

**CITY OF MORENO VALLEY, CALIFORNIA**

**SINGLE AUDIT REPORT**

**JUNE 30, 2012**

CITY OF MORENO VALLEY, CALIFORNIA

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CITY OF MORENO VALLEY

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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*

To the Honorable Mayor and Members of the City Council  
City of Moreno Valley, 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 Moreno, 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 14, 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 City of Moreno Valley, California, 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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.



To the Honorable Mayor and Members of the City Council  
City of Moreno Valley, California

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

*Lance, Solt & Lingham, LLP*

Brea, California  
February 14, 2013



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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

To the Honorable Mayor and Members of the City Council  
City of Moreno Valley, California

### Compliance

We have audited the City of Moreno Valley, California (the City)'s compliance with the types of compliance requirements described in the *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 auditor's 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 of 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 instances 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 findings and questioned costs as items 2012-1 and 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 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.



To the Honorable Mayor and Members of the City Council  
City of Moreno Valley, California

*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 certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as item 2012-3. *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 activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Moreno Valley, California, as of and for the year ended June 30, 2012, and have issued our report thereon dated February 14, 2013, 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 the 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 as a whole.

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

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

*Lance, Soll & Lughard, LLP*

Brea, California

March 15, 2013 (except for the Schedule of Expenditures of Federal Awards which is as of February 14, 2013)

CITY OF MORENO VALLEY

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
<u>U.S. Department of Agriculture</u>			
Passed through State of California			
Dept of Education:			
Child and Adult Care Food Program	10.558	33-3217-5	\$ 32,821
Child and Adult Care Food Program At-Risk Snack (CACFP) *	10.558	04321-CACFP-33-GM-CS	433,332
<b>Total U.S. Department of Agriculture</b>			<b><u>466,153</u></b>
<u>U.S. Department of Housing and Urban Development</u>			
Direct Programs:			
Community Development Block Grant	14.218	B-10-MC-06-0567	1,153,806
ARRA - Community Development Block Grant	14.253	B-09-MY-06-0567	30,700
Total Community Development Block Grant Cluster			<u>1,184,506</u>
HOME Investment Partnership Program	14.239	M-08-MC-06-551	133,567
Neighborhood Stabilization Program	14.256	B-08 MN-06-0513	1,232,116
ARRA - Homelessness Prevention and Rapid Re-Housing Program*	14.257	S09-MY-06-0567	81,926
<b>Total U.S. Department of Housing and Urban Development</b>			<b><u>2,632,115</u></b>
<u>U.S. Department of Justice</u>			
Direct Programs:			
Edward Byrne Memorial Justice Assistance Grant Program	16.738	Various	292,297
<b>Total U.S. Department of Justice</b>			<b><u>292,297</u></b>
<u>U.S. Department of Transportation</u>			
Passed through the State of California			
Office of Traffic Safety:			
Highway Planning and Construction *	20.205	STPL-0027(012)	6,357,616
Passed through University of California			
University of Berkeley			
State and Community Highway Safety	20.600	Various	234,526
<b>Total U.S. Department of Transportation</b>			<b><u>6,592,142</u></b>
<u>U.S. Department of Energy</u>			
Direct Program:			
ARRA - Energy Efficiency Conservation Block Grant *	81.128	DE-SC0002974	878,607
<b>Total U.S. Department of Energy</b>			<b><u>878,607</u></b>
<u>U.S. Department of Homeland Security</u>			
Direct Program:			
Disaster Grants - Public Assistance	97.036	Unknown	33,366
Emergency Operations Center	97.052	Unknown	88,584
<b>Total U.S. Department of Homeland Security</b>			<b><u>121,950</u></b>
<b>Total Federal Expenditures</b>			<b><u>\$ 10,983,264</u></b>

\* Major Program

Note a: Refer to Note 1 to the schedule of expenditures of federal awards for a description of significant accounting policies used in preparing this schedule.

Note b: There were no federal awards expended in the form of noncash assistance and insurance in effect during the year.

CITY OF MORENO VALLEY

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2012

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**Note 1: Summary of Significant Accounting Policies Applicable to the Schedule of Expenditures of Federal Awards**

**a. Scope of Presentation**

The accompanying schedule presents only the expenditures incurred by the City of Moreno Valley, California, that are reimbursable under federal programs of federal financial assistance. For the purposes of this schedule, federal awards include both federal financial assistance received directly from a federal agency, as well as federal funds received indirectly by the City from a non-federal agency or other organization. Only the portion of program expenditures reimbursable with such federal funds is reported in the accompanying schedule. Program expenditures in excess of the maximum federal 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.

**b. 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: Payments to Subrecipients**

For the year ended June 30, 2012 payments to subrecipients consisted of the following:

<u>CFDA #</u>	<u>Program Name</u>	<u>Amount</u>
14.218	Community Development Block Grant	\$ 298,110
14.257	Homeless Prevention and Rapid Re-Housing Grant	<u>81,926</u>
		<u>\$ 380,036</u>



**CITY OF MORENO VALLEY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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**SECTION II - FINANCIAL STATEMENT FINDINGS**

No matters were reported.

**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

**Finding 2012-1**

Federal Programs:

CFDA Number: 81.128  
Program: ARRA – Energy Efficiency Conservation Block Grant  
Federal Grantor: U.S. Department of Energy  
Grant Number: DE-SC0002974

Criteria or Specific Requirement:

Section 1512 of the Recovery Act requires reporting on the use of Recovery Act funding by recipients no later than the 10<sup>th</sup> day after the end of each calendar quarter (beginning the quarter ending September 30, 2009).

Condition:

Of the four ARRA quarterly reports submitted for fiscal year 2010-2012, the report for the quarter ending September 30, 2011 was submitted on October 13, 2011, after the due date of October 10, 2011.

Questioned Costs:

None

Effect:

The City increases its risk of non-compliance with reporting requirements set forth in *OMB A-133 Compliance Supplement*.

Recommendation:

We recommend that the City implement procedures to ensure that required reports are prepared in accordance with regulations and submitted in a timely manner.

Management's Response:

Due to a staffing vacancy during the quarter ending September 30, 2011 the quarter report was filed three days beyond the due date. All other quarters were filed timely and management has since cross-trained Finance staff in this process should future coverage of this process be needed.

**CITY OF MORENO VALLEY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)**

**Finding 2012-2**

Federal Programs:

CFDA Number: 10.558  
Program: Child and Adult Care Food Program,  
Child and Adult Food Program At-Risk Snack (CACFP)  
Federal Grantor: U.S. Department of Agriculture  
Passed Through: State of California Department of Education  
Grant Number: 33-3217-50,  
4321-CACFP-33-GM-CS

Criteria or Specific Requirement:

The City is required to verify contractors are not a debarred party.

Condition:

Management indicated they were not aware of such a requirement.

Questioned Costs:

None

Effect:

There is no consequence of this audit finding. Testing found that the contractor was not included on the EPLS as a debarred party.

Recommendation:

The City should develop and document procedures to ensure that the monitoring process of the contractor's approval is completed and maintain documentation that was performed in order to comply with the grant requirements.

Management's Response:

Management is aware of such a requirement and has added this step to the procurement process for all future grant related purchases.

**CITY OF MORENO VALLEY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)**

**Finding 2012-3**

Federal Programs:

CFDA Number: 10.558  
Program: Child and Adult Care Food Program,  
Child and Adult Food Program At-Risk Snack (CACFP)  
Federal Grantor: U.S. Department of Agriculture  
Passed Through: State of California Department of Education  
Grant Number: 33-3217-50,  
4321-CACFP-33-GM-CS

CFDA Number: 81.128  
Program: ARRA – Energy Efficiency Conservation Block Grant  
Federal Grantor: U.S. Department of Energy  
Grant Number: DE-SC0002974

Criteria or Specific Requirement:

The internal controls over major programs does not allow for adequate segregation of duties. As a result, critical functions were combined and given to one employee.

Condition:

During our review of the internal controls over major programs it was noted that there are no segregation of duties for the preparation, review, and submittal of the following:

- 1) Requests for reimbursement of federal award funding from the applicable Federal agency for both the Energy Efficiency Conservation Block Grant and Child and Adult Care Food Programs.
- 2) Quarterly Federal Financial Report SF-425 and Section 1512 Recovery Act reporting for the Energy Efficiency Conservation Block Grant.

Questioned Costs:

None

Effect:

The City increases the likelihood that errors (intentional or unintentional) will remain undetected by not providing for separate processing by different individuals at various stages of a transaction.

Recommendation:

We recommend that the City implement a system of internal controls that would allow for proper segregation of duties so that no employee should be in a position both to perpetrate and to conceal errors or fraud in the normal course of their duties.

Management's Response:

Management has implemented a review and approval process for both reimbursement requests and financial reports to comply with proper segregation of duties.

**SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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**SECTION II - FINANCIAL STATEMENT FINDINGS**

**Finding 2011-01**

**GASB 31 Adjustments**

As a result of our audit test work for cash and investments, we determined that the fair value adjustment held as of the balance sheet date was not recorded correctly. The error appeared to be the result of management not properly analyzing the adjustment and was not detected during the reconciliation of cash and investments. We recommend that the City implement internal control procedures to ensure that the proper fair value adjustment is recorded or can be detected during the reconciliation of cash and investments.

**Management Response**

The GASB 31 adjustment error was the result of a lapse in communication. This issue will be remedied by adding the GASB 31 reversal entry to the year-end adjustment schedule so that the reversal is entered timely in the future. This action will provide the proper internal control to ensure the proper entry is recorded annually. With the implementation of the new ERP system we anticipate the ability to enter future dated entries that will allow the reversal to be entered at the time of the accrual but yet will not impact financial reporting during interim financial periods.

The City utilized Chandler Asset Management to manage and report on the City's investment portfolio. Chandler treats the investment with LAIF as a money fund where due to the short-term nature the market value is equal to the cost. Based on the recommendation of LSL we will modify our year-end process to apply market valuation to the investments with LAIF during the computation of the year-end GASB 31 entry. This action will provide the proper internal control to ensure the proper entry is recorded annually.

**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

No matters were reported.