010-02. *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.

### Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activity, each major fund and the aggregate remaining fund information of the City as of and for the year ended June 30, 2010, and have issued our report thereon dated December 23, 2010, which contained unqualified opinions on those financial statements. Our audit was performed for the purpose of forming opinions on the financial statements as a whole. 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 financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the 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.

This report is intended solely for the information and use of the management, City Council, others within the City 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.

*Diehl, Evans and Company, LLP*

March 22, 2011, except to the date for the Schedule of Expenditures of Federal Awards, to which the date is December 23, 2010.

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

CITY OF SIGNAL HILL

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended June 30, 2010

Federal Grantor / Pass - Through Grantor / Program / Cluster Title	Catalog of Federal Domestic Assistance Number	Program Identification Number	Federal Expenditures
<u>United States Department of Housing and Urban Development</u>			
CDBG - Entitlement Grants Cluster:			
Passed through the County of Los Angeles:			
Community Development Block Grants -			
Entitlement Grants	14.218	103788	\$ 41,647
		104192	30,109
		104390	118,042
			189,798
<b>ARRA</b> - Community Development Block Grants - Entitlement Grant	14.253	B-09-UY-06-0505	35,893
Total CDBG - Entitlement Grants Cluster/ United States Department of Housing and Urban Development			225,691
<u>United States Department of Justice</u>			
Direct Assistance:			
Bullet Proof Vest Partnership Program	16.607	Unknown	2,587
Public Safety Partnership and Community Policing Grants:			
COPS Technology Program	16.710	2009CKWX0069	173,690
<b>ARRA</b> - COPS Hiring Recovery Program	16.710	2009RKWX0122	26,729
			200,419
Passed through the City of Los Angeles:			
<b>ARRA</b> - Recovery Act Edward Byrne Memorial Justice	16.804	2009-SB-B9-2024	5,821
Total United States Department of Justice			208,827

(Continued)

See Accompanying 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 Notes to Schedule of Federal Awards (page 7).

CITY OF SIGNAL HILL

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
(CONTINUED)

For the year ended June 30, 2010

Federal Grantor / Pass - Through Grantor / Program / Cluster Title	Catalog of Federal Domestic Assistance Number	Program Identification Number	Federal Expenditures
<u>United States Department of Transportation</u>			
Passed through California Department of Transportation:			
ARRA - Highway Planning and Construction	20.205	ESPL 5262(004)	\$ 396,211
Highway Planning and Construction	20.205	HPLUL 07-5262(003)	149,074
Total Highway Planning and Construction			<u>545,285</u>
Passed through the State of California Office of Traffic Safety:			
State and Community Highway Safety - Selective Traffic Enforcement Program	20.600	PT1028	40,037
Passed through the University of California Berkeley, Traffic Safety Center:			
State and Community Highway Safety - Next Generation Click It or Ticket 2009-2010	20.600	CT10406	4,458
Passed through City of Gardena:			
State and Community Highway Safety - Avoid the 100 DUI Campaign	20.600	AL0911	8,799
Total State and Community Highway Safety			<u>53,294</u>
Total United States Department of Transportation			<u>598,579</u>
<u>United States Department of Homeland Security</u>			
Passed through the County of Los Angeles Chief Executive Office:			
Emergency Management Performance Grant	97.042	2009-15	19,620
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 1,052,717</u>

See Accompanying 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 Notes to Schedule of Federal Awards (page 7).

CITY OF SIGNAL HILL

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended June 30, 2010

1. REPORTING ENTITY:

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal financial assistance programs of the City of Signal Hill (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 Schedule of Expenditures of Federal Awards reports expenditures on the modified accrual basis of accounting. Accordingly, expenditures represent amounts incurred during the fiscal year which meet federal grant eligibility requirements.

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 Annual 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. CONTINGENCIES:

Under the terms of federal 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 Accompanying 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 4).

CITY OF SIGNAL HILL

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the year ended June 30, 2010

1. SUMMARY OF AUDITORS' RESULTS:

- a. The auditors' report expresses an unqualified opinion on the financial statements of the City.
- b. One significant deficiency relating to the audit of the financial statements was disclosed during the audit. See Finding Number 2010-01.
- c. No instances of noncompliance material to financial statements of the City, 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 2010-02.
- e. The auditors' report on compliance for the major federal award programs for the City expresses an unqualified opinion on all major federal programs.
- f. No audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this Schedule.
- g. The threshold used for distinguish between type A and type B programs was \$300,000.
- h. The programs tested as major programs were:

CDBG - Entitlement Grants Cluster:

Community Development Block Grant - Entitlement Grants - CFDA #14.218

ARRA - Community Development Block Grants Entitlement Grants - CFDA #14.253

Highway Planning and Construction - CFDA #20.205

ARRA - Highway Planning and Construction - CFDA #20.205

- i. The City of Signal Hill did not qualify as a low-risk auditee.

See Accompanying 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 4).

CITY OF SIGNAL HILL

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(CONTINUED)

For the year ended June 30, 2010

2. FINANCIAL STATEMENT FINDINGS:

**SIGNIFICANT DEFICIENCY**

Finding Number 2010-01

Criteria

One of the basic elements of internal accounting control over financial reporting involves the segregation of duties in such a manner that the responsibility for receiving and posting customer utility payments and modifying customer utility bills is not placed with the same employee.

Condition

We noted that there was a lack of segregation of duties within the controls over utility billing. The same person receives, processes and posts incoming customer utility payments and has the authority to make changes to the customer utility bills. Furthermore, we noted there was a lack of evidence of any monitoring or approval procedures to review this person's work.

Recommendation

We recommend that these functions be segregated to the extent possible. Furthermore, we recommend that management review and update its monitoring and approval procedures related to the utility billing system.

Management Response

Budgetary limitations have restricted staffing levels throughout the City, including within the Finance Department. Management has been aware of the deficiency in the segregation of duties for utility billing as relates to the cash receipt function and the customer account maintenance function. In order to mitigate the internal control issues, current departmental procedures include a monthly utility billing accounts receivable reconciliation, which incorporates a review of all utility billing adjustments by both the Accountant who completes the reconciliation, and the City's Finance Director. Additionally, timely bank reconciliations are performed each month.

On a go forward basis, management will establish procedures requiring that all utility billing adjustments be reviewed by the Accounting Manager and Finance Director prior to posting to the utility billing system.

See Accompanying 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 4).

CITY OF SIGNAL HILL

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(CONTINUED)

For the year ended June 30, 2010

3. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT:

**SIGNIFICANT DEFICIENCY**

Finding Number 2010-02

Major Programs

U.S. Department of Transportation - Highway Planning and Construction and ARRA - Highway Planning and Construction (CFDA #20.205), Passed Through California Department of Transportation, Grant Identification Numbers: HPLUL 07-5262(003) and ESPL 5262(004)

Criteria

The City is required to monitor proper billing of the grant funds by reviewing reimbursement requests submitted to the grantor agency.

Condition

We noted that the City did not review a reimbursement request prepared by an outside consultant before it was submitted to California Department of Transportation.

Questioned Costs

None

Cause

Lack of supervision and follow up of the City staff.

See Accompanying 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 4).

CITY OF SIGNAL HILL

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(CONTINUED)

For the year ended June 30, 2010

3. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS  
AUDIT(CONTINUED):

Finding Number 2010-02 (Continued)

Effect

Reimbursement requests may contain inaccurate information.

Recommendation

We recommend that the City implement additional procedures to ensure that the work of outside consultant and reimbursement requests are properly monitored and reviewed prior to submission.

Management Response

Currently, the City's procedure requires that all billing for grant funds be reviewed by the responsible Department Director prior to submission to the grantor agency. On a go forward basis, the City will document the review process by creating an Approval Form, which will be signed by the responsible Department Director, for all grant reimbursement requests. This document will remain on file with the related billing.

4. SUMMARY OF PRIOR AUDIT FINDINGS:

There were no findings or questioned costs relative to federal awards for the year ended June 30, 2007 (the most recent Single Audit prior to this one).

See Accompanying 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 4).