

CITY OF ESCONDIDO, CALIFORNIA

SINGLE AUDIT REPORT

JUNE 30, 2014

CITY OF ESCONDIDO, CALIFORNIA

SINGLE AUDIT REPORT

JUNE 30, 2014

CITY OF ESCONDIDO

JUNE 30, 2014

TABLE OF CONTENTS

	<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
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	3
Schedule of Expenditures of Federal Awards for the Fiscal Year Ended June 30, 2014.....	6
Notes to the Schedule of Expenditures of Federal Awards	9
Schedule of Findings and Questioned Costs for the Fiscal Year Ended June 30, 2014.....	10
Schedule of Prior Year Findings and Questioned Costs for the Fiscal Year Ended June 30, 2013.....	13

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 Escondido, 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, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Escondido, 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 December 30, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered 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 City's internal control. Accordingly, we do not express an opinion on the effectiveness of 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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 Escondido, California

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, Solt & Lughard, LLP

Brea, California
December 30, 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 Escondido, California

Report on Compliance for Each Major Federal Program

We have audited the City of Escondido, California's (the City) 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.

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 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 of Escondido, California 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.



To the Honorable Mayor and Members of the City Council
City of Escondido, California

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2014-001. 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 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 compliance and, accordingly, we express no opinion on the response.

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 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. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2014-001, that we consider to be significant deficiencies.

The City's response to the internal control over compliance 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 compliance and, accordingly, we express no opinion on the response.



To the Honorable Mayor and Members of the City Council
City of Escondido, California

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, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Escondido, 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 March 11, 2015, 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.

Lance, Soll & Lingham, LLP

Brea, California

March 11, 2015 (except for the Schedule of Expenditures of Federal Awards which is as of December 30, 2014)

CITY OF ESCONDIDO

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 Housing and Urban Development</u>			
Direct Programs:			
Community Development Block Grant *	14.218	B-11-MC-06-0552	\$ 115,715
		B-12-MC-06-0552	1,379,868
		B-13-MC-06-0552	698,950
			<u>2,194,533</u>
Home Investment Partnership Program*	14.239	M-09-MC-06-0542	35,365
		M-10-MC-06-0542	130,649
		M-12-MC-06-0542	44,330
		M-13-MC-06-0542	128,516
			<u>338,860</u>
Total U.S. Department of Housing and Urban Development			<u>2,533,393</u>
<u>U.S. Department of Justice</u>			
Direct Program:			
Organized Crime Drug Enforcement Task Force	16.000	SWCAS355	5,628
Cooperation Agreement with San Diego Regional Computer Forensics Laboratory	16.000	N/A	587
Federal Assets Forfeiture	16.922	N/A	89,030
ARRA - Public Safety Partnership and Community Policing Grants *	16.710	2009-RK-WX-0149	172,024
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2012-DJ-BX-0531	13,596
		2013-DJ-BX-0531	21,127
			<u>34,723</u>
Criminal and Juvenile Justice and Mental Health Collaboration Program	16.745	2010-MO-BX-0010	5,636
Passed through the County of San Diego, Sheriffs Department:			
Services for Trafficking Victims	16.320	N/A	<u>39,741</u>
Total U.S. Department of Justice			<u>347,369</u>

CITY OF ESCONDIDO

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 Transportation</u>			
Passed through the San Diego Association of Governments:			
Highway Research and Development	20.200	DTFH61-06-4-00038	26,832
Passed through the State of California, Department of Transportation:			
Highway Planning and Construction	20.205	STPLN-5081(014)	138,483
Passed through the State of California, Office of Traffic Safety:			
State and Community Highway Safety	20.600	SC12132	59,253
		SC13132	114,124
		PT13103	18,738
		PT14103	76,521
		AL0939	16,884
			<u>285,520</u>
Alcohol Impaired Driving Countermeasures Incentive Grants	20.601	4128-451-ABCG14	<u>54,412</u>
Total U.S. Department of Transportation			<u>505,247</u>
<u>U.S. Office of Library Services</u>			
Passed through the California State Library:			
Grants to States	45.310	40-8152	<u>1,170</u>
Total U.S. Office of Library Services			<u>1,170</u>
<u>U.S. Department of Education</u>			
Passed through the Escondido Union Elementary School District:			
Safe and Drug-Free Schools and Communities National Programs	84.184	N/A	<u>39,388</u>
Total U.S. Department of Education			<u>39,388</u>
<u>U.S. Department of Health and Human Services</u>			
Passed through the County of San Diego, Health and Human Services Agency:			
Special Programs for the Aging-Title III, Part B Grants for Supportive Services and Senior Centers	93.044	533562	108,293
Special Programs for the Aging-Title III, Part C Nutrition Services	93.045	533562	69,575
Nutrition Services Incentive Program	93.053	533562	17,055
Passed through the State of California, Department of Health Care Services			
ARRA - Medical Assistance Program*	93.778	2011-SPA 09-024	81,650
Medical Assistance Program*	93.778	SPA 09-024	<u>851,651</u>
Total U.S. Department of Health and Human Services			<u>1,128,224</u>

CITY OF ESCONDIDO

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.S. Department of Homeland Security			
Direct Program:			
Assistance to Firefighters Grant*	97.044	EMW-2012-FR-00158	566,114
Passed through the City of San Diego, Office of Homeland Security:			
Non-Profit Security Program	97.008	073-66000	64,494
Passed through the City of San Diego, Sheriff's Department:			
Homeland Security Grant Program	97.067	N/A	63,991
Passed through the State of California, Department of Homeland Security:			
Homeland Security Grant Program	97.067	073-00000	251,424
State Homeland Security Program (SHSP)	97.073	073-00000	50,794
Passed through the State of California, Governor's Office of Emergency Services:			
Fire Management Assistance Grant	97.046	073-22804-00	67,894
Total U.S. Department of Homeland Security			<u>1,064,711</u>
Total Federal Expenditures			<u>\$ 5,619,502</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: Refer to Note 2 to the schedule of expenditures of federal awards for payments made to subrecipients during the year.

CITY OF ESCONDIDO

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 Escondido, 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	\$ 67,998
97.046	Fire Management Assistance Grant	12,408
97.044	Assistance to Firefighters Grant	238,094

CITY OF ESCONDIDO

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

SECTION II - FINANCIAL STATEMENT FINDINGS

No matters were reported.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding 2014-001

Significant Deficiency
Reporting

Federal Program

CFDA number: 97.044
Title: Assistance to Firefighters Grant
Federal Grantor: U.S. Department of Homeland Security
Grant Number: EMW-2012-FR-00158

Criteria

The City is required to submit a semi-annual Federal Financial Report (FFR) via the automated system on the Standard Form 425. The FFR is due semi-annually based on the calendar year beginning with the period after the award is made. The reporting periods for the FFR are January 1 through June 30 (Report due by July 31), and July 1 through December 31 (Report due by January 30). The City is also required to submit a final financial report and a final performance report within 90 days after the end of the period of performance.

Condition

The City was aware of the reporting requirements however submitted the reports after the due dates.

Questioned Costs

None

Context

We inspected the semiannual reports and noted that they were submitted on March 20, 2014 and December 4, 2014, which are both after the due dates. We inspected the final financial and performance report and noted that it was submitted on December 4, 2014, which is also after the due date.

Effect

The City did not submit the required reports timely.

Cause

The City was aware of the reporting requirements but did not make the submissions on time.

CITY OF ESCONDIDO

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

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

Finding 2014-001 (Continued)

Recommendation

The City should development and document procedures to ensure that the reporting requirements are met.

Management Response

Management will develop procedures and timelines to ensure that the financial reporting requirements are met in a timely manner. Management will provide training regarding the importance of prioritizing the financial reporting requirements.

CITY OF ESCONDIDO

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

SECTION II - FINANCIAL STATEMENT FINDINGS

No matters were reported.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding 2013-001

Significant Deficiency
Reporting

Federal Program

CFDA number: 14.218
Title: Community Development Block Grant
Federal Grantor: U.S. Department of Housing and Urban Development
Grant Number: B-11-MC-06-0552

Criteria

This City as a direct grant recipient is required under the Federal Funding Accountability and Transparency Act ("Transparency Act" or "FFATA") to report subrecipient contract awards totaling \$25,000 or more on the FFATA Subaward Reporting System (FSRS) by the end of the month following the month in which the subaward was made.

Condition

The City was aware of the Transparency Act and was under the belief these reporting requirements were the responsibility of U.S. Department of Housing and Urban Development.

Questioned Costs

None

Context

We inspected the files for four subawards given by the City and noted two of these awards exceeded \$25,000. Subsequently, we inspected the govspending.gov website and noted this grant was not listed.

Effect

The City did not report and make subaward information publically available for subwards of \$25,000 or more.

Cause

The City was aware of the Transparency Act and was under the belief these reporting requirements were the responsibility of U.S. Department of Housing and Urban Development.

CITY OF ESCONDIDO

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

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

Finding 2013-001 (Continued)

Recommendation

The City should development and document procedures to ensure that the reporting requirements as required under the Transparency Act are performed in order to comply with the grant requirements.

Management Response

The City has developed and added written procedures to the existing CDBG procedures manual to ensure that all reporting requirements are performed. A line item indicating the requirement has also been added to the CDBG project file checklist used in all subrecipient files to ensure that all necessary documents and required actions have been satisfied.

Status

The City met the reporting requirements as required under the Transparency Act for the 2014 fiscal year.

Finding 2013-002

Significant Deficiency
Allowable Costs

Federal Program

CFDA number: 16.710
Title: ARRA Public Safety Partnership and Community
Federal Grantor: U.S. Department of Justice
Grant Number: 2009RKWX0149

Criteria

This award is to be used to reimburse the City for the costs of police officers that were hired through this federal award. The amount of reimbursement that can be requested for each officer is based on their entry level step as described in the federal grant agreement.

Condition

The City incorrectly increased one of the officer's entry level step three months before they should have causing the granting agency to reimburse more than it should have.

Questioned Costs

\$1,569 is the amount that was over reimbursed to the City due to the error.

Context

We inspected the reimbursement requests, supporting payroll information, and officer entry tracking sheets to determine the accuracy of each officer's entry level step. We noted that one of the eight officers was given an entry level step increase for pay period ending 2/16/2013 when it should not have increased till the pay period ending 6/8/2013.

CITY OF ESCONDIDO

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

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

Finding 2013-002 (Continued)

Effect

The City received \$1,569 more in reimbursement than it should have.

Cause

The Police Department's administrative department went through personnel changes during this time and the change was the result of an oversight due to the changes.

Recommendation

The City should develop and document procedures to ensure that the costs requested for reimbursement are properly reviewed and checked against supporting documents.

Management Response

The City has established a monitoring system to review claims before submission to ensure accuracy. The verification of the claim review will be placed in the grant file.

Status

The City is now properly reviewing claims to ensure the reimbursement is for officers being paid at the correct rates based on the grant agreement.