

CITY OF MORENO VALLEY, CALIFORNIA

SINGLE AUDIT REPORT

JUNE 30, 2014

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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 the City of Moreno Valley, California, (the City) as of and for the year ended June 30, 2014, 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 24, 2014.

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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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 deficiency described in the accompanying schedule of findings and questioned costs as finding 2014-001 to be material weakness.

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 finding identified in our audit is described in the accompanying schedule of findings and questioned costs and was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 24, 2014

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 the City's major federal programs for the year ended June 30, 2014. 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.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the 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 *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 on compliance for each major federal program. However, our audit does not provide a legal determination of the 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, 2014.

Report on Internal Control over Compliance,

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types 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 auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on



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

compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *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. However, material weaknesses 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, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated November 24, 2014, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic 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 basic 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 basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic 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 report is not suitable for any other purpose.

Brea, California
January 23, 2015

CITY OF MORENO VALLEY

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

<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 At-Risk Snack (CACFP)	10.558	04321-CACFP-33-GM-CS	\$ 33,862
Total U.S. Department of Agriculture			33,862
<u>U.S. Department of Housing and Urban Development</u>			
Direct Programs:			
Community Development Block Grant	14.218	B-11-MC-06-0567	659,127
	14.218	B-12-MY-06-0567	1,344,655
Total Community Development Block Grant			2,003,782
HOME Investment Partnerships Program	14.239	M-09-MC-06-0551	629,751
	14.239	M-10-MC-06-0551	666,589
	14.239	M-11-MC-06-0551	236,683
Total HOME Investment Partnership Program			1,533,023
Neighborhood Stabilization Program	14.256	B-11-MN-06-0513	875,230
Total U.S. Department of Housing and Urban Development			4,412,035
<u>U.S. Department of Justice</u>			
Direct Program:			
Bureau of Justice Assistance:			
Edward Byrne Memorial Justice Assistance Grant *	16.738	2010-DD-BX-0445	128,463
	16.738	2011-DJ-BX-2152	2,930
	16.738	2012-DJ-BX-0695	59,185
Total Edward Byrne Memorial Justice Assistance Grant			190,578
Total U.S. Department of Justice			190,578
<u>U.S. Department of Transportation</u>			
Passed through the State of California			
CalTrans			
Highway Planning and Construction *	20.205	HSIP-5144	52,081
	20.205	HSIPL-5411(050)	164,578
	20.205	HISPL-5411(055)	12,440
	20.205	HMPG	50,954
	20.205	HMPG DR-1731 0047	60,200
	20.205	STPL-0027(012)	577,977
	20.205	STPL-5441(051)	3,274,315
	20.205	HSIPL-5411(046)	506,504
Total Highway Planning and Construction			4,699,049
Passed through the University of California, Berkeley			
Office of Traffic Safety			
State and Community Highway Safety	20.600	SC13272	58,138
Total U.S. Department of Transportation			4,757,187
<u>U.S. Department of Health and Human Services</u>			
Passed through the State of California			
Department of Education			
Child Care & Development Block Grant	93.575	CCTR-3173	78,776
Child Care Mandatory & Matching Funds	93.596	CCTR-3173	165,148
Total U.S. Department of Health and Human Services			243,924

CITY OF MORENO VALLEY

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

<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 Homeland Security</u>			
Passed through California Governor's Office of Emergency Services			
Emergency Management Performance Grants	97.042	EMPG FY 10	49,270
	97.042	EMPG FY 11	29,550
	97.042	EMPG FY 12	24,717
	97.042	EMPG FY 13	9,600
Total Emergency Management Performance Grants			<u>113,137</u>
Total U.S. Department of Homeland Security			<u>113,137</u>
Total Federal Expenditures			<u>\$ 9,750,723</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.

CITY OF MORENO VALLEY

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2014

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, 2014 payments to subrecipients consisted of the following:

<u>CFDA #</u>	<u>Program Name</u>	<u>Amount</u>
14.218	Community Development Block Grant	\$ 709,724
14.257	Homeless Prevention and Rapid Re-Housing Grant	11,120
		<u>\$ 720,844</u>

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

SECTION II - FINANCIAL STATEMENT FINDINGS

Finding 2014-001: Schedule of Expenditures of Federal Awards

The City provided the Schedule of Expenditures of Federal Awards to the auditors, but it was determined that material grants were not included and amounts needed to be revised.

Management's Response: Management acknowledges the incompleteness of its schedule of expenditures of federal awards (SEFA). Although the expenditure report was completed and reviewed by multiple staff in various departments the process for completing this report was reliant on project accounting records which unfortunately did not reflect accurately the fiscal year revenue and expenditures for capital projects which span across multiple fiscal years. With the implementation of new accounting software the project accounting records omitted project revenue and expenditures from prior fiscal years that generated a current fiscal year cash impact. Management has implemented a reporting structure to capture both expenditures and revenue for capital projects to ensure the accuracy of fiscal year figures reported on future SEFAs.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

**SCHEDULE OF PRIOR YEAR 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.