

**CITY OF LAKE ELSINORE**  
**Lake Elsinore, California**

**SINGLE AUDIT REPORT ON**  
**FEDERAL AWARD PROGRAMS**

Year Ended June 30, 2013

**CITY OF LAKE ELSINORE**  
**SINGLE AUDIT REPORT ON FEDERAL AWARD PROGRAMS**  
Year Ended June 30, 2013

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**Independent Auditors' Report on Internal Control Over Financial Reporting and on  
Compliance and Other Matters Based on an Audit of Financial Statements  
Performed in Accordance with *Government Auditing Standards***

City Council  
City of Lake Elsinore  
Lake Elsinore, 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 Lake Elsinore, California (the "City"), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated May 1, 2014.

**Internal Control Over Financial Reporting**

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

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. 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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs 2013-001 that we consider to be a significant deficiency.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City's financial statements are free of 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 Lake Elsinore, California's Response to Finding

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

### Purpose of this Report

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

*Jeannan Ramirez & Smith, Llc.*

Riverside, California  
May 1, 2014

**Independent Auditors' Report on Compliance for Each Major Program and on  
Internal Control Over Compliance Required by OMB Circular A-133**

City Council  
City of Lake Elsinore  
Lake Elsinore, California

**Report on Compliance for Each Major Federal Program**

We have audited the City of Lake Elsinore, 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, 2013. 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 the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

***Opinion on Each Major Federal Program***

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

**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.

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Lake Elsinore, California as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basis financial statements. We issued our report thereon dated May 1, 2014, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on those 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 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 the 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 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.

*Jeaman Ramirez & Smith, Inc.*

Riverside, California  
May 1, 2014

**CITY OF LAKE ELSINORE**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
Year Ended June 30, 2013

Federal Grantor/Pass-Through Grantor Program Title	Federal CFDA Number	Grant/Contract Number	Expenditures
<u>United States Department of Housing and Urban Development:</u>			
<i>Passed through the County of Riverside, Economic Development Agency:</i>			
Community Development Block Grant Program	14.218	1.LE.24-12	13,710
Community Development Block Grant Program	14.218	1.LE.26-12	145,731
Community Development Block Grant Program	14.218	0.97-12	5,739
Total United States Department of Housing and Urban Development			165,180
<u>United States Department of Justice:</u>			
<i>Direct Program:</i>			
ARRA - Public Safety Partnership and Community Policy Grants	16.710	2009-CK-WX-0533	31,105
<i>Passed through the City of Riverside:</i>			
Justice Assistance Grant Award	16.738	JAG-12	9,481
Total United States Department of Justice			40,586
<u>United States Department of Transportation</u>			
<i>Passed through the Regents of the University of California:</i>			
Sobriety Checkpoint Grant Program	20.608	SC12215	30,527
Sobriety Checkpoint Grant Program	20.608	SC13215	49,789
<i>Passed through the City of Riverside:</i>			
Avoid the 30 Enforcement Program	20.608	AL1387	8,752
Total United States Department of Transportation			89,068
<u>United States Department of Homeland Security:</u>			
<i>Passed through the California Emergency Management Agency:</i>			
Pre-Disaster Mitigation Grant Program	97.047	PDM 09	434,351*
<i>Passed through the County of Riverside:</i>			
Homeland Security Grant Program	97.067	2011-SS-0077	650
Homeland Security Grant Program	97.067	2010-0085	13,527
Homeland Security Grant Program	97.067	2012-SS-00123	8,451
Subtotal			22,628
Emergency Management Performance Grants	97.042	2012-0027	14,780
Subtotal			37,408
Total United States Department of Homeland Security			471,759
Total Expenditures of Federal Awards			\$ 766,593

\*Major Program

**CITY OF LAKE ELSINORE**  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
Year Ended June 30, 2013

**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 Lake Elsinore 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 indirectly by the City of Lake Elsinore from a non-federal agency or other organization. Only the portion of the 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 accrual basis of accounting. Under the accrual basis of accounting, expenditures are recognized in the period incurred. Expenditures reported include any property or equipment acquisitions incurred under the federal program.

**c) Relationship to Basic Financial Statements**

Federal award expenditures agree or can be reconciled with the amounts reported in the City's financial statements.

**d) Notes Receivable**

The City has a note receivable in the amount of \$1,000,000 from Pottery Court Housing Associates, L.P. dated December 9, 2009. This loan was funded with HOPE VI grant funds from the United States Department of Housing and Urban Development. Notwithstanding any other provision, unless the loan is paid earlier, the outstanding principal and accrued unpaid interest is payable 55 years from the date of recording of the release of construction covenants. As of June 30, 2013, the release of construction covenants has not been recorded. At June 30, 2013, the total outstanding balance of \$1,090,000 includes accrued interest of \$90,000.

**CITY OF LAKE ELSINORE**  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
Year Ended June 30, 2013

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

**e) Major Programs**

The City had one major program for the year ended June 30, 2013, consisting of expenditures from the United States Department of Homeland Security. The major program had disbursements of \$434,351. This amount calculates to 57% of the total disbursements from federal awards. The City did not meet the requirements to be a low risk auditee. Therefore, the City's major programs have to cover at least 50 percent of the total expenditures of federal awards.

**e) Contingencies**

Under the terms of federal 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 LAKE ELSINORE**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
Year Ended June 30, 2013

**SECTION I - SUMMARY OF AUDITORS' RESULTS**

**Financial Statements**

Type of Auditors' Report Issued:	Unqualified
Internal Control Over Financial Reporting:	
Material Weakness(es) Identified?	No
Significant Deficiency(ies) 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 Deficiency(ies) Identified not Considered to be Material Weaknesses?	No
Type of Auditors' Report Issued on Compliance for Major Programs:	Unqualified
Any Audit Findings Disclosed that are Required to be Reported in Accordance With Circular A-133, Section .510(a)?	No

Identification of Major Programs:

CFDA Numbers	Name of Federal Program or Cluster
97.047	Pre-Disaster Mitigation Grant Program

Dollar Threshold used to Distinguish Between Type A and Type B Programs:	\$ <u>300,000</u>
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Auditee Qualified as Low-Risk Auditee?	No
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**CITY OF LAKE ELSINORE**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
Year Ended June 30, 2013

**SECTION II - FINANCIAL STATEMENT FINDINGS**

**Significant Deficiencies**

**2013-001 - Recording the Issuance of Revenue Bonds**

*Condition:* Certain long-term debt transactions, such as bond proceeds, were netted, and should have been recorded at their gross value. Due to the nature of the revenue bonds, amortized discounts and deposit liabilities should also have been recorded.

*Criteria:* When reviewing transactions involving the issuance of long-term debt, amounts should be verified at their gross value and any other amounts are properly recorded.

*Cause:* Reviews of the revenue bonds issuance were performed but due to the complex nature of the bonds, some transactions were not properly recorded. These revenue bonds were used to purchase Community Facilities District bonds which are more involved than a normal bond issuance.

*Effect:* Because the transactions were netted, amortized discounts, deposits payable, bond proceeds, discounts, and payments to escrow agent were not recorded properly or at their gross value.

*Recommendation:* We recommend the City review the recording of revenue bonds and verify that the amounts are recorded properly and at their gross value.

*Management Response:* The City concurs and future recordings of bonds will be reflected at their gross value.

**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

There were no auditors' findings required to be reported in accordance with paragraph .510(a) of OMB Circular A-133.

**CITY OF LAKE ELSINORE**  
**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
Year Ended June 30, 2013

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

**2012-02**

*Major Program:* U.S. Department of Energy, Direct Assistance, ARRA - Energy Efficiency and Conservation Block Grant Program (EECBG) (CFDA #81.128), Grant Identification Number EE0001965

*Condition:* The City received an advance of ARRA - EECBG funds totaling \$201,700 in July and August 2010. \$164,612 of these funds was expended for program purposes in fiscal year 2011-2012. Prior year's expenditures total \$35,771, which leaves a balance held in the City of \$1,317 as of June 30, 2012. The time between the deposit of the federal funds in the City's account and the disbursement of the funds for program purposes was not minimized, which resulted in an estimated interest of \$1,263 earned on the advance as of June 30, 2012.

*Recommendation:* We recommend that the City implement procedures to minimize time elapsing between advances and disbursements. Interest earned on advances should be returned to the Federal Agency.

*Current Status:* The City has implemented procedures to correct the non-compliance of cash management. The City did not have any grants with cash advances in the fiscal year 2012-2013.

**2012-03**

*Major Program:* U.S. Department of Energy, Direct Assistance, ARRA - Energy Efficiency and Conservation Block Grant Program (EECBG) (CFDA #81.128), Grant Identification Number EE0001965

*Condition:* Federal expenditures of ARRA - EECBG occurred as follows:

Expenditures through 9/30/10 (grant completion date)	\$ 16,606
Expenditures from 10/1/10 through 6/30/11	19,165
Expenditures from 7/1/11 through 6/30/12	<u>164,612</u>
 Total Expenditures as of 6/30/12	 <u><u>\$ 200,383</u></u>

*Questioned Costs:* \$183,777 of expenditures occurred after the grant agreement completion date of September 30, 2010.

*Recommendation:* We recommend that the City implement procedures to ensure that grant funds are spent within the time period specified by the grant agreement.

*Current Status:* The City implemented procedures to ensure that grant funds are spent with the time period specified by the grant agreement.

**CITY OF LAKE ELSINORE**  
**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
Year Ended June 30, 2013

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS - Continued**

**2012-04**

*Major Program:* U.S. Department of Energy, Direct Assistance, ARRA - Energy Efficiency and Conservation Block Grant Program (EECBG) (CFDA #81.128), Grant Identification Number EE0001965

*Condition:* During our testing of reports, we noted the City reported \$201,700 of ARRA - EECBG expenditures as of September 30, 2010 in the quarterly Section 1512 Recovery Act report, the SF-425 Federal Financial Report, and the Performance Progress Report SF-PPR. Actual federal expenditures as of September 30, 2010 were \$16,606.

In addition, as of September 30, 2010, the SF-425 reported the City had no cash on hand when \$185,094 of the advance received was still on hand.

*Recommendation:* We recommend that the City implement procedures to review the accuracy and completeness of all grant reports.

*Current Status:* The City implemented procedures to review the accuracy and completeness of all grant reports.

**2010-03**

*Major Program:* U.S. Department of Housing and Urban Development, Direct Assistance, Affordable Housing Development in Main Street Rejuvenation Projects (CFDA No. 14.878), Grant Identification Number CA 16URD92530M08

*Condition:* The City does not have procedures to monitor relocation services provided by an outside consultant for compliance with grant requirements.

*Recommendation:* We recommend that the City implement internal control procedures to review program compliance with special tests and provisions of grant agreements.

*Current Status:* The City has not received this grant for the past two years and there has been no additional correspondence regarding this finding with the above federal agency. Therefore this finding is considered non-applicable.

**CITY OF LAKE ELSINORE**  
**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
Year Ended June 30, 2013

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS - Continued**

**2010-04**

*Major Program:* U.S. Department of Housing and Urban Development, Direct Assistance, Affordable Housing Development in Main Street Rejuvenation Projects Program (CFDA No. 14.878), Grant Identification Number CA16URD92530M08

*Condition:* The City does not retain quarterly reports filed on-line and supporting documentation used to compile these reports. Furthermore, we noted that these reports were not reviewed by a supervisor prior to filing.

*Recommendation:* We recommend that the City implement internal control procedures to review compliance requirement for filing of reports.

*Current Status:* The City has not received this grant for the past two years and there has been no additional correspondence regarding this finding with the above federal agency. Therefore this finding is considered non-applicable.

**2010-05**

*Major Program:* U.S. Department of Housing and Urban Development, Direct Assistance, Affordable Housing Development in Main Street Rejuvenation Projects Program (CFDA No. 14.878), Grant Identification Number CA16URD92530M08

*Condition:* During our compliance test, we noted that the City received two advances for which there was a significant elapse of time between the advances from the Federal Agency and the subsequent disbursements of grant expenditures. We could not identify whether the City has implemented procedures to minimize the time elapsed between receipt of advances and subsequent disbursements. One of the two advances was in the amount of \$245,000 to pay for relocation costs, of which \$52,840 was refunded to the City by the relocation service consultant in December 2010. We also noted that the City has not returned any interest income earned by advances in HUD.

*Recommendation:* We recommend that the City implement procedures to minimize time elapsing between advances and disbursements. Interest earned on advances should be returned to the Federal Agency.

*Current Status:* The City has not received this grant for the past two years and there has been no additional correspondence regarding this finding with the above federal agency. Therefore this finding is considered non-applicable.

**CITY OF LAKE ELSINORE**  
**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
Year Ended June 30, 2013

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS - Continued**

**2010-06**

*Major Program:* U.S. Department of Housing and Urban Development, Direct Assistance, Affordable Housing Development in Main Street Rejuvenation Projects Program (CFDA No. 14.878), Grant Identification Number CA16URD92530M08

*Condition:* During our compliance test, we noted that the City used grant funds to pay for legal fees.

*Recommendation:* We recommend that the City consult with the grant coordinator to resolve this matter.

*Current Status:* The City has not received this grant for the past two years and there has been no additional correspondence regarding this finding with the above federal agency. Therefore this finding is considered non-applicable.

**2010-07**

*Major Program:* U.S. Department of Housing and Urban Development, Direct Assistance, Affordable Housing Development in Main Street Rejuvenation Projects Program (CFDA No. 14.878), Grant Identification Number CA16URD92530M08

*Condition:* During our compliance test, we noted that the City entered into a Disposition and Development Agreement (DDA) to carry out the project partly funded by the Affordable Housing Development in the Main Street Rejuvenation Projects program. However, the City could not locate the bid packages or cost analysis supporting the open procurement selection. We could not verify whether the DDA was awarded through a competitive procurement.

*Recommendation:* We recommend that the City establish procedures to retain all bid packages related to an on-going program.

*Current Status:* The City has not received this grant for the past two years and there has been no additional correspondence regarding this finding with the above federal agency. Therefore this finding is considered non-applicable.

**CITY OF LAKE ELSINORE**  
**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
Year Ended June 30, 2013

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS - Continued**

**2010-08**

*Major Program:* U.S. Department of Housing and Urban Development, Direct Assistance, Affordable Housing Development in Main Street Rejuvenation Projects Program (CFDA No. 14.878), Grant Identification Number CA16URD92530M08

*Condition:* During our compliance test, we noted that the outside consultant hired by the City to perform relocation services computed the relocation assistance using a method other than what is allowed under the grant agreement, resulting in an overpayment of relocation assistance.

*Recommendation:* We recommend that the City review and maintain proper documentation on relocation assistance to ensure that they are in compliance with grant agreement.

*Current Status:* The City has not received this grant for the past two years and there has been no additional correspondence regarding this finding with the above federal agency. Therefore this finding is considered non-applicable.