

CITY OF MURRIETA, CALIFORNIA
SINGLE AUDIT OF FEDERAL AWARDS
JUNE 30, 2018

CITY OF MURRIETA

TABLE OF CONTENTS

June 30, 2018

	<u>Page Number</u>
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 <i>Government Auditing Standards</i>	1 – 2
Independent Auditors' Report on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance and on the Schedule of Expenditures of Federal Awards	3 – 5
Schedule of Expenditures of Federal Awards and Schedule of Findings and Questioned Costs:	
Schedule of Expenditures of Federal Awards	6 – 7
Notes to Schedule of Expenditures of Federal Awards	8
Schedule of Findings and Questioned Costs	9 – 17
Summary Schedule of Prior Audit Findings	18 – 19

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*

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, California (the City), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated February 27, 2019.

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 have not been 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 City's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as Finding Numbers 2018-001 through 2018-003 to be material weaknesses.

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 below in the accompanying schedule of findings and questioned costs as Finding Numbers 2018-004 through 2018-005 to be significant deficiencies.

We noted certain other matters that we have reported to management and the City Council in a separate letter dated February 27, 2019.

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's Responses to the Findings

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The City's responses were not subjected 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.

White Nelson Dick Evans LLP

Irvine, California
February 27, 2019

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE AND ON
THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

City Council
City of Murrieta
Murrieta, California

Report on Compliance for Each Major Federal Program

We have audited the City of Murrieta's (the City) 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, 2018. The City's major federal programs are identified in the summary of auditors' 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.

Auditors' 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 the 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 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, 2018.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as Finding Numbers 2018-006 through 2018-007. Our opinion on each major federal program is not modified with respect to these matters.

The City's response to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The City's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

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 compliance 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 the 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.

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.

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, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated February 27, 2019, which contained unmodified opinions 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 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 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.

White Nelson Diehl Evans LLP

Irvine, California

March 29, 2019, except for the Report on Schedule of Expenditures of Federal Awards to which the date is February 27, 2019.

**SCHEDULE OF EXPENDITURES
OF FEDERAL AWARDS
AND
SCHEDULE OF FINDINGS
AND QUESTIONED COSTS**

CITY OF MURRIETA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended June 30, 2018

Federal Grantor / Pass-Through Grantor / Program	Catalog of Federal Domestic Assistance Number	Program Identification Number	Federal Expenditures	Disbursement to Subrecipient
<u>U.S. Department of Housing and Urban Development</u>				
Passed through County of Riverside				
Economic Development Agency:				
Community Development Block Grant	14.218	3.MR.28-12	\$ 371,855	-
Community Development Block Grant	14.218	3.MR.37-15	236,909	-
Community Development Block Grant	14.218	3.MR.39-16	230,483	-
Community Development Block Grant	14.218	3.MR.41-17	3,780	-
Community Development Block Grant	14.218	3.MR.34-14	70,775	-
Community Development Block Grant	14.218	3.MR.32-13	45,004	-
Total U.S. Department of Housing and Urban Development			958,806	-
<u>U.S. Department of Justice</u>				
Equitable Sharing Funds	16.922	CA0334200	505,784	-
<u>U.S. Department of Transportation</u>				
Passed through the State of California Department of Transportation:				
Highway Planning and Construction	20.205	BRLS-5464(023)	4,974,524	
Highway Planning and Construction	20.205	HPLULN-5464(028)	19,402	-
			4,993,926	-
Passed through the California Office of Traffic and Safety:				
Selective Traffic Enforcement Program	20.600/20.608	PT1640	35,882	-
Selective Traffic Enforcement Program	20.600/20.608	PT18099	67,501	-
			103,383	-
Total U.S. Department of Transportation			5,097,309	-
<u>U.S. Department of Treasury</u>				
Equitable Sharing Funds	21.016	CA0334200	57,544	-

(Continued)

See accompanying notes to the Schedule of Expenditures of Federal Awards.

CITY OF MURRIETA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
(CONTINUED)

For the year ended June 30, 2018

Federal Grantor / Pass-Through Grantor / Program	Catalog of Federal Domestic Assistance Number	Program Identification Number	Federal Expenditures	Disbursement to Subrecipient
<u>U.S. Department of Homeland Security</u>				
Passed through the County of Riverside				
Fire Department:				
Emergency Preparedness	97.042	2017-0007	\$ 22,663	-
Homeland Security Grant Program	97.067	2016-SS-00102	144,584	-
Homeland Security Grant Program	97.067	2016-SS-00102	16,265	-
Homeland Security Grant Program	97.067	2016-SS-00102	69,124	-
Homeland Security Grant Program	97.067	2017-0083	2,417	-
Homeland Security Grant Program	97.067	2017-0083	109,586	-
Homeland Security Grant Program	97.067	2017-0083	87,307	-
			429,283	-
Total U.S. Department of Homeland Security			451,946	-
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 7,071,389	\$ -

See accompanying notes to the Schedule of Expenditures of Federal Awards.

CITY OF MURRIETA

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended June 30, 2018

1. BASIS OF PRESENTATION:

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of the City of Murrieta (the City) under programs of the federal government, as well as federal financial assistance passed through other government agencies for the year ended June 30, 2018. The information in this Schedule is presented in accordance with the 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). Because the Schedule presents only a selected portion of the operations of the City, it is not intended to, and does not, present the financial statements of the City. The City's reporting entity is defined in Note 1 of the notes to the City's financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Expenditures reported on the Schedule are reported using the modified accrual basis of accounting for governmental funds and the accrual basis for proprietary funds, which are described in Note 1 of the notes to the City's financial statements. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

3. INDIRECT COST RATE:

The City has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

4. RELATIONSHIP TO COMPREHENSIVE ANNUAL FINANCIAL REPORT:

Amounts reported in the accompanying Schedule agree to amounts reported within the City's Comprehensive Annual Financial Report.

5. RELATIONSHIP TO FEDERAL FINANCIAL REPORTS:

Amounts reported in the accompanying Schedule agree with amounts reported in federal financial reports.

6. CONTINGENCIES:

Under the terms of federal and state grants, additional audits may be requested by the grantor agencies and certain costs may be questioned as not being appropriate expenditures under the terms of the grants. Such audits could lead to a request for reimbursement to the grantor agencies.

CITY OF MURRIETA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the year ended June 30, 2018

1. SUMMARY OF AUDITORS' RESULTS:

Financial Statements

Type of auditors' report issued:

- Unmodified

Internal control over financial reporting:

- Material weakness identified? yes no
See Finding Numbers 2018-001 through 2018-003
- Significant deficiencies identified? yes none reported
See Finding Numbers 2018-004 through 2018-005

Noncompliance material to financial statements noted: yes no

Federal Awards

Internal control over major programs:

- Material weakness identified? yes no
- Significant deficiency identified? yes none reported

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

- Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR Section 200.516(a) yes no
See Finding Numbers 2018-006 through 2018-007

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
14.218	Community Development Block Grants
16.922	Equitable Sharing Funds
20.205	Highway Planning and Construction
97.067	Homeland Security Grant Program

Dollar threshold used to distinguish between Type A and Type B programs: \$ 750,000

Auditee qualified as low-risk auditee? yes no

CITY OF MURRIETA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(CONTINUED)

For the year ended June 30, 2018

2. FINDINGS RELATING TO FINANCIAL STATEMENTS:

MATERIAL WEAKNESSES

Finding Number 2018-001 – Year-end Closing Process

Condition

There was an unusually large number of City prepared journal entries posted to the City's accounts after the start of the final audit fieldwork. In addition, our audit procedures resulted to several material adjustments to the general ledger.

Criteria

The City should maintain appropriate and effective control over year end closing process.

Cause

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 principles in a timely manner.

Effect

This resulted in excess time to revise reconciliations and update audit working papers and delay in the audit.

Recommendation

We recommend developing a year-end, closing schedule that addresses each necessary task, who will perform each task, when the completion of each task is to occur and when such task has been completed and reviewed. The timing of specific tasks should be coordinated with the timing of management's or the auditor's need for the information. This year-end closing schedule should be monitored regularly to ensure that the tasks are being completed in a timely manner and the results of each task are in agreement with the related general ledger account balances.

Management's Response

The City of Murrieta Finance staff will develop a year-end procedures to identify year-end related tasks, schedules, and reports along with established deadlines. The Accounting Supervisor and Finance Manager will monitor progress of year-end tasks and assignments on a weekly basis to ensure timely completion.

CITY OF MURRIETA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(CONTINUED)

For the year ended June 30, 2018

2. FINDINGS RELATING TO FINANCIAL STATEMENTS (CONTINUED):

MATERIAL WEAKNESSES (CONTINUED)

Finding Number 2018-002 – Capturing Information

Condition

The City entered in a purchase agreement to acquire street light poles from Southern California Edison. The purchase was funded by a capital lease purchase agreement with a financial institution. This transaction was not captured in the City's financial reporting system for reporting.

Criteria

The City is required to produce financial statements that are free of material misstatements.

Cause

Due to unexpected vacancies in the Finance Division, the Finance staff working on the Capital Lease financing did not transition the work to other Finance staff.

Effect

The City's records did not reflect the cash with escrow and loan payable related to the purchase agreement.

Recommendation

We recommend that management review its procedures for communicating and capturing information in its financial reporting system.

Management's Response

The City of Murrieta Finance staff will develop procedures and a process to track and document capital improvement projects and the financial impact shortly after City Council actions. The Finance Manager and Accounting Supervisor will be responsible to communicate the fiscal impact to the corresponding Finance staff (e.g., Accountant, Financial Analyst) and to follow through the plan to ensure the appropriate accounting is recorded.

CITY OF MURRIETA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(CONTINUED)

For the year ended June 30, 2018

2. FINDINGS RELATING TO FINANCIAL STATEMENTS (CONTINUED):

MATERIAL WEAKNESSES (CONTINUED)

Finding Number 2018-003 - Recording Complicated Transactions - Debt Refinancing

Condition

Debt refinancing journal entries were not recorded correctly, which resulted in a material audit adjustment.

Criteria

The City is required to produce financial statements that are free of material misstatements.

Cause

Due to significant staff turnover and limited staffing in the Finance Department, journal entries were not properly reviewed before they were posted.

Effect

The City's records related the debt refunding were misstated.

Recommendation

We recommend that the City consult on the recording of complicated transactions to ensure that they are reviewed thoroughly. We further suggest that the general ledger be reviewed after significant journal entries are posted to ensure the journal entry is reflected in the general ledger appropriately.

Management's Response

The Finance staff will be provided with training and guidance on uncommon accounting transactions. Staff will seek guidance from consultants and audit firm on uncommon transactions throughout the year.

CITY OF MURRIETA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(CONTINUED)

For the year ended June 30, 2018

2. FINDINGS RELATING TO FINANCIAL STATEMENTS (CONTINUED):

SIGNIFICANT DEFICIENCIES

Finding Number 2018-004 – Timely Bank Reconciliations

Condition

Bank reconciliations were not completed in a timely manner.

Criteria

An important element of internal controls over cash is the reconciliation process to identify differences between the bank and the general ledger and resolve differences timely.

Cause

Due to significant staff turnover and limited staffing in the Finance Department, journal entries were not properly reviewed before they were posted.

Effect

When differences are not properly identified, the bank reconciliation is not complete and can result in misappropriation of assets.

Recommendation

We recommend that all bank accounts be reconciled within 30 days after the end of the month and that all bank reconciliations be initialed and dated by the preparer to indicate that the reconciliation was prepared in a timely manner.

Management's Response

A Finance staff member has been assigned to allocate resources to address timeliness of the bank reconciliation. Appropriate monthly review and approval by Accounting Supervisor and Finance Manager will ensure timeliness of the bank reconciliation.

CITY OF MURRIETA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(CONTINUED)

For the year ended June 30, 2018

2. FINDINGS RELATING TO FINANCIAL STATEMENTS (CONTINUED):

SIGNIFICANT DEFICIENCIES (CONTINUED)

Finding Number 2018-005 – Deficit Fund Balance

Condition

The CalTrans HBRR Grant special revenue funds had deficit fund balances at the end of the year that was not solely the result of the timing of revenue recognition.

Criteria

When the operations of a fund are not anticipated to eliminate a deficit fund balance, management should make appropriate requests to transfer the necessary funds from the General Fund to eliminate the deficit.

Cause

This deficit is a result of recorded expenditures exceeding the special revenues being collected and the incoming transfers from other funds.

Effect

The General Fund ending fund balance may be higher due to the lack of transfers made to address deficits in other funds.

Recommendation

We recommend that the fund be analyzed to determine whether future special revenue sources will be sufficient to eliminate the fund balance deficit. If such special revenue funding will not be available to cover the costs being incurred, we recommend that management make appropriation requests to transfer the necessary funds from the General Fund to eliminate the deficit.

Management's Response

A Finance staff member will be assigned to track and monitor all special revenue funds and grants to ensure eligible expenditures and the appropriate revenue receivable are recorded on a timely basis. The Finance staff will apply current resources to analyze the CalTrans Grant Special Revenue fund to determine cause of the deficit and recommend appropriate action to eliminate the deficit.

CITY OF MURRIETA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(CONTINUED)

For the year ended June 30, 2018

3. FINDINGS AND QUESTIONED COSTS FOR MAJOR FEDERAL AWARDS PROGRAMS

Finding Number 2018-006 – Submission of Reports

Major Program

United States Department of Housing and Urban Development, Passed through County of Riverside Economic Development Agency, Community Development Block Grants, 3.MR.28-12, 3.MR.37-15, 3.MR.39-16, 3.MR.41-17, 3.MR.42-17, 3.MR.34-14, 3.MR.32-13 (CFDA No. 14.218).

Criteria

Quarterly performance reports are to be submitted to the County for each quarter.

Condition

Quarterly performance reports were not submitted to the County.

Questioned Costs

None noted.

Perspective Information

Quarterly performance reports were not submitted to the County.

Cause

Due to significant staff turnover and limited staffing, quarterly performance reports were not prepared and submitted.

Effect

The City was not in compliance with reporting requirements.

Recommendation

We recommend that the City review its processes to ensure reporting requirements are met.

CITY OF MURRIETA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(CONTINUED)

For the year ended June 30, 2018

3. FINDINGS AND QUESTIONED COSTS FOR MAJOR FEDERAL AWARDS PROGRAMS
(CONTINUED)

Finding Number 2018-006 – Submission of Reports (Continued)

Management's Response

The Finance Division will implement procedures, including a tracking mechanism to identify awarded grants, and reporting requirements. The procedures will include protocols for City-wide grant coordinators to ensure grant compliance with various provisions, including reporting requirements.

Finding Number 2018-007 – Equipment Management

Major Program

United States Department of Justice, Direct Assistance, Equitable Sharing Program, CA0334200 (CFDA No. 16.922).

Criteria

Uniform Guidance Title 2, Subtitle A, Chapter II, Part 200, Subpart D, §200.313 requires the recipient to keep equipment records, perform a physical equipment inventory at least once every two years, and implement an appropriate internal control system to safeguard and maintain the equipment purchased using federal funds.

Condition

The City do not have an inventory list of equipment purchased using program funds. In addition, the City do not have procedures in place that requires performance of physical equipment inventory of equipment purchased using program funds.

Questioned Costs

None noted.

Perspective Information

There is no comprehensive inventory list of equipment purchased using program funds.

Cause

Staff assigned to coordinate the program was unaware of the physical inventory count.

CITY OF MURRIETA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(CONTINUED)

For the year ended June 30, 2018

3. FINDINGS AND QUESTIONED COSTS FOR MAJOR FEDERAL AWARDS PROGRAMS
(CONTINUED)

Finding Number 2018-007 – Equipment Management (Continued)

Effect

The City was not in compliance with equipment management requirements.

Recommendation

We recommend that City establish procedures to ensure that City maintains a listing of all equipment purchased using program funds and equipment are managed in accordance with Uniform Guidance Title 2, Subtitle A, Chapter II, Part 200, Subpart D, §200.313.

Management's Response

The finance department will establish City-wide procedures for the coordination of an organized physical inventory count with corresponding department/staff. The procedure will include assignments of a staff member from each department who will be responsible to complete this task on an annual basis.

CITY OF MURRIETA

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

For the year ended June 30, 2018

FINDINGS RELATED TO THE FINANCIAL STATEMENTS:

MATERIAL WEAKNESS

Finding Number 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.

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 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.

Current Status

This finding was not corrected and is therefore repeated as finding number 2018-001.

CITY OF MURRIETA

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
(CONTINUED)

For the year ended June 30, 2018

FINDINGS RELATED TO THE FINANCIAL STATEMENTS (CONTINUED):

SIGNIFICANT DEFICIENCY

Finding Number 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.

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

Current Status

No similar finding was noted in the 2018 audit.

FINDINGS AND QUESTIONED COSTS FOR MAJOR FEDERAL AWARD PROGRAMS

There were no findings or questioned costs related to major federal award programs reported for the year ended June 30, 2017.



FY2018 AUDIT FINDINGS

CORRECTIVE ACTION PLAN

PREPARED BY FINANCE DIVISION

MARCH 29, 2019

CORRECTIVE ACTION PLAN

In Response to Findings Relating to the Financial Statements and to the Schedule of Findings and Questioned Costs Year Ended June 30, 2018

March 29, 2019

City of Murrieta respectfully submits the following corrective action plan for the year ended June 30, 2018.

Name and address of independent public accounting firm:

White Nelson Diehl Evans LLP
2875 Michelle Drive Suite 300
Irvine, CA. 92606

Audit Period: July 1, 2017 – June 30, 2018

The findings from the March 29, 2019 schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

FINDINGS – FINANCIAL STATEMENT AUDIT

MATERIAL DEFICIENCIES

2018-001 – Year-end Closing Process

Recommendation:

Develop a year-end, closing schedule that addresses each necessary task, who will perform each task, when the completion of each task is to occur and when such task has been completed and reviewed. The timing of specific tasks should be coordinated with the timing of management's or the auditor's need for the information. This year-end closing schedule should be monitored regularly to ensure that the tasks are being completed in a timely manner and the results of each task are in agreement with the related general ledger account balances.

Action Taken:

The City of Murrieta Finance staff will develop a year-end procedures to identify year-end related tasks, schedules, and reports along with established deadlines. The Accounting Supervisor and Finance Manager will monitor progress of year-end tasks and assignments on a weekly basis to ensure timely completion.

FINDINGS – FINANCIAL STATEMENT AUDIT (CONTINUED)

MATERIAL DEFICIENCIES (CONTINUED)

2018-002 – Capturing Information

Recommendation:

The City should consult on the recording of complicated transactions to ensure that they are reviewed thoroughly. We further suggest that the general ledger be reviewed after significant journal entries are posted to ensure the journal entry is reflected in the general ledger appropriately.

Action Taken:

The Finance staff will be provided with training and guidance on uncommon accounting transactions. Staff will seek guidance from consultants and audit firm on uncommon transactions throughout the year.

2018-003 – Recording Complicated Transactions - Debt Refinancing

Recommendation:

Management should review its procedures for communicating and capturing information in its financial reporting system.

Action Taken:

The City of Murrieta Finance staff will develop procedures and a process to track and document capital improvement projects and the financial impact shortly after City Council actions. The Finance Manager and Accounting Supervisor will be responsible to communicate the fiscal impact to the corresponding Finance staff (e.g., Accountant, Financial Analyst) and to follow through the plan to ensure the appropriate accounting is recorded.

SIGNIFICANT DEFICIENCIES

2018-004 – Timely Bank Reconciliations

Recommendation:

Bank accounts should be reconciled within 30 days after the end of the month and that all bank reconciliations be initialed and dated by the preparer to indicate that the reconciliation was prepared in a timely manner.

Action Taken:

A Finance staff member has been assigned to allocate resources to address timeliness of the bank reconciliation. Appropriate monthly review and approval by Accounting Supervisor and Finance Manager will ensure timeliness of the bank reconciliation.

FINDINGS – FINANCIAL STATEMENT AUDIT (CONTINUED)

SIGNIFICANT DEFICIENCIES (CONTINUED)

2018-005 – Deficit Fund Balance

Recommendation:

The city should analyze the CalTrans HBRR Grant special revenue fund balance to determine whether future special revenue sources will be sufficient to eliminate the fund balance deficit. If such special revenue funding will not be available to cover the costs being incurred, management should make appropriation requests to transfer the necessary funds from the General Fund to eliminate the deficit.

Action Taken:

A Finance staff member will be assigned to track and monitor all special revenue funds and grants to ensure eligible expenditures and the appropriate revenue receivable are recorded on a timely basis. The Finance staff will apply current resources to analyze the CalTrans Grant Special Revenue fund to determine cause of the deficit and recommend appropriate action to eliminate the deficit.

FINDINGS –FEDERAL AWARD PROGRAMS AUDIT

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

2018-006 Community Development Block Grant – CFDA No. 14.218

Recommendation:

The City should review its processes to ensure reporting requirements are met.

Action Taken:

The Finance Division will implement procedures, including a tracking mechanism to identify awarded grants, and reporting requirements. The procedures will include protocols for City-wide grant coordinators to ensure grant compliance with various provisions, including reporting requirements.

U.S. DEPARTMENT OF JUSTINCE

2018-007 Equitable Sharing Program – CFDA No. 16.922

Recommendation:

The City should establish procedures to ensure that City maintains a listing of all equipment purchased using program funds and equipment are managed in accordance with Uniform Guidance Title 2, Subtitle A, Chapter II, Part 200, Subpart D, §200.313.

FINDINGS –FEDERAL AWARD PROGRAMS AUDIT (CONTINUED)

2018-007 Equitable Sharing Program – CFDA No. 16.922 (Continued)

Action Taken:

The finance department will establish City-wide procedures for the coordination of an organized physical inventory count with corresponding department/staff. The procedure will include assignments of a staff member from each department who will be responsible to complete this task on an annual basis.

For any questions regarding this plan, please call Javier Carcamo, Finance Manager at 951-461-6090.

Sincerely,



Javier Carcamo
Finance Manager