

CITY OF LAKE ELSINORE, CALIFORNIA

SINGLE AUDIT REPORT

JUNE 30, 2017

**CITY OF LAKE ELSINORE**

**JUNE 30, 2017**

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH *GOVERNMENT AUDITING STANDARDS*

To the Honorable Mayor and Members of the City Council  
City of 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, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 29, 2017.

**Internal Control over Financial Reporting**

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2017-001, 2017-002, and 2017-003 to be material weaknesses.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.





To the Honorable Mayor and Members of the City Council  
City of Lake Elsinore, California

### **City's Response to Findings**

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

### **Purpose of this Report**

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

*Lance, Solt & Lughard, LLP*

Brea, California  
December 29, 2017



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 THE UNIFORM GUIDANCE

To the Honorable Mayor and Members of the City Council  
City of Lake Elsinore, California

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

We have audited the City of Lake Elsinore, California (the City)'s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2017. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and 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, 2017.



To the Honorable Mayor and Members of the City Council  
City of Lake Elsinore, California

### **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 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.

### **Report on the Schedule of Expenditures of Federal Awards Required by the Uniform Guidance**

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lake Elsinore, California, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated December 29, 2017, 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 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.



CPAs AND ADVISORS

To the Honorable Mayor and Members of the City Council  
City of Lake Elsinore, California

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.

*Lance, Solt & Loughard, LLP*

Brea, California

January 3, 2018 (except for the report on the Schedule of Expenditures of Federal Awards which is dated December 29, 2017)

CITY OF LAKE ELSINORE

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Passed Through to Subrecipients</u>	<u>Expenditures</u>
<u>U.S. Department of Housing and Urban Development</u>				
Passed through the County of Riverside				
Economic Development Agency:				
Community Development Block Grants	14.218	1.LE.36-14	\$ -	\$ 167,151
Community Development Block Grants	14.218	1.LE.44-15	-	42,615
Community Development Block Grants	14.218	1.LE.52-16	-	50,000
Community Development Block Grants	14.218	1.LE.53-16	10,000	10,000
Community Development Block Grants	14.218	1.LE.54-16	11,838	11,838
<b>Total U.S. Department of Housing and Urban Development</b>			<b>21,838</b>	<b>281,604</b>
<u>U.S. Department of Transportation</u>				
Passed through the State of California				
Department of Transportation:				
Highway Planning and Construction*	20.205	BRLO-5074(015)	-	446,137
Highway Planning and Construction*	20.205	STPL-5074(017)	-	286,000
<b>Total U.S. Department of Transportation</b>			<b>-</b>	<b>732,137</b>
<u>U.S. Department of Homeland Security</u>				
Passed through the State of California				
Department of Parks and Recreation:				
Boating Safety Financial Assistance	97.012	C8960318	-	864
Passed through the County of Riverside				
Emergency Management Department:				
Emergency Management Performance Grants	97.042	2016-0010	-	13,952
Passed through the Riverside County Fire Department				
Office of Emergency Services:				
Homeland Security Grant Program	97.067	2015-SS-00078	-	9,136
Homeland Security Grant Program	97.067	2016-SS-00102	-	1,693
<b>Total U.S. Department of Homeland Security</b>			<b>-</b>	<b>25,645</b>
<b>Total Federal Expenditures</b>			<b>\$ 21,838</b>	<b>\$ 1,039,386</b>

\* 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.

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2017**

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**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 Lake Elsinore, 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. The City has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

CITY OF LAKE ELSINORE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

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SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unmodified Opinion

Internal control over financial reporting:

- Significant deficiencies identified?                    \_\_\_yes            Xno
- Material weaknesses identified?                    Xyes            \_\_\_none reported

Noncompliance material to financial statements noted?                    \_\_\_yes            Xno

Federal Awards

Internal control over major programs:

- Significant deficiencies identified?                    \_\_\_yes            Xno
- Material weaknesses identified?                    \_\_\_yes            Xnone reported

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

Any audit findings disclosed that are required to be reported in accordance with Title 2 U.S. Code of Federal Regulations Part 200?                    \_\_\_yes            Xno

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
20.205	Highway Planning and Construction

Dollar threshold used to distinguish between type A and type B program                    \$750,000

Auditee qualified as low-risk auditee?                    \_\_\_yes            Xno

**CITY OF LAKE ELSINORE**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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**SECTION II - FINANCIAL STATEMENT FINDINGS**

**MATERIAL WEAKNESS**

**Finding 2017-001: Capital Assets**

*Condition*

During the course of audit, a material error in the recording of capital assets depreciation expense was identified. It was noted the City inadvertently omitted recording depreciation expense for certain City infrastructure assets. A cumulative total of \$4,677,895 in accumulated depreciation was not previously booked and required a restatement to the City's net position.

Management Response: The City concurs with the change noted for recording of capital assets. The item was caught by staff and adjustment proposed but staff's treatment was consistent with understanding from the City's prior audit team.

**Finding 2017-002: Capital Assets**

*Condition*

During the course of audit, a material error in the recording of capital assets was identified. It was noted the City capitalized a total of \$3,738,126 to infrastructure assets, however, the items should not have been capitalized.

Management Response: The City concurs that infrastructure reimbursements were capitalized when they should not have been. Staff corrected this by recording an adjustment as suggested by the auditors.

**Finding 2017-003: Fund Balance Adjustments**

*Condition*

During the course of audit, it was noted the City booked two material journal entries to fund balance, however, these adjustments were not actual restatement. As a result, material journal entries were required to adjust in accordance with generally accepted accounting principles. Adjustments to fund balance were in the Endowment Trust – Carl Graves fund for \$959,130 and in the Low and Moderate-Income Housing fund for \$720,000.

Management Response: With the end of Redevelopment Agencies through legislation and the divestiture of properties pursuant to State, the City concurs that the land, although purchased and retained with Housing funds, should be carried at the original historical cost until the land is part of a future housing project. Staff recorded the purchase at \$720,000 and did record an adjustment as suggested by the auditors.

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

No matters were reported.

**CITY OF LAKE ELSINORE**

**SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

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**SECTION IV - FINANCIAL STATEMENT FINDINGS**

No matters were reported.

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

No matters were reported.