CITY OF WILDOMAR
Wildomar, California

SINGLE AUDIT REPORT ON FEDERAL AWARD PROGRAMS

Year Ended June 30, 2018

CITY OF WILDOMAR
SINGLE AUDIT REPORT ON FEDERAL AWARD PROGRAMS
Year Ended June 30, 2018

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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 Wildomar
Wildomar, 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, discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Wildomar, California (the "City"), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 19, 2018.

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.

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*.

Richard A. Teaman, CPA • David M. Ramirez, CPA • Javier H. Carrillo, CPA • Bryan P. Daugherty, CPA • Joshua J. Calhoun, CPA
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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 19, 2018

Independent Auditors' Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance

City Council
City of Wildomar
Wildomar, California

Report on Compliance for Each Major Federal Program

We have audited the City of Wildomar, California (the "City") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2018. The City's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statues, 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 audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administration Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

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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 the Uniform Guidance and which are described in the accompanying schedule of findings and questions costs as item 2018-001. Our opinion on each major federal program is not modified with respect to these matters.

The City's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response has not been 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 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 Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the governmental activities, discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Wildomar, California as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated December 19, 2018, 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 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 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 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Teaman Ramirez & Smith, Inc.

Riverside, California
December 19, 2018

CITY OF WILDOMAR
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2018

Federal Grantor/Pass-Through Grantor Program Title	Federal CFDA Number	Grant/Contract Number	Total Federal Expenditures
United States Department of Housing and Urban Development			
Passed through the County of Riverside			
Community Development Block Grant	14.218	1.WD.15-16	$ 231,603
Community Development Block Grant	14.218	1.WD.12-15	48,520
Community Development Block Grant	14.218	1.WD.18-17	11
Subtotal			280,134
United States Department of Homeland Security			
Passed through the County of Riverside			
Homeland Security Grant Program	97.067	2016-SS-00102	1,318
United States Department of Transportation			
Passed through the State of California Department of Transportation			
Highway Planning and Construction	20.205	STPL-5484(005)	201,040
Highway Planning and Construction	20.205	CML-5484(007)	453,936
Highway Planning and Construction	20.205	CML-5484(008)	610,459
Highway Planning and Construction	20.205	H8-08-025	15,568
Highway Planning and Construction	20.205	H8-08-024	3,184
Subtotal			1,284,187
Total Expenditures of Federal Awards			$ 1,565,639

CITY OF WILDOMAR
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2018

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 Wildomar 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 Wildomar 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) Major Programs

The City had one major program for the year ended June 30, 2018, consisting of expenditures from several grants from the United States Department of Transportation. The major program had disbursements of $1,284,187. This amount calculates to 82% 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 40 percent of the total expenditures of federal awards.

d) Indirect Cost Rate

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

e) Relationship to Basic Financial Statements

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

CITY OF WILDOMAR
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2018

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of Auditors' Report Issued:	Unmodified
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?	No
Type of Auditors' Report Issued on Compliance for Major Programs:	Unmodified
Any Audit Findings Disclosed that are Required to be Reported in Accordance with 2 CFR Section 200.516(a)	Yes

Identification of Major Programs:

CFDA Numbers	Name of Federal Program or Cluster
20.205	Highway Planning and Construction

Dollar Threshold used to Distinguish Between Type A and Type B Programs:	$ 750,000
Auditee Qualified as Low-Risk Auditee?	No

SECTION II - FINANCIAL STATEMENT FINDINGS

There were no auditor's findings required to be reported in accordance with *Government Auditing Standards*.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

(2018-001)

Federal Agencies: U.S. Department of Transportation
Programs: Highway Planning and Construction
Award Numbers: All grant awards under the above programs.
Award Years: 2017-2018
Repeat Finding: No

Condition: The City did not formally document that they would continue to use the previous Uniform Guidance in their internal procurement policies during the implementation grace periods.

Criteria: Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administration Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) direct the administration of Federal awards issued by Federal awarding agencies regulations were changed and became effective by December 26, 2014 with implementation grace periods specific to federal procurement requirements until fiscal years beginning on or after December 26, 2017. However, in order to utilize these grace periods, non-federal agencies must document their decision in their internal procurement policies that they are choosing to use the previous procurement standards for all or part of the three fiscal year grace periods.

Questioned Costs: None.

Cause: The City was unaware they had to formally document in their internal procurement policies the decision to utilize the implementation grace periods.

Effect: The City's internal procurement policies are not in compliance with §200.317 through §200.326 of the Uniform Guidance.

Perspective Information: There was only one procurement policy related to the above grant awards with the City.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS - Continued

Recommendation: We recommend that the City update their internal procurement policies to be in compliance with the Uniform Guidance. Additionally, a senior member of the grant staff and/or management should review, at least annually, federal regulations and other grant compliance requirements so they are aware of the latest regulations and compliance requirements (e.g. attending grant compliance trainings and seminars).

Management's Response: The City has updated their internal procurement policies to be in compliance with the Uniform Guidance and was approved on July 13, 2018. Additionally, the appropriate grant staff and management will review, at least annually, federal regulations and other grant compliance requirements so they are aware of the latest regulations and compliance requirements.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Financial Statement findings reported in accordance with *Government Auditing Standards*.

2017-001 - Bank Reconciliations

Condition: During the audit, we noted that the City's general checking bank account balance in the general ledger was not reconciled to the bank statements in a timely manner.

Criteria: Proper internal controls require that bank reconciliations are prepared and reviewed in a timely manner.

Cause: Finance Department did not complete the bank reconciliations in a timely manner due to lack of personnel.

Effect: When bank reconciliations are not prepared in a timely manner, the risk of fraud, theft or errors going undetected by management increases significantly.

Recommendation: We recommend that bank statements be reconciled on a monthly basis to the general ledger, and that all unusual reconciling items be promptly investigated and adjusted for with adequate explanations.

Current Status: The City has corrected the finding relating to bank reconciliations.

2017-002 - Payroll Expenditures Allocation

Condition: During the audit, we noted that the payroll expenditures were not allocated to the various funds of the City based on the latest approved budget.

Criteria: Payroll expenditures should be allocated to the various funds in a consistent and rational manner with proper supporting documentation, such as approved budget by the governing body.

Cause: The City did not have adequate internal controls to ensure that payroll expenditures were allocated to the various funds by the approved budget for the fiscal year.

Effect: When payroll expenditures are not allocated properly throughout the fiscal year, it can cause the expenditures to be misstated and misrepresent the financial position of a fund and future budget decisions.

Recommendation: We recommend that the City develop appropriate internal controls and practices to ensure that payroll expenditures are appropriately allocated to the various funds consistently throughout the fiscal year.

Current Status: The City has corrected the finding relating to payroll expenditures allocation.

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CORRECTIVE ACTION PLAN

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

December 19, 2018

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

Name and address of independent public accounting firm:

Teaman Ramirez & Smith, Inc.
4201 Brockton Avenue, Suite 100
Riverside, CA 92501

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

The finding for the fiscal year 2017-18 Schedule of Findings and Questioned Costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

2018-001 – Procurement Policies

Recommendation:

We recommend that the City update their internal procurement policies to be in compliance with the Uniform Guidance. Additionally, a senior member of the grant staff and/or management should review, at least annually, federal regulations and other grant compliance requirements so they are aware of the latest regulations and compliance requirements (e.g. attending grant compliance trainings and seminars).

Planned Corrective Action:

The City has updated their internal procurement policies to be in compliance with the Uniform Guidance and was approved by the City Council on July 13, 2018. Additionally, the City's grant personnel will review, at least annually, federal regulations and other grant compliance requirements so they are aware of the latest regulations and compliance requirements.

For any questions regarding this Corrective Action Plan, please contact James Riley, Finance Director.

Sincerely,

James R. Riley

James Riley
Finance Director