

**Single Audit Report
City of Norwalk, California
Year ended June 30, 2011
with Report of Independent Auditors**

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**Report of Independent Auditors 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 Norwalk**

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 Norwalk, California, as of and for the year ended June 30, 2011, and have issued our report thereon dated December 23, 2011. 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 of Norwalk is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City of Norwalk'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 of Norwalk's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Norwalk'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 entity'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 would not necessarily identify all deficiencies in internal control 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 of Norwalk'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*.

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

Vargay + Company LLP

**Los Angeles, California
December 23, 2011**

Report of Independent Auditors 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

**The Honorable Mayor and Members of City Council
City of Norwalk**

Compliance

We have audited the compliance of the City of Norwalk, California 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, 2011. The City of Norwalk'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 Norwalk's management. Our responsibility is to express an opinion on the City of Norwalk'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 Norwalk'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 of the City of Norwalk's compliance with those requirements.

In our opinion, the City of Norwalk complied, in all material respects, with the 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, 2011. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and are described in the accompanying schedule of findings and questioned costs as Findings 11-01 through 11-04.

Internal Control Over Compliance

The management of the City of Norwalk 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 of Norwalk'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 of Norwalk'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 would not necessarily identify all deficiencies in internal control 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 Norwalk as of and for the year ended June 30, 2011, and have issued our report thereon dated December 23, 2011. Our audit was performed for the purpose of forming an opinion of the financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis in accordance with OMB Circular A-133, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements. In our opinion, the accompanying information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

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

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

Vargay + Company LLP

**Los Angeles, California
December 23, 2011**

City of Norwalk
Schedule of Expenditures of Federal Awards
Year ended June 30, 2011

<u>Federal Grantor/Pass Through Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Program Identification Number</u>	<u>Federal Award Expenditures</u>	<u>Payments to Subrecipients</u>
<u>U.S. Department of Housing and Urban Development</u>				
Direct Assistance:				
Community Development Block Grant Entitlement Grant	14.218	B-10-MC-06-0524	\$ 2,415,987	\$ 131,000
Community Development Block Grant ARRA Entitlement Grants (Recovery Act Funded)	14.253	B-09-MY-06-0525	6,529	-
Home Investment Partnerships Program	14.239	M10-MC06-0552	421,301	-
Homelessness Prevention and Rapid Re-housing Program (ARRA)	14.257	S09-MY-06-0524	220,182 *	-
Section 8 Housing Choice Vouchers	14.871	CA118V0	7,547,288	-
			<u>10,611,287</u>	<u>131,000</u>
Passed through California Department of Housing and Community Development				
Community Development Block Grant - Neighborhood Stabilization Program	14.228	09-NSP1-6269	486,505	-
Total U.S. Department of Housing and Urban Development			<u>11,097,792</u>	<u>131,000</u>
<u>U.S. Department of Health and Human Services</u>				
Passed-through State of California, Department of Education				
Child Care and Development Block Grant	93.575	19-2187-00-8	1,741,744 **	-
	93.596	19-2187-00-0	266,695 *	-
Passed-through County of Los Angeles:				
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	19-K194-00-8	1,534,362 *	-
Special programs for Aging, Title III, Part B - Grants for supportive services and senior centers	93.044	SSP-1014-18	64,621	-
Total U.S. Department of Health and Human Services			<u>3,607,422</u>	<u>-</u>
<u>U.S. Department of Transportation</u>				
Direct Assistance:				
Federal Transit Formula Grants	20.507	CA-90-Y219	32,100 *	-
Federal Transit Formula Grants	20.507	CA-90-Y254	320,209 *	-
Federal Transit Formula Grants	20.507	CA-90-Y678	182,417 *	-
Federal Transit Formula Grants	20.507	CA-90-Y704	24,150 *	-
Federal Transit Formula Grants	20.507	CA-90-X922	7,334 *	-
Federal Transit Formula Grants	20.507	CA-90-Y724	1,480 *	-
Federal Transit Formula Grants (ARRA)	20.507	CA-96-X039	8,526 *	-
			<u>576,216</u>	<u>-</u>
Passed-through State of California				
Office of Traffic Safety				
COPS - Supplemental Law Enforcement Service Fund	20.601	PS 0617	93,325	-
Alcohol Impaired Driving Countermeasure Incentive	20.601	SC11286	19,934	-
Alcohol Impaired Driving Countermeasure Incentive	20.601	SC10286	7,610	-
Passed through UC Berkeley California Office of Traffic Safety	20.604	CT11286	4,372	-
Passed through UC Berkeley California Office of Traffic Safety	20.604	CT10286	2,197	-
			<u>127,438</u>	<u>-</u>
Total U.S. Department of Transportation			<u>703,654</u>	<u>-</u>
<u>U.S. Department of Justice</u>				
Direct Assistance				
Edward Byrne Memorial Justice Assistance Grant	16.738	2007-DJ-BX-0168	57,529 *	-
Edward Byrne Memorial Justice Assistance Grant	16.738	2010-DJ-BX-0390	61,605 *	-
			<u>119,134</u>	<u>-</u>
Passed through City of Los Angeles				
Edward Byrne Memorial Justice Assistance Grant (ARRA)	16.804	2009-SB-B9-2024	235,773 *	-
Total U.S. Department of Justice			<u>354,907</u>	<u>-</u>
<u>U.S. Department of Environmental Protection Agency</u>				
Direct Assistance				
Congressionally Mandated Projects - Water Infrastructure	66.202	XP-97964101	193,874	-
Total U.S. Department of Environmental Protection Agency			<u>193,874</u>	<u>-</u>
Total Expenditures			<u>\$ 15,957,649</u>	<u>\$ 131,000</u>

* Major Programs

** Includes state funds of \$1,484,064.

See Notes to the Schedule of Expenditures of Federal Awards.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES APPLICABLE TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Scope of Presentation

The accompanying schedule presents only the expenditures incurred by the City of Norwalk (City) that are reimbursable under programs of federal and selected state agencies providing financial awards. For the purposes of this schedule, financial awards includes federal awards received directly from a federal agency, federal funds received indirectly by the City from a nonfederal agency or other organization, as well as certain state funds received directly from the California Department of Education. Only the portion of program expenditures reimbursable with such federal and selected state 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 other state, local or other nonfederal funds are excluded from the accompanying schedule.

Basis of Accounting

The expenditures included in the accompanying schedule were reported on the modified accrual basis of accounting. Under the modified accrual basis of accounting, expenditures are incurred when the City becomes obligated for payment as a result of the receipt of the related goods and services. Expenditures reported included any property or equipment acquisitions incurred under the federal program.

NOTE 2 MAJOR PROGRAMS

The following Catalog of Federal Domestic Assistance (CFDA) programs were tested as major programs:

Homelessness Prevention and Rapid Re-housing Program (ARRA)	CFDA #14.257
Childcare and Development Block Grant	CFDA #93.575
Childcare Mandatory and Matching Funds of the Childcare and Development Fund	CFDA #93.596
Federal Transit Formula Grants	CFDA #20.507
Edward Byrne Memorial Justice Assistance Grant	CFDA #16.738
Edward Byrne Memorial Justice Assistance Grant (ARRA)	CFDA #16.804

NOTE 3 PAYMENTS TO SUBRECIPIENTS

There were subrecipient grants awarded from U.S. Department of Housing and Urban Development, Community Development Block Grant - Entitlement Grant. These subrecipient grants totaled \$131,000.

Section I – Summary of Auditors’ Results

Financial Statements

Type of auditors’ report issued on the financial statements:	Unqualified
Internal control over financial reporting:	
• Material weakness(es) identified:	No
• Significant deficiency(ies) identified that are not considered to be material weaknesses?	None reported
Noncompliance material to the financial statements noted:	No

Federal Awards

Internal control over its major programs:	
• Material weakness(es) identified:	No
• Significant deficiency(ies) identified that are not considered to be material weaknesses?	None reported
Type of auditors’ 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 – F11- 01 to F11- 04

Identification of Major Programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
14.257	Homelessness Prevention and Rapid Re-Housing Program (ARRA)
20.507	Federal Transit Formula Grants
16.738	Edward Byrne Memorial Justice Assistance Grant
16.804	Edward Byrne Memorial Justice Assistance Grant (ARRA)
93.575	Childcare and Development Block Grant
93.596	Childcare Mandatory and Matching Funds of the Childcare and Development Fund

Dollar threshold used to distinguish between Type A and Type B programs:	\$477,942
Auditee qualified as a low-risk auditee:	Yes

Section II – Financial Statement Findings

None noted

Section III – Federal Award Findings

Finding F11-01 – Internal Controls Over Activities Allowed & Allowable Costs

Federal Program Information

<i>Federal Catalog Number:</i>	14.257
<i>Federal Program Name:</i>	Homelessness Prevention and Rapid Re-Housing Program (ARRA)
<i>Federal Agency:</i>	Department of Housing and Urban Development
<i>Pass-Through Entity:</i>	N/A
<i>Federal Award Number:</i>	S09-MY-06-0524

Criteria or Specific Requirement

The rental assistance paid cannot exceed the actual rent cost, which must be in compliance with HUD's standard of "rent reasonableness." "Rent reasonableness" means that the total rent charged for a unit must be reasonable in relation to the rents being charged during the same time period for comparable units in the private unassisted market and must not be in excess of rents being charged by the owner during the same time period for comparable non-luxury unassisted units.

Rental assistance payments cannot be made on behalf of eligible individuals or families for the same period of time and for the same cost types that are being provided through another federal, state or local housing subsidy program.

Condition

During our audit, we have tested the City's internal controls in place to ensure compliance with the above requirements relative to rental assistance payments. We tested a total of 25 participants and noted the following:

- 4 out of 25 samples tested had no rent reasonableness determination before the participants were provided rental assistance. Determinations were made for the 3 samples after the results of the HUD Monitoring done in April 2010, in which this was one of the findings. While 1 sample did not have any documentation at all that a determination was made.
- 9 out of 25 samples tested were not verified whether they are receiving rental assistance or the same cost type through another federal, state, or local subsidy program. Determinations were made for the 3 samples after the results of the HUD Monitoring done in April 2010, in which this was also one of the findings. The other 6 samples were verified after the City began providing assistance to the participants.

Effect

Lack of controls might result in noncompliance with the federal requirements of the HPRP Program and may further lead to ineligible costs.

Questioned Costs

Not applicable

Recommendation

We recommend that the City implement stricter controls and procedures to ensure that rent verification and rent reasonableness determination is done prior to the provision of rental assistance to participants.

Views of Responsible Officials and Planned Corrective Action

In order for the Family Services Coordinator to determine rent reasonableness she must consider the reasonableness in relation to rents being charged for comparable unassisted units, taking into account the location, size, type, quality, amenities, management and maintenance of each rental unit. For future clients, the Family Services Coordinator will establish rent reasonableness prior to providing rental assistance; this will be enforced once the client has found adequate housing. In the one client that did not have a determination of rent reasonableness the client did not find a rental unit, therefore the Family Service Coordinator would not be able to establish rent reasonableness. In the future there will be a notation made as such.

These clients were screened by the Norwalk Housing Authority; documents were located in the housing verification binder, since then the documents have now been placed within each individual case file. For future clients HPRP staff will ensure that clients are not receiving other sources of subsidy housing prior to providing rental assistance. Prospective clients will be asked to sign an affidavit stating if they receive any source of subsidy housing and if so what type of subsidy housing they are receiving.

Finding F11-02 – Eligibility

Federal Program Information

<i>Federal Catalog Number:</i>	14.257
<i>Federal Program Name:</i>	Homelessness Prevention and Rapid Re-Housing Program (ARRA)
<i>Federal Agency:</i>	Department of Housing and Urban Development
<i>Pass-Through Entity:</i>	N/A
<i>Federal Award Number:</i>	S09-MY-06-0524

Criteria or Specific Requirement

Per HPRP Eligibility Determination and Documentation Guidance, the HPRP Staff Certification of Eligibility for HPRP Assistance must be maintained in each HPRP participant's file and is subject to review by HUD. Grantees must use the HUD-specific form (including the HUD logo), and not simply reproduce copies that incorporate HUD's prescribed language.

The Staff Certification must be completed for each household deemed eligible for HPRP assistance. This form certifies that the household meets all eligibility criteria for HPRP assistance, that true and complete information was used to determine eligibility, and that no conflict of interest exists related to the provision of HPRP assistance. The Staff Certification of Eligibility form must be completed and signed by the person determining eligibility and his or her supervisor for all households determined eligible or recertified on or after November 1, 2009.

Condition

During our audit, we noted that the Staff Affidavit/Staff Certification of Eligibility for HPRP Assistance in 1 out of 25 samples tested was not signed by the supervisor.

Effect

This constitutes noncompliance with the grant terms and condition which may be grounds for sanctions.

Questioned Costs

Not applicable

Recommendation

The City should review its current procedures to make sure that provisions in the grant agreement are being complied with.

Views of Responsible Officials and Planned Corrective Action

Due to program acquisition transition from Rio Hondo to the Whole Child, the supervisor was not accessible to sign off the Staff Affidavit/Staff Certification of Eligibility. Currently the Executive Director of the Whole Child, Charlene Dimas Pienado will be available to sign any future documents.

Finding F11-03 – Special Test and Provisions

Federal Program Information

<i>Federal Catalog Number:</i>	14.257
<i>Federal Program Name:</i>	Homelessness Prevention and Rapid Re-Housing Program (ARRA)
<i>Federal Agency:</i>	Department of Housing and Urban Development
<i>Pass-Through Entity:</i>	N/A
<i>Federal Award Number:</i>	S09-MY-06-0524

Criteria or Requirement

Per Notice of Allocations, Application Procedures, and Requirements for Homelessness Prevention and Rapid Re-Housing Program Grantees under the American Recovery and Reinvestment Act of 2009 issued by the Department of Housing and Urban Development, organizations providing rental assistance with HPRP funds will be required to conduct initial and any appropriate follow-up inspections of housing units into which a program participant will be moving. Units should be inspected on an annual basis and upon a change of tenancy.

In addition the Lead-Based Paint Poisoning Prevention Act (42 U.S.C 4801 et seq.), as amended by the Residential Lead-Based Paint Hazard Reduction Act of 1992 (42 U.S.C. 4851 et seq.) and implementing regulations at 24 CFR part 35, subparts A, B, M, and R shall apply to housing occupied by families receiving assistance through HPRP.

Condition Found

During our testing of the City's compliance with special test and provision requirements, we noted the following:

- 2 out of 25 samples tested did not have any documentation that the rental units were inspected prior to occupancy to ensure that Habitability Standards were met.
- 1 out of 25 samples tested did not have any documentation that lead based inspection was done for the rental unit.

Effect

This constitutes noncompliance with the grant terms and condition which may be grounds for sanctions.

Questioned costs

Not applicable

Recommendation

We recommend that the City strengthen controls to ensure that required inspections are done timely and are properly documented in the participant files. In addition, termination of HPRP assistance must be properly documented in the participant files.

Views of Responsible Officials and Planned Corrective Action

(CA) Of the two clients that did not have any documentation stating that the rental units were inspected prior to occupancy, one client's rental unit was inspected although the document was located in the sister program file; since then the document has been placed in its proper location. For future clients the Family Service Coordinator will inspect property rental units prior to providing assistance and will ensure that all rental units have documentation of inspection for lead based paint.

Finding F11-04 – Special Test and Provisions

Federal Program Information

<i>Federal Catalog Number:</i>	14.257
<i>Federal Program Name:</i>	Homelessness Prevention and Rapid Re-Housing Program (ARRA)
<i>Federal Agency:</i>	Department of Housing and Urban Development
<i>Pass-Through Entity:</i>	N/A
<i>Federal Award Number:</i>	S09-MY-06-0524

Criteria or Requirement

Per Notice of Allocations, Application Procedures, and Requirements for Homelessness Prevention and Rapid Re-Housing Program Grantees under the American Recovery and Reinvestment Act of 2009 issued by the Department of Housing and Urban Development, in terminating assistance to a program participant, the grantee must provide a formal process that recognizes the rights of individuals receiving assistance to due process of law. This process, at a minimum, consists of:

- (1) Written notice to the program participant containing a clear statement of the reasons for termination;
- (2) A review of the decision, in which the program participant is given the opportunity to present written or oral objections before a person other than the person (or a subordinate of that person) who made or approved the termination decision; and
- (3) Prompt written notice of the final decision to the program participant.

Condition Found

During our testing of the City's compliance with special test and provision requirements, we noted the following:

- 2 out of 25 samples tested did not have Discharge Form on file.

Effect

This constitutes noncompliance with the grant terms and condition which may be grounds for sanctions.

Questioned costs

Not applicable

Recommendation

We recommend that the City strengthen controls to ensure that termination of HPRP assistance must be properly documented in the participant files.

Views of Responsible Officials and Planned Corrective Actions

As proper protocol for HPRP discharge, the Family Service Coordinator will fill out a program discharge form for those clients who have completed the program as well as for those that have become non-compliance. For future clients the Family Service Coordinator will ensure that all clients have a completed discharge form once the client has exited the program.

City of Norwalk
Status of Prior Year Findings and Questioned Costs
Year ended June 30, 2010

Finding Reference	Finding Description	Recommendation	Current Status	Explanation if not fully implemented
F-10-01	Community Development Block Grant - Reporting	We recommend that the City should review its current procedures over financial and program reporting to ensure timely submission of the required reports.	Implemented	Not Applicable
F-10-02	Community Development Block Grant/State's Program – Neighborhood Stabilization Program (NSP)- Cash Management	We recommend that the City should review its current procedures to make sure that provisions in the grant agreement are being complied with.	Implemented	Not Applicable
F-10-03	Community Development Block Grant/State's Program – Neighborhood Stabilization Program (NSP)- Reporting	We recommend that the City strengthen controls to ensure that amounts of expenditures are reported correctly.	Implemented	Not Applicable

