

CITY OF RIVERSIDE, CALIFORNIA
Single Audit Report
For the Year Ended June 30, 2014

CITY OF RIVERSIDE, CALIFORNIA
For the Year Ended June 30, 2014

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Independent Auditor’s 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 Riverside, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Riverside, 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 8, 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 entity’s financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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*.

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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Macias Gini & O'Connell LLP

Newport Beach, California
December 8, 2014

Independent Auditor’s Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report On Schedule of Expenditures of Federal Awards Required By OMB Circular A-133

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

Report on Compliance for Each Major Federal Program

We have audited the City of Riverside, California, (the City)’s compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City’s major federal programs for the year ended June 30, 2014. The City’s major federal programs are identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

Management’s Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

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.

Basis for Qualified Opinion on Community Development Block Grant Cluster, HOME Investment Partnership Programs, Housing Opportunities for Persons with AIDS, and National Urban Search and Rescue Response System

As described in items 2014-001 through 2014-002 and items 2014-004 through 2014-007, in the accompanying schedule of findings and questioned costs, the City did not comply with requirements regarding the following:

Finding #	CFDA #	Program or Cluster Name	Compliance Requirement
2014-001	14.218	Community Development Block Grant Cluster	Reporting
2014-002	14.218	Community Development Block Grant Cluster	Allowable Costs
	14.239	HOME Investment Partnerships Program	Allowable Costs
	14.241	Housing Opportunities for Persons with AIDS	Allowable Costs
2014-004	97.025	National Urban Search and Rescue Response System	Reporting
2014-005	97.025	National Urban Search and Rescue Response System	Equipment
2014-006	14.239	HOME Investment Partnerships Program	Reporting
2014-007	14.241	Housing Opportunities for Persons with AIDS	Reporting

Compliance with such requirements is necessary in our opinion, for the City to comply with requirements applicable to those programs.

Qualified Opinion on Community Development Block Grant Cluster, HOME Investment Partnerships Program, Housing Opportunities for Persons with AIDS, and National Urban Search and Rescue Response System

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, 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 the Community Development Block Grant Cluster, HOME Investment Partnerships Program, Housing Opportunities for Persons with AIDS, and National Urban Search and Rescue Response System for the year ended June 30, 2014.

Unmodified Opinion on its Other 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 its other major federal program identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs for the year ended June 30, 2014.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying Schedule of Findings and Questioned Costs as item 2014-003. Our opinion on each major federal program is not modified with respect to this matter.

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.

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. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2014-002 to be a material weakness.

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. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2014-001, and 2014-003 through 2014-007 to be significant deficiencies.

The City's response to the internal control over compliance findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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.

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of 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. We have issued our report thereon dated December 8, 2014, which contained unmodified opinions 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 purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditure of Federal Awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Macias Gini & O'Connell LLP

Newport Beach, California
March 30, 2015

CITY OF RIVERSIDE, CALIFORNIA
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2014

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Exp. through 6/30/2014
U.S. Department of Agriculture			
Direct Programs:			
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	N/A	\$ 58,084
Summer Food Service Program for Children	10.559	N/A	249,629
Forestry Research	10.652	N/A	<u>5,007</u>
Total U.S. Department of Agriculture			312,720
U.S. Department of Housing and Urban Development			
Direct Programs:			
Community Development Block Grants/Entitlement Grants Cluster			
Community Development Block Grants/Entitlement Grants	14.218	N/A	<u>3,170,779</u>
Subtotal Community Development Block Grants/Entitlement Grants Cluster			3,170,779
Emergency Shelter Grants Program	14.231	N/A	166,396
Supportive Housing Program	14.235	N/A	473,523
HOME Investment Partnerships Program	14.239	N/A	729,273
Housing Opportunities for Persons with AIDS	14.241	N/A	775,265
Community Development Block Grants/Brownfields Economic Development Initiative	14.246	N/A	<u>3,844</u>
Total U.S. Department of Housing and Urban Development			5,319,080
Department of the Interior			
Direct Programs:			
Historic Preservation Fund Grants-In-Aid	15.904	N/A	35,392
Outdoor Recreation Acquisition, Development and Planning	15.916	N/A	<u>131,091</u>
Total U.S. Department of Interior			166,483
U.S. Department of Justice			
Direct Programs:			
Joint Law Enforcement Operations	16.111	N/A	76,555
Edward Byrne Memorial Formula Grant Program	16.579	N/A	245,621
Bulletproof Vest Partnership	16.607	N/A	1,680
Public Safety Partnership and Community Policing Grants	16.710	N/A	1,341,961
Equitable Sharing Program	16.922	N/A	384,216
JAG Program Cluster			
Edward Byrne Memorial Justice Assistance Grant Program	16.738	N/A	<u>36,130</u>
Subtotal JAG Program Cluster			36,130
Pass-through Drug Enforcement Agency:			
Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	16.580	95-6000930	<u>20,944</u>
Total U.S. Department of Justice			2,107,107
U.S. Department of Labor			
Pass-through Riverside County Economic Development Agency:			
ARRA WIA Cluster	ARRA - 17.278	2009/2011-047-102-105	<u>800</u>
Total U.S. Department of Labor			<u>800</u>

CITY OF RIVERSIDE, CALIFORNIA
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2014

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Exp. through 6/30/2014
Executive Office of the President - Office of National Drug Control Policy			
Pass-through State of California:			
High Intensity Drug Trafficking Program	95.001	07-I5PLAP540Z	193,674
Total Executive Office of the President - Office of National Drug Control Policy			193,674
U.S. Department of Transportation			
Direct Programs:			
Airport Improvement Program	20.106	N/A	2,892,709
Federal Transit Metropolitan Planning Grants	20.505	N/A	215,553
Federal Transit Cluster			
Federal Transit Formula Grants	20.507	N/A	398,662
ARRA Federal Transit Formula Grants	ARRA - 20.507	N/A	34,398
Subtotal Federal Transit Cluster			433,060
Pass-through the California Department of Transportation:			
Highway Planning and Construction Cluster	20.205	various	7,533,819
Pass-through State of California Office of Traffic Safety			
State and Community Highway Safety Cluster	20.600	various	103,362
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	various	469,288
Total U.S. Department of Transportation			11,647,791
U.S. Department of Treasury			
Direct Programs:			
Asset forfeiture	21.000	N/A	159,864
Total U.S. Department of Treasury			159,864
Institute of Museum and Library Services			
Pass-through State of California			
Grants to States	45.310	LS-00-10-0006-10	44,592
Total Institute of Museum and Library Services			44,592
U.S. Department of Homeland Security			
Direct Programs:			
National Urban Search and Rescue (US&R)			
Response System	97.025	N/A	1,184,828
Assistance to Firefighters Grant	97.044	N/A	536,970
Pass-through State of California:			
Homeland Security Grant Program	97.067	065-62000	2,301,135
Pass-through Riverside County:			
Homeland Security Grant Program	97.067	various	132,123
Subtotal Homeland Security Grant Program			2,433,258
Pass-through California Emergency Management Agency:			
State Homeland Security	97.073	various	(1,729)
Emergency Management Performance Grants	97.042	2011-0048	74,099
Pass-through City of Los Angeles:			
Regional Catastrophic Preparedness Grant Program	97.111	C-117607	(68)
Pass-through California Emergency Management Agency:			
Disaster Grants - Public Assistance	97.036	various	3,864
Total U.S. Department of Homeland Security			4,231,222
Total Federal Expenditures			\$ 24,183,333

CITY OF RIVERSIDE, CALIFORNIA
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2014

(1) Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards, (the Schedule), presents the Federal grant activity of the City of Riverside, California (the City), for the year ended June 30, 2014. The Schedule includes federal awards received directly from federal agencies, as well as federal awards passed through other agencies. The City's reporting entity is defined in Note 1 to the City's basic financial statements. Because the Schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position, changes in net position, or cash flows of the City.

(2) Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The information in the Schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements. Pass-through entity identifying numbers are identified where available.

(3) Subrecipients

Of the Federal expenditures presented in the Schedule, the City provided Federal awards to subrecipients as follows:

Federal awarding agency and program name	CFDA	Federal Expenditures
US Department of Housing and Urban Development		
Community Development Block Grant	14.218	\$652,939
Emergency Shelters Grant Program	14.231	166,396
HOME Investment Partnerships Program	14.239	655,015
Housing Opportunities for Persons with AIDS	14.241	717,411
U.S. Department of Homeland Security		
Homeland Security Grant Program	97.067	1,385,962
U.S. Department of Justice		
Edward Byrne Memorial Formula Grant Program	16.579	111,995
U.S. Department of Transportation		
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	206,209

CITY OF RIVERSIDE, CALIFORNIA

Notes to the Schedule of Expenditures of Federal Awards (Continued)
For the Year Ended June 30, 2014

(4) Outstanding Loans

The Successor Agency to the Redevelopment Agency of the City of Riverside currently has outstanding \$1,845,000 in HUD Section 108 Loans.

For the University Village project, interest on the loan varies from 5.36% to 7.66%, payable in semi-annual installments beginning August 1, 1996, ranging from \$272,000 to \$425,000 through August 1, 2015.

For the Mission Village Project, interest on the loan varies from 6.15% to 6.72%, payable in semi-annual installments beginning August 1, 1999, ranging from \$110,000 to \$420,000, through August 1, 2018.

(5) Confidential Fund Arrangement

The City has entered into a Memorandum of Understanding (MOU) dated May 5, 2010 with the West County Narcotics Task Force (the Task Force), effective until June 30, 2015, whereby the City (Riverside Police Department) has agreed to provide functional supervision, and report directly to the Executive Board of the Task Force, for all administrative matters. The Task Force does not have a separate body responsible for compliance with laws and regulations and as such, the City has been named the responsible party under section B of Article VII of the MOU. Thus, expenditures of the Task Force are included in expenditures of the Equitable Sharing Program.

CITY OF RIVERSIDE, CALIFORNIA
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2014

Section I - Summary of Auditor's Results

A. Financial Statements:

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
• Material weakness (es) identified?	No
• Significant deficiency (ies) identified not considered to be material weaknesses?	None Reported
Noncompliance material to financial statements noted?	No

B. Federal Awards:

Internal control over major programs:	
• Material weakness (es) identified?	Yes
• Significant deficiency (ies) identified not considered to be material weakness?	Yes
Type of auditor's report issued on compliance for major programs:	
• Community Development Block Grant Cluster	Qualified
• HOME Investments Partnership Program	Qualified
• Housing Opportunities for Persons with AIDS	Qualified
• National Urban Search and Rescue Response System	Qualified
• Equitable Sharing Program	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section 510?	Yes

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of the Program or Cluster</u>
14.218	Community Development Block Grant Cluster
14.239	HOME Investment Partnerships Program
14.241	Housing Opportunities for Persons with AIDS
97.025	National Urban Search and Rescue Response System
16.922	Equitable Sharing Program

Dollar threshold used to distinguish between Type A and Type B programs:	\$725,500
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Auditee qualified as a low-risk auditee?	Yes
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CITY OF RIVERSIDE, CALIFORNIA
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2014

Section II - Financial Statement Findings

None noted.

CITY OF RIVERSIDE, CALIFORNIA
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2014

Section III - Federal Award Findings and Questioned Costs

Reference Number:	2014-001
Federal Program Title(s):	Community Development Block Grant Program Cluster
Federal Catalog Number(s):	14.218
Federal Agency:	Department of Housing and Urban Development
Pass-Through Entity:	None
Federal Award Number(s) and Year(s):	B-08-MN-06-0519 (2008)
Category of Finding:	Reporting

Criteria:

Financial Reporting: Per 24 CFR part 85.4, *Grantees will use only the forms specified [...] and such supplementary or other forms as may from time to time be authorized by OMB, for submitting financial reports to Federal agencies.*

Recipients should use the standard financial reporting forms or such other forms as may be authorized by OMB.

Additionally per 24 CFR part 85, When reports are required on a quarterly or semiannual basis, they will be due 30 days after the reporting period.

Per instructions for the completion of SF-425 Federal Financial Report, the city is required to accurately report information in the following fields:

4a- DUNS Number: Enter the recipient organization's Data Universal Numbering System Number (DUNS).
10b-Cash Disbursements: Enter the cumulative amount of Federal fund disbursements (such as cash or checks) as of the reporting period end date. Disbursements are the sum of actual cash disbursements for direct charges for goods and services, the amount of indirect expenses charged to the award, and the amount of cash advances and payments made to subrecipients and grantors.

Federal Funding Accountability and Transparency Act: As indicated in 2 CFR part 170, Appendix A, the City is required to report no later than the month following the month in which the obligation was made, each action that obligates \$25,000 or more in Federal funds for a sub award to an entity, unless exempted as specifically stated in the Statute.

Condition:

Financial Reporting: For the CDBG cluster, it was noted that the City was not completing the Federal Financial Report for Expenditures of Federal Awards related to Neighborhood Stabilization Program (NSP) 1 and NSP 3, funding allocations within the Community Development Block Grant Cluster. Expenditures relating to these funding allocations amount to approximately \$683,000.

It was further noted that the Federal Financial Report was not being completed using the City's DUNS. Rather, it was being completed with another number of unknown origin.

CITY OF RIVERSIDE, CALIFORNIA
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2014

Additionally, the Federal Financial Report is required to report cumulative expenditures to date for each reporting period. For the Federal Financial Report that was submitted by the City, management only provided the most recent quarter's activity.

All Federal Financial Reports for the CDBG Cluster were found to have been submitted timely.

Federal Funding Accountability and Transparency Act: The City entered into subrecipient agreements with the following entities, noting the following results:

Subrecipient	Obligation Date	Reporting Due Date	Reported Date	Days Late
Riverside Housing Development Corporation	07/01/2013	8/31/2013	1/22/2014	144
Riverside Housing Development Corporation	9/4/2013	10/31/2013	9/17/2014	321
Path of Life Ministries	9/25/2013	10/31/2013	9/17/2014	321
Habitat for Humanity	11/14/2013	12/31/2013	9/17/2014	260

Each contract is greater in amount than the minimum reportable obligation amount (\$25,000), indicated in the criteria above.

Cause:

Federal Financial Report: The instances of non compliance were attributed to program administrators lack of understanding of the reports required and related submission details and deadlines.

Federal Funding Accountability and Transparency Act: There is not an established procedure in place to ensure that required subrecipient agreements are recorded in the Federal Funding Accountability and Transparency Act Sub Award Reporting System (FSRS). Because there is not an established process in place to ensure compliance, internal controls over compliance do not appear to be appropriately designed to prevent or detect instances of noncompliance.

Effect:

The City does not appear to be in compliance with laws and regulations related to financial reporting, and the Federal Funding Accountability and Transparency Act (FFATA) as stated in 2 CFR part 170, appendix A.

Questioned Costs:

None noted.

Recommendation:

We recommend that the City strengthen internal controls over financial reporting by familiarizing themselves with the required submission requirements and their related reporting deadlines.

We also recommend the City implement procedures to ensure that required subrecipient agreements are recorded in the FSRS within the required submission deadline.

CITY OF RIVERSIDE, CALIFORNIA
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2014

Views of Responsible Officials and Planned Corrective Action:

Management concurs. We will ensure staff is properly trained regarding the submission requirements and the reporting deadlines for the Federal Financial Report. For all future grant activity the business process owner, typically the program manager, for each grant will hold a post-award implementation meeting after the grant is fully executed. During that meeting, the process owner will make certain that everyone understands their responsibilities related to things such as; managing the budget, determining who will complete financial and programmatic reports, verifying reporting dates, and determining how often the budget will be reviewed. To facilitate this process a mini-contract brief will be developed that will outline expectations and responsibilities of staff.

Additionally, we will establish a process that will ensure contracts of \$25,000 or more are entered into the Federal Funding Accountability Transparency Act Sub Award Reporting Systems within the specified timeframe. The process will require contracts to be entered into FSRS upon execution and staff will be required to print and attach proof of entry to the executed contract. The formal procurement process will proceed only after receipt of verification of FSRS data entry.

With regards to the required reporting of contracts of \$25,000 or more governed by the Federal Funding Accountability and Transparency Act, it should be noted that the grant award must first be entered by HUD in order for the City to be able to report contracts of \$25,000 or more. The City requested, on two separate occasions, for the grant award to be entered into the Federal Funding Accountability Transparency Act Sub Award Reporting Systems (FSRS). To date the grant award has not been entered into FSRS by HUD; therefore, the City is unable to report on Neighborhood Stabilization Program contracts of \$25,000 or more.

CITY OF RIVERSIDE, CALIFORNIA
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2014

Reference Number:	2014-002
Federal Program Title(s):	Community Development Block Grant Program Cluster (CDBG)
Federal Catalog Number(s):	14.218
Federal Agency:	Department of Housing and Urban Development
Pass-Through Entity:	None
Federal Award Number(s) and Year(s):	B-13-MC-06-0538 (2013)
<hr/>	
Federal Program Title(s):	HOME Investment Partnerships Program
Federal Catalog Number(s):	14.239
Federal Agency:	Department of Housing and Urban Development
Pass-Through Entity:	None
Federal Award Number(s) and Year(s):	M-13-MC-06-0529 (2013)
<hr/>	
Federal Program Title(s):	Housing Opportunities for Persons with AIDS
Federal Catalog Number(s):	14.241
Federal Agency:	Department of Housing and Urban Development
Pass-Through Entity:	None
Federal Award Number(s) and Year(s):	CAH13F007 (2014)
Category of Finding:	Allowable Costs

Criteria:

Per Attachment B, Section 8 (h) of OMB Circular A-87., *Support of salaries and wages. These standards regarding time distribution are in addition to the standards for payroll documentation.*

- (1) *Charges to Federal awards for salaries and wages, whether treated as direct or indirect costs, will be based on payrolls documented in accordance with generally accepted practice of the governmental unit and approved by a responsible official(s) of the governmental unit.*

Additionally, per section (4) and (5) of paragraph h,

- (4) *Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection (5) unless a statistical sampling system (see subsection (6)) or other substitute system has been approved by the cognizant Federal agency. Such documentary support will be required where employees work on:*
- (a) *More than one Federal award,*
 - (b) *A Federal award and a non-Federal award,*
 - (c) *An indirect cost activity and a direct cost activity,*
 - (d) *Two or more indirect activities which are allocated using different allocation bases, or*
 - (e) *An unallowable activity and a direct or indirect cost activity.*

CITY OF RIVERSIDE, CALIFORNIA
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2014

- (5) *Personnel activity reports or equivalent documentation must meet the following standards:*
- (a) *They must reflect an after-the-fact distribution of the actual activity of each employee,*
 - (b) *They must account for the total activity for which each employee is compensated,*
 - (c) *They must be prepared at least monthly and must coincide with one or more pay periods, and*
 - (d) *They must be signed by the employee.*

OMB Circular A-133 §.510 (a)(4), states, "...if the auditor does become aware of questioned costs for a Federal program which is not audited as a major program [...] and known questioned costs are greater than \$10,000, then the auditor shall report this as an audit finding."

Condition:

Management noted that payroll and related costs are based a cost allocation basis for programs funded by the Department of Housing and Urban Development (HUD). Such costs are allocated based on a predetermined ratio in direct relationship to the City's adopted budget. However the City does not perform an after-the-fact distribution of the actual activity of each employee, at least monthly, to coincide with one or more pay periods that is signed by the employee. Additionally, the City does not maintain records of actual time charged by City employees on the related Federal programs.

Cause:

The condition appears to be due to an effort in previous program years to modify the approach used in the recognition of grant funded payroll expenditures. However, the project was never completed and as a result, there was no replacement method for the City to record actual time charged to Federal programs for employees working on multiple activities or cost objectives that are funded by HUD.

Effect:

As the City does not have internal controls in place to ensure that distribution of salaries or wages for employees working on multiple activities or cost objectives that are funded by HUD are properly supported by personnel activity reports, they are not in compliance with the applicable requirements within OMB Circular A-87.

CITY OF RIVERSIDE, CALIFORNIA
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2014

Questioned Costs:

Based on the lack of payroll and time distribution documentation for HUD funded programs, questioned costs noted below are total HUD funded allocated payroll and related costs, including utilization charges, incurred by Federal program.

Program	CFDA	Questioned Costs
CDBG Cluster	14.218	\$472,921.69
HOME Investment Partnerships Program	14.239	74,257.92
Housing Opportunities for Persons With AIDS	14.241	56,475.00
Federal programs not audited as major programs:		
Supportive Housing Program	14.235	256,373.53
Community Development Block Grants/Brownsfields Economic Development Initiative.	14.246	13,498.78
	Total Questioned Costs	\$873,526.92

Recommendation:

We recommend that the City design and implement internal controls to ensure that distribution of salaries or wages for employees working on multiple activities or cost objectives that are funded by HUD are properly supported by personnel activity reports in accordance with OMB Circular A-87.

Views of Responsible Officials and Planned Corrective Action:

Management concurs. We will implement a bi-weekly time log for staff working on multiple activities that are funded by HUD related projects. The time log will be submitted bi-weekly to the fiscal administrative staff in conjunction with the City's timecard submittal dates. Fiscal staff will ensure that appropriate adjustments are made to the financial system on a monthly basis in order to reflect the actual project related activity of staff per the time log. The log will be signed off by staff and reviewed and approved by the applicable supervisor.

CITY OF RIVERSIDE, CALIFORNIA
 Schedule of Findings and Questioned Costs (Continued)
 For the Year Ended June 30, 2014

Reference Number:	2014-003
Federal Program Title(s):	Community Development Block Grant Program Cluster (CDBG)
Federal Catalog Number(s):	14.218
Federal Agency:	Department of Housing and Urban Development
Pass-Through Entity:	None
Federal Award Number(s) and Year(s):	B-13-MC-06-0538 (2013)
<hr/>	
Federal Program Title(s):	HOME Investment Partnerships Program
Federal Catalog Number(s):	14.239
Federal Agency:	Department of Housing and Urban Development
Pass-Through Entity:	None
Federal Award Number(s) and Year(s):	M-13-MC-06-0529 (2013)
 Category of Finding:	 Subrecipient Monitoring

Criteria:

Per 2 CFR section 25.205(a), *An agency may not make an award to an entity until the entity has complied with the requirements described in §25.200 to provide a valid unique identifier and maintain an active SAM registration with current information [...].*

Condition:

For the CDBG Cluster, the City did not obtain a valid DUNS number for every applicant prior to executing a subrecipient agreement. Review of subrecipient applications for five out of six subrecipients sampled for testing indicates that the DUNS number was either not provided or was not a current and valid DUNS number when compared to the system for award management (www.sam.gov).

For the HOME Investments Partnership Program (HOME), valid DUNS numbers for two out of two subrecipients, were not obtained prior to executing the sub award.

Cause:

For the CDBG Cluster, the City has a process in place to obtain DUNS numbers in the application process. However, procedures are not in place to verify the validity of DUNS numbers prior to executing the sub award. For the NSP funding allocation component of the CDBG cluster, it was noted the City does not have a process in place to obtain or verify DUNS numbers from applicants for subawards of Federal funds. It was however noted that in each executed sub award, there is an attachment where the subrecipient entity is to complete and provide a DUNS number, yet this attachment was not completed for all subrecipient agreements inspected.

Effect:

The City is not in compliance with the portion of subrecipient monitoring criteria related to determining eligibility as defined in 2 CFR section 25.205(a).

Questioned Costs:

None noted.

CITY OF RIVERSIDE, CALIFORNIA
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2014

Recommendation:

We recommend the City implement procedures and design adequate internal controls to ensure compliance with requirements set forth in 2 CFR section 25.205(a), as described above.

Views of Responsible Officials and Planned Corrective Action:

Management concurs. Prior to award of HUD Entitlement funds, staff will be required to undertake a status check on the Federal Contractor Registry website. Staff will be required to print the confirmation from the System for Award Management to confirm sub-recipients are active in the system. Additionally, the City will implement a process which will require the DUNS number to be included in the agreement and staff will be required to verify the DUNS number via the Dun & Bradstreet website. These processes will be incorporated into the post award implementation meeting noted in our response to 2014-001.

CITY OF RIVERSIDE, CALIFORNIA
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2014

Reference Number:	2014-004
Federal Program Title(s):	Urban Search and Rescue Response System (USAR)
Federal Catalog Number(s):	97.025
Federal Agency:	Department of Homeland Security
Pass-Through Entity:	None
Federal Award Number(s) and Year(s):	EMW-2013-CA-K00006 (2013)
Category of Finding:	Reporting

Criteria:

Financial Reporting: Per 44 CFR Part 13, *Grantees will use only the forms specified [...] and such supplementary or other forms as may from time to time be authorized by OMB, for submitting financial reports to Federal agencies.*

Recipients should use the standard financial reporting forms or such other forms as may be authorized by OMB.

Additionally per 44 CFR Part 13, *When reports are required on a quarterly or semiannual basis, they will be due 30 days after the reporting period.*

Performance Reporting: The City is subject to Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments as described in 44 CFR part 13. Per §13.40 (b)(1), *Grantees shall submit annual performance reports unless the awarding agency requires quarterly or semi-annual reports.* The cooperative preparedness agreement required semi-annual performance reporting. [...] *Quarterly or semi-annual performance reports shall be due 30 days after the reporting period.* Per review of the Preparedness Cooperative Agreement, the City is required to electronically submit the first report semi-annually by January 30th and the second by July 30th.

The City is required to complete form FF 089-0-11 Performance Report. [Per the instructions to complete FF 089-0 11] *The performance report is to include the following information:*

Grant fiscal year- Represents the year the funds were allocated

Grant ID number- Represents the grant award number

Beginning Balance- Is the amount of funds available at the beginning of this reporting time period

Funds spent- Represent the actual amount of funds fully paid during this reporting period.

Remaining balance- Will be calculated automatically.

The actual Period of Performance dates are required to be entered for each open grant.

Condition:

Financial Reporting: For the Urban Search and Rescue Response System program (USAR), it was noted that the City did not submit the quarterly Federal Financial Report within the required deadline. The Federal Financial Report was required to be submitted on or before April 30, 2014, and was actually submitted on May 1, 2014.

CITY OF RIVERSIDE, CALIFORNIA
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2014

Performance Reporting: It was noted that one out of two semi-annual performance reports tested were submitted after the submission deadline. The semi-annual performance report for the period covering July 1, 2013 to December 31, 2013 was submitted on April 21, 2014, approximately seventy-nine days after the submission deadline.

In relationship to the information included in the semi-annual performance report, it was noted that the performance report for the reporting period ending June 30, 2014, included funds expended in excess of actual funds expended by approximately \$205,000.

Cause:

Financial Reporting: The above condition is due to the program manager being deployed on an emergency assignment as part of FEMA's Incident Support Team and was unable to submit the required financial report before the submission deadline.

Performance Reporting: Internal controls do not appear to be adequately designed to ensure accurate and timely performance reporting

Effect:

The City does not appear to be in compliance with laws and regulations related to financial and performance reporting.

Questioned Costs:

None noted.

Recommendation:

We recommend that the City strengthen internal controls by implementing procedures to ensure compliance with requirements regarding the methods used in preparation of financial and performance reports as well as the timely filing of required reports.

Views of Responsible Officials and Planned Corrective Action:

Management concurs. Staff has reviewed the reporting periods and will abide by the submission deadline requirements.

The information required on the Semi Annual report mirrors our internal US&R database. To ensure that our reporting process is accurate and depicts the actual amount expenditures, we will implement the following procedures:

1. Our internal database will be balanced against IFAS on a weekly basis.
2. Prior to completing the Semi Annual report, we will balance our database against IFAS and we will only report actual expenditures.
3. After completing the report, at least two people will check the report for accuracy prior to submitting the report.

The line item details associated with the report will be saved for audit future reference.

CITY OF RIVERSIDE, CALIFORNIA
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2014

Additionally, the \$205,000 discrepancy in the performance report period was related to a catch up adjustment in the current year. From the inception of the grant through the most recent fiscal year-end total funds reported equaled actual funds expended and have been accurately reflected in the performance report inception to date. Due to a resource issue in the prior year the report was incomplete resulting in an overreporting of actual expenses versus what was incurred.

CITY OF RIVERSIDE, CALIFORNIA
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2014

Reference Number:	2014-005
Federal Program Title(s):	Urban Search and Rescue Response System (USAR)
Federal Catalog Number(s):	97.025
Federal Agency:	Department of Homeland Security
Pass-Through Entity:	None
Federal Award Number(s) and Year(s):	EMW-2013-CA-K00006 (2013)
Category of Finding:	Equipment Management

Criteria:

Per 44 CFR Part 13.32 (d)(2), *Management requirements: Procedures for managing equipment (including replacement equipment), whether acquired in whole or in part with grant funds, until disposition takes place will, as a minimum, meet the following requirements:*

- (2) *Physical inventory of the property must be taken and all the results reconciled with the property records at least once every two years.*

Condition:

Upon comparison of the fixed asset listing extracted from the City's financial reporting system (IFAS) to the equipment inventory listing maintained by the USAR department (CATF6), it was noted that not all assets acquired with grant funds were included in the City's fixed asset records. Two out of five assets selected for test work were not included in the City's fixed asset records. When assets are not included in the fixed asset records the assets are not subject to periodic inventory and assessment for impairment.

In relationship to the population considered for applying procedures for compliance testing we noted the following:

Twenty assets were included in the City's financial records (IFAS), amounting to \$752,820. Fourteen assets were included in the City's CATF6 report amounting to \$231,430 which were not included in the City's financial records. Eighteen assets were included in the City's CATF6 asset report with acquisition costs which could not be quantified by program administrators which were not included in the City's financial records. It was made known that all assets which were included in the City's CATF6 report were acquired for at least \$5,000 which is the City's capitalization threshold for fixed assets.

Cause:

The USAR department in previous and current audit periods did not complete and submit fixed asset additions forms used by the City to record and maintain fixed asset records. Based upon above condition, it does not appear central internal controls over compliance appear to be operating as designed for this department.

Effect:

The City is not in compliance with laws and regulations in relationship to equipment management, as required by Per 44 CFR Part 13.32 (d) (2).

CITY OF RIVERSIDE, CALIFORNIA
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2014

Questioned Costs:

None noted.

Recommendation:

We recommend that the City perform an assessment and apply procedures to strengthen internal controls over the equipment management compliance requirement.

Views of Responsible Officials and Planned Corrective Action:

Management concurs; however, it should be noted that the city does conduct an annual formal fixed asset inventory process citywide with specific instructions and requirements of staff. In this instance, the information submitted by the department was incomplete. As a result, accounting staff will now systematically perform an independent observation of fixed asset inventory in conjunction with each department's annual fixed asset inventory process rather than solely relying on the department to complete a comprehensive accounting of fixed assets.

CITY OF RIVERSIDE, CALIFORNIA
 Schedule of Findings and Questioned Costs (Continued)
 For the Year Ended June 30, 2014

Reference Number: 2014-006
 Federal Program Title(s): HOME Investment Partnerships Program
 Federal Catalog Number(s): 14.239
 Federal Agency: Department of Housing and Urban Development
 Pass-Through Entity: None
 Federal Award Number(s) and Year(s): M13MC060529 (2013)
 Category of Finding: Reporting

Criteria:

As indicated in 2 CFR part 170, Appendix A, the City is required to report no later than the month following the month in which the obligation was made, each action that obligates \$25,000 or more in Federal funds for a sub award to an entity, unless exempted as specifically stated in the Statute.

Condition:

The City entered into subrecipient agreements with the following entities, noting the following results:

Subrecipient	Obligation Date	Reporting Due Date	Reported Date	Days Late*
Riverside Housing Development Corporation	07/26/2013	08/31/2013	--	576
Riverside Housing Development Corporation	11/20/2013	12/31/2013	--	454
Mercy House Transitional Living Center	06/24/2014	07/31/2014	--	242

*The number of days late are calculated as of the date of this report.

Each contract is greater in amount than the minimum reportable obligation amount (\$25,000), indicated in the criteria above.

Cause:

There is not an established procedure in place to ensure that required subrecipient agreements are recorded in the Federal Funding Accountability and Transparency Act Sub award Reporting System (FSRS). Because there is not an established process in place to ensure compliance, internal controls over compliance do not appear to be appropriately designed to prevent or detect instances of noncompliance.

Effect:

The City does not appear to be in compliance with laws and regulations related to financial reporting, and the Federal Funding Accountability and Transparency Act (FFATA) as stated in 2 CFR part 170, appendix A.

Questioned Costs:

None noted.

Recommendation:

We recommend the City implement procedures to ensure that required subrecipient agreements are recorded in the FSRS within the submission deadline.

CITY OF RIVERSIDE, CALIFORNIA
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2014

Views of Responsible Officials and Planned Corrective Action:

Management concurs. We will establish a process that will ensure contracts of \$25,000 or more are entered into the Federal Funding Accountability Transparency Act Sub Award Reporting Systems within the specified timeframe. The process will require contracts to be entered into FSRS upon execution and staff will be required to print and attach proof of entry to the executed contract. The formal procurement process will proceed only after receipt of verification of FSRS data entry.

CITY OF RIVERSIDE, CALIFORNIA
 Schedule of Findings and Questioned Costs (Continued)
 For the Year Ended June 30, 2014

Reference Number: 2014-007
 Federal Program Title(s): Housing Opportunities for Persons with AIDS
 Federal Catalog Number(s): 14.241
 Federal Agency: Department of Housing and Urban Development
 Pass-Through Entity: None
 Federal Award Number(s) and Year(s): CAH13F007 (2013)
 Category of Finding: Reporting

Criteria:

As indicated in 2 CFR part 170, Appendix A, the City is required to report no later than the month following the month in which the obligation was made, each action that obligates \$25,000 or more in Federal funds for a sub award to an entity, unless exempted as specifically stated in the Statute.

Condition:

The City entered into a subrecipient agreement with the following entity, noting the following result:

Subrecipient	Obligation Date	Reporting Due Date	Reported Date	Days Late
Foothill AIDS Project	10/28/2013	11/30/2013	1/15/2015	411

The contract above is greater in amount than the minimum reportable obligation amount (\$25,000), indicated in the criteria above.

Cause:

There is not an established procedure in place to ensure that required subrecipient agreements are recorded in Federal Funding Accountability and Transparency Act Sub award Reporting System (FSRS). Because there is not an established process in place to ensure compliance, internal controls over compliance do not appear to be appropriately designed to prevent or detect instances of noncompliance.

Effect:

The City does not appear to be in compliance with laws and regulations related to financial reporting, and the Federal Funding Accountability and Transparency Act (FFATA) as stated in 2 CFR part 170, appendix A.

Questioned Costs:

None noted.

Recommendation:

We recommend the City implement procedures to ensure that required subrecipient agreements are recorded in the FSRS within the required submission deadline.

Views of Responsible Officials and Planned Corrective Action:

Management concurs. As previously noted, we will establish a process that will ensure contracts of \$25,000 or more are entered into the Federal Funding Accountability Transparency Act Sub Award Reporting Systems within the specified timeframe. The process will require contracts to be entered into FSRS upon execution and staff will be required to print and attach proof of entry to the executed contract. The formal procurement process will proceed only after receipt of verification of FSRS data entry.

CITY OF RIVERSIDE, CALIFORNIA
Summary Schedule of Prior Audit Findings
For the Year Ended June 30, 2014

There were no findings disclosed in the Single Audit Report for the year ended June 30, 2013 that require follow-up.