

CITY OF MORENO VALLEY, CALIFORNIA

SINGLE AUDIT REPORT

JUNE 30, 2013

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CITY OF MORENO VALLEY

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS*

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

We have audited, in accordance with the 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, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Moreno Valley, California, (the City) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated November 20, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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. 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. We consider the deficiencies described in the accompanying schedule of findings and questions cost as findings 2013-001 and 2013-002 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from 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

City's Response to Findings

The City's response to the internal control over financial reporting findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the city's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the city's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Lance, Soll & Lingham, LLP

Brea, California
November 20, 2013

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES
OF FEDERAL AWARDS REQUIRED BY OMB CIRCULAR A-133

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

Report on Compliance for Each Major Federal Program

We have audited the City of Moreno Valley (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 City's major federal programs for the year ended June 30, 2013. City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility for the Financial Statements

Management is responsible for compliance with the requirements of law, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express opinions on compliance for each of City's major federal programs based on our audit of the types of compliance requirements referred to above. 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 the *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB 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 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 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 on compliance for each major federal program. However, our audit does not provide legal determination of City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of 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, 2013.

Report on Internal Control over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the type of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the



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

auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal controls 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 a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that a material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis. 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.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weakness may exist that have not been identified.

Report on the Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

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 Valley, California, as of and for the year ended June 30, 2013, and have issued our report thereon dated November 20, 2013, which contained an unmodified opinion 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 purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this communication is not suitable for any other purpose.

Brea, California

March 6, 2014 (Except for the schedule of expenditure of federal awards which is dated
November 20, 2013)

CITY OF MORENO VALLEY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

<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 the State of California			
Department of Education:			
Child and Adult Care Food Program	10.558	33-3217-5	\$ 92,898
Child and Adult Care Food Program At-Risk Snack (CACFP)	10.558	04321-CACFP-33-GM-CS	32,937
Total U.S. Department of Agriculture			125,835
<u>U.S. Department of Housing and Urban Development</u>			
Direct Programs:			
Community Development Block Grant *	14.218	B-10-MC-06-0567	787,805
Community Development Block Grant *	14.218	B-11-MC-06-0567	921,930
ARRA - Community Development Block Grant *	14.253	B-09-MY-06-0567	105,101
Total Community Development Block Grant			1,814,836
HOME Investment Partnership Program *	14.239	M-08-MC-06-551	446,897
Neighborhood Stabilization Program *	14.256	B-08-MN-06-0513	1,943,699
Neighborhood Stabilization Program *	14.256	B-11-MN-06-0513	1,598,679
Total Neighborhood Stabilization Program			3,542,378
Homelessness Prevention and Rapid Re-Housing Program	14.257	S09-MY-06-0567	1,618
Total U.S. Department of Housing and Urban Development			5,805,729
<u>U.S. Department of Justice</u>			
Direct Program:			
Bureau of Justice Assistance:			
Edward Byrne Memorial Justice Assistance Grant	16.738	Various	296,469
Total U.S. Department of Justice			296,469
<u>U.S. Department of Transportation</u>			
Passed through the State of California			
CalTrans			
Highway Planning and Construction *	20.205	Various	5,922,274
Passed through the State of California			
Office of Traffic Safety			
State and Community Highway Safety	20.600	Various	109,434
Riverside Police Department			
State and Community Highway Safety	20.600	Various	14,527
Passed through the University of California			
University of Berkeley			
State and Community Highway Safety	20.600	Various	114,808
Total U.S. Department of Transportation			6,161,043
<u>U.S. Department of Energy</u>			
Direct Program:			
ARRA - Energy Efficiency Conservation Block Grant	81.128	DE-SC0002974	51,357
Total U.S. Department of Energy			51,357

CITY OF MORENO VALLEY

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

<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.S. Department of Homeland Security Passed through CalEma Homeland Security Grant Program	97.052	2012-EO-MX-0016	<u>273,536</u>
Total U.S. Department of Homeland Security			<u>273,536</u>
Total Federal Expenditures			<u>\$ 12,713,969</u>

* 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 was no federal awards expended in the form of noncash assistance and insurance in effect during the year.

Note c: The City issued a new loan for \$400,000 that is not included in the HOME programs expenditures on the financial statements.

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2013**

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, 2013 payments to subrecipients consisted of the following:

CFDA #	Program Name	Amount
14.218	Community Development Block Grant	\$ 332,113
14.257	Homeless Prevention and Rapid Re-Housing Grant	1,617
		<u>\$ 333,730</u>

CITY OF MORENO VALLEY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unqualified Opinion

Internal control over financial reporting:

- Significant deficiencies identified? yes no
- Material weaknesses identified? yes none reported

Noncompliance material to financial statements noted? yes no

Federal Awards

Internal control over major programs:

- Significant deficiencies identified? yes no
- Material weaknesses identified? yes none reported

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

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? yes no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
14.218, 14.253	Community Development Block Grant
14.239	HOME Investment Partnership Program
14.256	Neighborhood Stabilization Program
20.205	Highway Planning and Construction

Dollar threshold used to distinguish between type A and type B program \$381,419

Auditee qualified as low-risk auditee? yes no

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

SECTION II - FINANCIAL STATEMENT FINDINGS

Finding 2013-001: Journal Entry

During our audit of cash and investments, we noted that the adjustment to record investments at fair market value was incorrect. A correcting journal entry was provided to properly record cash and investments at fair market value at June 30, 2013. We recommend that all journal entries be reviewed prior to being entered into the accounting system.

Management's response: The GASB 31 adjustment error was a result of a miscalculation. Once identified, staff quickly processed a correcting journal entry. All journal entries are reviewed prior to being entered into the accounting system, however, with the new ERP system's functionality, when the Treasury Division Manager initiates a journal entry, staff reviewing the journal entry is not provided full documentation of calculations and is not required to have a full understanding of the requirements of GASB 31. To mitigate this in the future, all future GASB 31 related journal entries will be reviewed and approved by additional Division Managers within the Financial & Management Services Department prior to entry into the accounting system as an internal control for accuracy.

Finding 2013-002: Grants and Capital Asset schedules

At the time of our field work on September 30, 2013, we noted that the City had not completed its Schedule of Expenditure of Federal Awards (SEFA) and its capital assets reconciliation and schedules. Once completed, these schedules required significant revisions. We recommend that the City reconcile its grant awards and capital assets on a quarterly basis during the year so that the year-end process is not delayed.

Management's response: Management acknowledges the untimely preparation of its schedule of expenditure of federal awards (SEFA) and its capital assets reconciliation and schedules. In our effort to decrease the timeframe of financial statement issuance, these reconciliations were our final processes in the close of the fiscal year. Accelerating the financial close process and closing quicker than in previous reporting periods caused staff, under the current staffing levels, to not have ample time to prepare these annual schedules. Management will implement a reporting structure of quarterly reconciliations as recommended that are reviewed by management. In addition, we will research resources available with our new ERP system that may assist us in our ability to complete such reconciliations more timely.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

CITY OF MORENO VALLEY

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

SECTION II - FINANCIAL STATEMENT FINDINGS

No matters were reported.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding 2012-001

Significant Deficiency:
Reporting

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 10th 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.

Status:
Reports were filed timely in fiscal year 2012-13.

CITY OF MORENO VALLEY

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

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

Finding 2012-002

Significant Deficiency:

Procurement, Suspension and Debarment

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

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.

Status:

No similar instance was noted in fiscal year 2012-13.

CITY OF MORENO VALLEY

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

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

Finding 2012-003

Significant Deficiency:

Cash Management and Reporting

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

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.

Status:

The processes involved to initiate, process, review, and submit reporting and reimbursement requests are now segregated.