

CITY OF MURRIETA

**Single Audit Report on
Federal Award Programs**

June 30, 2017

CITY OF MURRIETA
SINGLE AUDIT REPORT ON FEDERAL AWARD PROGRAMS
Year Ended June 30, 2017

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**Independent Auditor’s 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***

City Council
City of Murrieta
Murrieta, 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, each major fund and the aggregate remaining fund information of the City of Murrieta (the “City”), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City’s basic financial statements, and have issued our report thereon dated April 4, 2018.

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, as described in the accompanying schedule of findings and questioned costs, 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. We consider the deficiency described in the accompanying schedule of findings and responses, listed as item 2017-001, to be a material weakness.

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 as item 2017-002 in the accompanying schedule of findings and responses to be a significant deficiency.

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*.

City of Murrieta's Responses to Findings

The City of Murrieta's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The City's responses were not subject to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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.

Van Lant & Fankhauser, LLP

April 4, 2018



Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance

City Council
City of Murrieta
Murrieta, California

Report on Compliance for Each Major Federal Program

We have audited the City of Murrieta's compliance with the types of compliance requirements described in the *OMB 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, 2017. 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 federal statutes, regulations, and the terms and conditions of its federal awards 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 the audit requirements of Title 2, U.S. *Code of Federal Regulations*, Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and Uniform Guidance 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 of Murrieta 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, 2017.

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 compliance for each major federal program and to test and report on internal control over compliance in accordance with Uniform Guidance, 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 Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information, of the City of Murrieta, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated April 4, 2018, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required

by the Uniform Guidance 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 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Van Lant & Fankhaed, LLP

April 17, 2018

CITY OF MURRIETA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
(SUPPLEMENTARY INFORMATION)
Year Ended June 30, 2017

Federal Grantor/ Pass-through Grantor/Program Title	Federal Domestic Assistance Number	Program Identification Number	Program Expenditures
<u>U.S. Department of Housing and Urban Development</u>			
<i>Passed through the County of Riverside Economic Development Agency:</i>			
Community Development Block Grant	14.218	3.MR.28-12	\$ 19,984
Community Development Block Grant	14.218	3.MR.34-14	24,797
Community Development Block Grant	14.218	3.MR.32-13	33,875
Total U.S. Department of Housing and Urban Development			78,656
<u>U.S. Department of Transportation</u>			
<i>Passed through the California Department of Transportation:</i>			
Highway Planning and Construction	20.205	BRLS-5464(023)	20,628
Highway Planning and Construction	20.205	HPLULN-5464(028)	22,245
Highway Planning and Construction	20.205	3AL304	592,751
Subtotal			635,624*
<i>Passed through the California Office of Traffic Safety</i>			
Selective Traffic Enforcement Program	20.600	PT1640	31,612
Selective Traffic Enforcement Program	20.600	PT18099	55,845
Subtotal			87,457
<u>U.S. Department of Homeland Security</u>			
<i>Passed through the County of Riverside Fire Department:</i>			
Emergency Preparedness	97.042	2016-00010	19,098
Homeland Security Grant Program	97.067	2015-SS-00078	3,344
Homeland Security Grant Program	97.067	2016-SS-00102	4,991
Subtotal			27,433

CITY OF MURRIETA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
(SUPPLEMENTARY INFORMATION)
Year Ended June 30, 2017

Federal Grantor/ Pass-through Grantor/Program Title	Federal Domestic Assistance Number	Program Identification Number	Program Expenditures
<u>U.S. Department of Homeland Security -</u>			
<u>Continued</u>			
<i>Direct Assistance:</i>			
Assistance to Firefighters Grant	97.044	EMW-2015-FO-06966	<u>277,837</u>
Total Federal Financial Assistance			<u>\$ 1,107,007</u>

*Major Program

CITY OF MURRIETA
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2017

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

A) Scope of Presentation

The accompanying schedule presents only the expenditures incurred (and related awards received) by the City of Murrieta that are reimbursable under programs of federal agencies providing financial assistance. For the purpose of this schedule, financial assistance includes both federal financial assistance received directly from a federal agency, as well as federal funds received from pass-through entities by the City of Murrieta. 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 the 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 of Murrieta becomes obligated for payment as a result of the receipt of the related goods and services. Expenditures reported include any property or equipment acquisitions incurred under the federal program. The City did not elect to use the 10% de minimis cost rate as covered in Section 200.414 Indirect (F & A) costs.

C) Major Programs

The City had one major program for the year ended June 30, 2017, consisting of the Highway Planning and Construction grant, which had total disbursements of \$635,624. This amount calculates to 57.4% of the total disbursements from federal awards.

CITY OF MURRIETA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2017

SECTION I – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of Auditor’s Report Issued:	Unmodified
Internal Control Over Financial Reporting:	
Material Weakness(es) Identified?	Yes
Significant Deficiencies Identified not Considered to be Material Weaknesses?	Yes
Noncompliance Material to Financial Statements Noted?	No

Federal Awards

Internal Control Over Major Programs:	
Material Weakness(es) Identified?	No
Significant Deficiencies Identified not Considered to be Material Weaknesses?	No
Type of Auditors’ Report Issued on Compliance for Major Programs:	Unmodified
Any Audit Findings Disclosed that are Required to be Reported in Accordance With Uniform Guidance?	No

Identification of Major Programs:

CFDA Numbers	Name of Federal Program or Cluster
20.205	U.S. Department of Transportation Highway Planning and Construction

Dollar Threshold used to Distinguish Between Type A And Type B Programs:	\$ <u>750,000</u>
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Auditee Qualified as Low-Risk Auditee?	Yes
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CITY OF MURRIETA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2017

SECTION II – FINANCIAL STATEMENT FINDINGS

2017-001: Accuracy and Timeliness of Accounting Records and Financial Reporting

Condition:

When we began our year-end audit fieldwork in November 2017, it became apparent that certain accounts had not yet been thoroughly analyzed and reconciled to supporting records. This includes receivables, revenues, unavailable revenues, accounts payable, claims liabilities, capital assets and payroll related accruals. In addition, while performing audit procedures, we identified and proposed several material adjusting journal entries to the City’s accounting records. It should be noted, adjusting journal entries were being made as late as March 2018, approximately 9 months after the end of the fiscal year. We recognize the City had significant staff turnover in the Finance Department, which may be a contributing factor.

Criteria:

The City’s management is responsible for establishing and maintaining effective internal controls over financial reporting to help ensure that appropriate goals and objectives are met. This responsibility includes the selection of accounting principles, ensuring that financial information is reliable and properly recorded, and evaluating and monitoring ongoing activities. Furthermore, *Statements on Auditing Standards No. 115, “Communicating Internal Control Related Matters Identified in an Audit,”* states that “indicators of material weaknesses in internal controls include: identification by the auditor of a material misstatement of the financial statements under audit in circumstances that indicate the misstatement would not have been detected by the entity’s internal control.”

Cause of Condition:

Due to significant staff turnover and limited staffing in the Finance Department, the City’s accounting records were not sufficiently reconciled, analyzed, and recorded in accordance with generally accepted accounting principles in a timely manner.

Potential Effect of Condition:

Internal controls over financial reporting are diminished if accounting records are not properly analyzed and reconciled in a timely manner.

Recommendation:

Reconciliation and review of all balance sheet accounts and various revenue and expenditure accounts on a recurring basis, and especially at year-end, is a vital part of maintaining the integrity of the accounting and financial reporting system. Periodic reconciliations of balance sheet and other selected accounts provide accurate data from which to base decisions, prevent costly errors and provide ease in identifying potential adjustments and corrections. If this is not done in a timely manner throughout the fiscal year, the year-end closing process tends to be more difficult and time-consuming, and may contribute to delays in

CITY OF MURRIETA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2017

SECTION II – FINANCIAL STATEMENT FINDINGS - Continued

2017-001: Accuracy and Timeliness of Accounting Records and Financial Reporting - Continued

issuing year-end reports. Therefore, in order to maintain the integrity of the accounting and financial reporting system, and to ensure timely financial reporting, we recommend that all balance sheet accounts and other selected accounts be analyzed on a monthly, quarterly, or other periodic basis as appropriate. We suggest a schedule of accounting functions to be performed monthly, quarterly, etc., be prepared with the provision for signing off by date and initials when the procedure is complete.

Views of Responsible Officials and Management's Response:

The City concurs. Refer to separate Corrective Action Plan Report for management's response.

2017-002: Segregation of Duties for Certain Payroll Related Functions

Condition:

The Senior Accountant responsible for processing payroll in the Finance Department has the capability to add new employees and edit employee information in the employee master file. We did not identify any mitigating controls to ensure any changes made by this individual are reviewed and approved.

Criteria:

In a strong internal control environment, the individual(s) responsible for entering and processing bi-weekly payroll should not have the ability to add new employees or edit employee information without the approval of someone independent of the payroll process.

Cause of Condition:

Sufficient controls in the City's software have not been established to restrict this activity by the payroll personnel and internal controls have not been established to create procedures for oversight and review of all changes/additions that are made by payroll personnel by an individual independent of the payroll process.

Potential Effect of Condition:

New employees and changes to employees could be created by payroll personnel without appropriate approval by the Human Resources Department.

Recommendation:

We recommend the City establish procedures to ensure all changes to the employee master file are authorized and approved through the Human Resources Department with appropriate supporting documentation.

CITY OF MURRIETA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2017

SECTION II – FINANCIAL STATEMENT FINDINGS - Continued

Views of Responsible Officials and Management's Response:

The City concurs. Refer to separate Corrective Action Plan Report for management's response.

CITY OF MURRIETA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2017

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There were no auditor's findings required to be disclosed in accordance with the Uniform Guidance.

CITY OF MURRIETA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended June 30, 2017

SECTION II – FINANCIAL STATEMENT FINDINGS

There were no auditor's findings to be reported in accordance with *Government Auditing Standards* in the prior year.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There were no auditor's findings required to be reported in accordance with the Uniform Guidance in the prior year.

**CITY OF MURRIETA
Corrective Action Plan**

Year Ended June 30, 2017

**CITY OF MURRIETA
CORRECTIVE ACTION PLAN
Year Ended June 30, 2017**

SECTION I – FINANCIAL STATEMENT FINDINGS

2017-001: Accuracy and Timeliness of Accounting Records and Financial Reporting

Management's or Departments Response:

We concur.

View of Responsible Officials and Planned Corrective Actions:

For majority of calendar year 2017, the Finance division was about 58% staffed. The significant staffing shortage contributed to the delays in completing the year-end functions for fiscal year 2016/17 in a timely manner. During this period, the focus was to maintain day-to-day operational needs, maintain sufficient check and balances, and resolve multiple financial projects.

Resolution: The finance division's staffing shortage continues to be addressed. As of March 2018, the Finance division is about 90% fully staffed. For the past six months, new accounting processes were implemented to improve efficiency and accuracy. Account reconciliations and financial reviews are actively being conducted to ensure timely completion for fiscal year ending June 30, 2018.

Name of Responsible Person: Karrie Swaine, Interim Deputy Director of Admin Services

Implementation Date: June 30, 2018

2017-002: Segregation of Duties for Certain Payroll Related Functions

Management's or Departments Response:

We concur.

View of Responsible Officials and Planned Corrective Actions:

Similar to the finance division, the Human Resources (HR) division was about 25% staffed for majority of 1st half of calendar year 2017. Significant shortage contributed to delays in recruitment affecting all other departments. There were no available HR personnel to enter employee information in the payroll system; therefore, the finance division's payroll staff temporarily took over the HR function of entering employee information to prevent delays in processing bi-weekly payroll. Numerous check and balances were created within the finance division to ensure accuracy and prevent fraud.

Resolution: As of July 2017, the HR division is 100% staffed and the employee information function has been returned to HR personnel. Appropriate approvals and supporting documentations are maintained.

Name of Responsible Person: Karrie Swaine, Interim Deputy Director of Admin Services

Implementation Date: June 30, 2018

**CITY OF MURRIETA
CORRECTIVE ACTION PLAN
Year Ended June 30, 2017**

SECTION II – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.