



CITY OF BEVERLY HILLS, CALIFORNIA

Single Audit Reports

Year ended June 30, 2004

(With Independent Auditors' Report Thereon)

CITY OF BEVERLY HILLS, CALIFORNIA

Single Audit Reports

Year ended June 30, 2004

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**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 the City Council
City of Beverly Hills, 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 Beverly Hills, California (the City) as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements and have issued our report thereon, dated November 5, 2004. 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 in order to determine our auditing procedures for the purpose of expressing our opinions on the basic financial statements and not to provide assurance on internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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 that are required to be reported under *Government Auditing Standards*.

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

KPMG LLP

November 5, 2004



KPMG LLP
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355 South Grand Avenue
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**Report on Compliance With Requirements Applicable to Each Major
Program and on Internal Control Over Compliance in Accordance
With U.S. Office of Management and Budget Circular A-133**

The Honorable Mayor and Members of the City Council
City of Beverly Hills, California:

Compliance

We have audited the compliance of the City of Beverly Hills (the City) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2004. The City's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and recommendations. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program 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 requirements referred to above that are applicable to its major federal program for the year ended June 30, 2004. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as *Finding 04-01*.

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with 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 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.

Our consideration of internal control over compliance would not necessarily disclose all matters in internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over compliance and its operation that we consider to be material weaknesses.

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 as of and for the year ended June 30, 2004 and have issued our report thereon, dated November 5, 2004. Our audit was performed for the purpose of forming an opinion on the financial statements, which 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 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

KPMG LLP

November 5, 2004

CITY OF BEVERLY HILLS, CALIFORNIA
 Schedule of Expenditures of Federal Awards
 Year ended June 30, 2004

Federal grantor/pass-through agency/ program title	Catalog of federal domestic assistance	Grant number/pass-through grantor's number	Program amount	Accrued (deferred) grant revenue, July 1, 2003	Grant revenue received	City matching and other grant revenue	Federal expenditures	City expenditures	Accrued (deferred) grant revenue, June 30, 2004
U.S. Department of Housing and Urban Development:									
Passed through the Los Angeles County Community Development Commission:									
Community Development Block Grant (A):									
Handyman service:									
Single Unit	14.218	D96095-02	\$ 117,000	83,196	83,196	—	—	—	—
Multiple Unit	14.218	D96095-03	110,270	—	18,378	—	110,254	—	91,876
Multiple Unit	14.218	D99102-02	63,000	57,677	57,677	—	—	—	—
Multiple Unit	14.218	D99102-03	79,730	—	13,288	—	79,730	—	66,442
CDBG Program Management	14.218	D96096-02	24,766	22,364	22,364	—	—	—	—
CDBG Program Management	14.218	D96096-03	4,257	—	—	—	—	—	—
CDBG Program Planning	14.218	D98099-02	4,000	614	614	—	3,612	—	3,612
CDBG Program Planning	14.218	D98099-03	28,000	—	—	—	27,995	—	27,995
Services for seniors	14.218	D96097-02	71,916	59,611	59,611	—	—	—	—
Services for seniors	14.218	D96097-03	80,643	—	13,441	—	80,500	—	67,059
Total U.S. Department of Housing and Urban Development			583,582	223,462	268,569	—	302,091	—	256,984
U.S. Department of Justice:									
Direct programs:									
Local Law Enforcement Block Grant Program	16.592	2003-LB-BX-0118	23,873	—	23,873	2,658	23,873	2,658	—
	16.592	2003-OM-WX-0156	95,155	—	—	31,794	95,155	31,794	95,155
Total Local Law Enforcement Block Grant Program			119,028	—	23,873	34,452	119,028	34,452	95,155
COPS In School	16.710	2001SHWX0379	250,000	21,000	84,000	187,587	84,000	187,587	21,000
Homeland Security Grant	16.007		76,092	(43,266)	—	79,235	43,266	79,235	—
Asset Forfeiture Program	16.000	CA0191000	—	(143,905)	—	728	33,465	—	(111,168)
Total U.S. Department of Justice			445,120	(166,171)	107,873	302,002	279,759	301,274	4,987
Total federal awards			\$ 1,028,702	57,291	376,442	302,002	581,850	301,274	261,971

(A) This program is considered a major program.

See accompanying notes to Schedule of Expenditures of Federal Awards and accompanying Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with U.S. Office of Management and Budget Circular A-133.

CITY OF BEVERLY HILLS, CALIFORNIA
Notes to Schedule of Expenditures of Federal Awards
Year ended June 30, 2004

(1) General

The accompanying schedule of expenditures of federal awards presents the activity of all federal financial assistance programs of the City of Beverly Hills, California (City).

(2) Basis of Accounting

The accompanying schedule of expenditures of federal awards is presented using the modified-accrual basis of accounting.

(3) Relationship to Federal Financial Reports

Amounts reported in the accompanying schedule agree, in all material respects, with the amounts reported in the related federal financial reports.

(4) Subrecipients

Of the federal expenditures presented in the schedule of federal awards, the City provided federal awards to subrecipients as follows:

<u>Subrecipients</u>	<u>CFDA No.</u>	<u>Amount provided to subrecipient</u>
Veterans in Community Service		\$ 189,984
Jewish Family Services		80,500
Total Community Development Block Grant	14.218	\$ <u>270,484</u>

CITY OF BEVERLY HILLS, CALIFORNIA

Schedule of Findings and Questioned Cost

Year ended June 30, 2004

(1) Summary of Auditors' Results

(a) *Financial Statements*

Type of auditors' report issued on the financial statements:

Unqualified opinion.

Internal control over financial reporting:

- Material weaknesses identified?

None.

- Reportable conditions identified that are not considered to be material weaknesses?

None reported.

Noncompliance which is material to the financial statements noted?

None.

(b) *Federal Awards*

Internal control over major programs:

- Material weaknesses identified?

None.

- Reportable conditions that are not considered to be material weaknesses?

None reported.

Type of auditors' report issued on compliance for major programs:

Unqualified opinion.

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

Yes. See Finding 04-01.

Identification of major program:

U.S. Department of Housing and Urban Development grants with CFDA #14.218.

Dollar threshold used to distinguish between Type A and Type B programs:

\$300,000.

CITY OF BEVERLY HILLS, CALIFORNIA

Schedule of Findings and Questioned Cost

Year ended June 30, 2004

Auditee qualified as a low-risk auditee under Section 530 of OMB Circular A-133:

Yes.

(2) **Findings Relating to the Financial Statements Reported in Accordance With *Government Auditing Standards***

None noted.

(3) **Findings and Questioned Costs Relating to Federal Awards**

Finding 04-01 – Reporting

Information on the Federal Program: U.S. Department of Housing and Urban Development – Community Development Block Grant (CFDA #14.218) passed through Los Angeles County (County).

Specific Requirement: The City is a subrecipient of the grant from Los Angeles County. The Federal reporting requirements are satisfied at the County level. However, the City is required by the County to prepare and remit the following report:

- *Quarterly Performance Report* – This report is a combination of the Grantee Performance Report and the Comprehensive Housing Affordability Strategy Report that is required to be submitted to the federal government. This report contains demographic information about the clients serviced and services performed. The data is broken down by household, age, ethnic background, and the like. From this information, the County then prepares the actual report, which is remitted to the U.S. Department of Housing and Urban Development (HUD). This report describes the low-income housing accomplishments over the year as well as an outline of housing goals for the next year. It is prepared as a federal requirement to receive Community Development Block Grant funds. The report is submitted to the County on a quarterly basis based on deadlines set by Los Angeles County.

Condition: During our audit of reporting requirements in accordance with subrecipient agreement with Los Angeles County, we noted the City did not remit four out of 12 Quarterly Performance Reports by the required deadline for the year ended June 30, 2004.

Questioned Costs: None.

Context: The City does not have formal procedures in place to ensure that it meets the reporting deadlines as prescribed by Los Angeles County.

Effect: Lack of timely reporting could result in an instance of noncompliance with the federal grant guidelines on the County level.

Cause: The City did not remit the Quarterly Performance Reports by the prescribed deadlines because it was unable to collect the data necessary from subrecipients on a timely basis.

CITY OF BEVERLY HILLS, CALIFORNIA

Schedule of Findings and Questioned Cost

Year ended June 30, 2004

Recommendation: We recommend the City implement procedures to ensure that the Quarterly Performance Reports are submitted to Los Angeles County by the reporting deadlines. Further, the City should appropriately document all reporting procedures and retain evidence of the date of report submissions.

Views of responsible officials and planned corrective actions:

Quarterly Reports are submitted by the City to the County after the conclusion of each quarter. The reports are compiled by the County for HUD. The Quarterly Reports used to be one annual report and later, semi-annual reports. The County determines the frequency of reporting as well as the report due dates and these vary. For many years until about 2000, the year-end report (now the 4th Quarterly Report) was required three weeks to a month after the end of the program year, June 30. In most recent years, the County has shortened that reporting date until now it is almost impossible to meet if the City wishes to report accurate data.

The City has had some trouble in the past reporting information to the County in a timely manner but has made great strides and has been reporting information in a timely manner for a number of years. The City's reporting procedures are memorialized in its "CDBG Guidelines". For the 2003-2004 program year, the City sent its Quarterly Reports to the County in a timely fashion for the first three quarters. This is in no small part because the County set reporting dates that were achievable.

The 1st Quarterly Report for the period July 1 – September 30, 2003 was due November 10, 2003 (41 days after close of quarter). The 2nd Quarterly Report for the period October 1 – December 31, 2003 was due February 5, 2004 (36 days after close of quarter). The 3rd Quarterly Report for the period January 1, 2004 – March 31, 2004 was due April 23, 2004 (23 days after close of quarter). The 4th Quarterly Report for the period April 1 – June 30 was due July 7, 2004 (seven days after close of quarter with a major holiday during those seven days). It is very difficult to receive information for the quarter from two subrecipients, reconcile all of the information for the program year and report it correctly to the County seven days after the close of the program year. The City sent its 4th Quarterly Report on July 11th, 2004 which the City feels is timely and reasonable. The City plans to forward this memorandum to the County, requesting adjustment of the 4th Quarterly Reporting date for the County's CDBG program.