CITY OF LAKE ELSINORE
Lake Elsinore, California

SINGLE AUDIT REPORT ON FEDERAL AWARD PROGRAMS

Year Ended June 30, 2014

CITY OF LAKE ELSINORE
SINGLE AUDIT REPORT ON FEDERAL AWARD PROGRAMS
Year Ended June 30, 2014

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TRS TEAMAN, RAMIREZ & SMITH, INC.
CERTIFIED PUBLIC ACCOUNTANTS

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, 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 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 have been identified.

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*.

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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.

Teaman Ramirez & Smith, Inc.

Riverside, California
December 30, 2014

TRS TEAMAN, RAMIREZ & SMITH, INC.
CERTIFIED PUBLIC ACCOUNTANTS

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, 2014. 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, 2014.

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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 item 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2014-001, that we consider to be a significant deficiency.

The City's response to the internal control over compliance finding identified in our audit is described in 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 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, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated December 30, 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.

Teaman Ramirez & Smith, Inc.

Riverside, California
December 30, 2014

CITY OF LAKE ELSINORE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2014

Federal Grantor/Pass-Through Grantor Program Title	Federal CFDA Number	Grant/Contract Number	Expenditures
United States Department of Housing and Urban Development:			
Community Development Block Grant Program:			
Passed through the County of Riverside, Economic Development Agency:			
Community Development Block Grant Program	14.218	1.LE.21-11	$ 79,962
Community Development Block Grant Program	14.218	1.LE.25-12	124,476
Community Development Block Grant Program	14.218	1.LE.29-13	3,874
Community Development Block Grant Program	14.218	1.LE.31-13	360
Community Development Block Grant Program	14.218	1.LE.32-13	148,822
Community Development Block Grant Program	14.218	1.LE.33-13	4,381
Community Development Block Grant Program	14.218	1.LE.34-13	45,908
Community Development Block Grant Program	14.218	0.109-13	13,300
Community Development Block Grant Program	14.218	0.110-13	28,500
Total United States Department of Housing and Urban Development			449,583
United States Department of the Interior:			
Clean Vessel Act Program:			
Passed through the California Department of Parks and Recreation:			
Floating Restroom Operation and Maintenance Grant	15.616	11-107-706	5,080
Total United States Department of the Interior			5,080
United States Department of Justice:			
Direct Program:			
ARRA - Public Safety Partnership and Community Policy Grants	16.710	2009-CK-WX-0533	50,631
Total United States Department of Justice			50,631
United States Department of Transportation			
Highway Planning and Construction:			
Passed through the California Department of Transportation:			
FHWA-E76 (AMOD) – Temescal Canyon Bridge Project	20.205	BRLO-5074(015)	18,334
Safe Routes to School	20.205	SRTSL-5074(014)	351,772
Subtotal			370,106*

Continued

CITY OF LAKE ELSINORE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2014

Federal Grantor/Pass-Through Grantor Program Title	Federal CFDA Number	Grant/Contract Number	Expenditures
Minimum Penalties for Repeat Offenders for Driving While Intoxicated:			
Passed through the Regents of the University of California:			
Sobriety Checkpoint Grant Program	20.608	SC13215	$ 15,300
Passed through the City of Riverside:			
Avoid the 30 Enforcement Program	20.608	AL1387	7,744
Subtotal			23,044
Total United States Department of Transportation			393,150
United States Department of Homeland Security:			
Boating Safety Financial Assistance:			
Passed through the California Department of Parks and Recreation:			
Aquatic Center Grant	97.012	C8956319	14,623
Emergency Management Performance Grants:			
Passed through the County of Riverside			
Emergency Management Performance Grants	97.042	2013-0047	19,088
Pre-Disaster Mitigation Grant Program:			
Passed through the California Emergency Management Agency:			
Pre-Disaster Mitigation Grant Program	97.047	PDM 09	391,384*
Homeland Security Grant Program:			
Passed through the County of Riverside:			
Homeland Security Grant Program	97.067	2013-110	7,985
Total United States Department of Homeland Security			433,080
Total Expenditures of Federal Awards			$ 1,331,524

*Major Program

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, 2014, the release of construction covenants has not been recorded. At June 30, 2014, the total outstanding balance of $1,120,000 includes accrued interest of $120,000.

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

e) Major Programs

The City had two major programs for the year ended June 30, 2014, consisting of expenditures from the United States Departments of Homeland Security and Transportation. The major programs had disbursements of $761,490. 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, 2014

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?	No
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?	Yes
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)?	Yes

Identification of Major Programs:

CFDA Numbers	Name of Federal Program or Cluster
20.205	Highway Planning and Construction
97.047	Pre-Disaster Mitigation Grant Program

Dollar Threshold used to Distinguish Between Type A and Type B Programs:	$ 300,000
Auditee Qualified as Low-Risk Auditee?	No

SECTION II - FINANCIAL STATEMENT FINDINGS

There were no auditors' finding required to be reported in accordance with *Government Auditing Standards*.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

United States Department of Homeland Security

2014-001 - Submission of Single Audit Reporting Package - Passed through the California Emergency Management Agency - Pre-Disaster Mitigation Grant Program - CFDA No. 97.047 - Grant No. PDM 09 - Year Ended June 30, 2013.

Condition: The fiscal year 2013 data collection form and single audit reporting package was filed on May 15, 2014 to the Federal Audit Clearinghouse after the required deadline.

Criteria: Section .320(a) of OMB A-133 requires the data collection form and single audit reporting package to be submitted within the earlier of 30 days after receipt of the auditor's report, or nine months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant oversight agency for the audit.

Cause: The auditor's report was issued after the required reporting deadline due to researching, correcting and reclassification of certain transactions.

Effect: Because the auditor's report was issued after the required reporting deadline, the data collection form and single audit reporting package was not submitted timely.

Recommendation: To ensure timely submittal of reports, the City should coordinate year-end procedures and review complex transactions before the audit fieldwork.

View of Responsible Officials: The City experienced delays in completing the fiscal year-end procedures as well as audit preparation. The delays were largely due to the loss of key staff members, the Senior Accountant and Administrative Services Director. Additionally, prior to this 2013 fiscal year, the City had already experiences layoffs and furloughs for several years as well as the difficult dissolution of the Redevelopment Agency all of which magnified the issue.

The City's Planned Corrective Action: The City has made changes with regard to its staff members. Not only did we fill the vacant Administrative Services Director position, but we have also added a Fiscal Officer, a Finance Manager, and a part time Project Accountant to our Finance team.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS - Continued

Additionally, we have improved management and tracking of Grants and Capital Improvements. Improvements include a simplified chart of accounts for project and Grant tracking, centralized Grant tracking, and improved Grant reporting through our Fiscal Officer to improve timely spending, reporting, and compliance of Grant agreements.

Finally, the City is moving forward to implementing a new and robust software that will improve our financial tracking and reporting of grants. The new system is scheduled to go live this coming June of 2015. The results will be a City with improved communication, process, and procedures that will significantly reduce prior deficiencies that have been addressed here.

With additional knowledgeable team members, we are confident that we will be able to complete our year-end process in a timely manner going forward.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

There were no prior year audit findings.