

CITY OF RIALTO, CALIFORNIA

**SINGLE AUDIT REPORT ON
FEDERAL AWARD PROGRAMS**

Year Ended June 30, 2019

CITY OF RIALTO, CALIFORNIA
SINGLE AUDIT REPORT ON FEDERAL AWARD PROGRAMS
Year Ended June 30, 2019

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

City Council
City of Rialto
Rialto, 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 the City of Rialto, California (the "City"), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated _____, 2020.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and questioned costs, we did identify certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2019-001 to be a material weakness.

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. We consider the deficiencies described in the accompany schedule of findings and questioned costs as items 2019-002 and 2019-003 to be a significant deficiency.

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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2019-002 and 2019-003.

City's Response to Findings

The City's response to the 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 the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Riverside, California
_____, 2020

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

City Council
City of Rialto
Rialto, California

Report on Compliance for Each Major Federal Program

We have audited the City of Rialto, California's (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, 2019. 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 statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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, 2019.

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 items 2019-001, 2019-002, 2019-004, 2019-005 and 2019-006. 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 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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2019-001 that we consider to be a material weakness and item 2019-002 and 2019-004 that we consider to be a significant deficiency.

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 responses were 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 the Uniform Guidance

We have audited the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Rialto, California as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated _____, 2020, 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.

Riverside, California
_____, 2020

CITY OF RIALTO, CALIFORNIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2019

Federal Grantor/Pass-Through Grantor Program Title	Federal CFDA Number	Grant/Contract Number	Federal Expenditures	Subrecipient Expenditures
<u>United States Department of Housing and Urban Development</u>				
Direct Assistance:				
Community Development Block Grants/Entitlement Grants	14.218	B-14-MC-06-0571	\$ 148,350	\$ -
		B-15-MC-06-0571	20,284	-
		B-16-MC-06-0571	139,837	-
		B-17-MC-06-0571	22,938	-
		B-18-MC-06-0571	798,877	107,197
		B-08-MN-06-0518	9,042	-
		B-11-MN-06-0518	2,678	-
Total United States Department of Housing and Urban Development			<u>1,142,006</u>	<u>107,197</u>
<u>United States Department of Justice</u>				
Passed through San Bernardino County Office of Emergency Services				
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2016-DJBX-0768	<u>32,768</u>	<u>-</u>
Total United States Department of Justice			<u>32,768</u>	<u>-</u>
<u>United States Department of Transportation</u>				
Passed through State of California:				
Department of Transportation				
Highway Planning and Construction	20.205	HSIPL-5205(027)	11,934	-
		HSIPL-5205(026)	8,009	-
		SSARPL-5205(025)	<u>51,350</u>	<u>-</u>
Total Highway Planning and Construction			<u>71,293</u>	<u>-</u>
Passed through Omnitrans:				
Federal Transit - Capital Investment Grants	20.500	FTA 5307 CA-90-T850-01	<u>1,063,375</u>	<u>-</u>
Passed through State of California:				
Office of Traffic Safety				
State and Community Highway Safety	20.600	PT18122	58,606	-
		PT19099	<u>51,956</u>	<u>-</u>
Total State and Community Highway Safety			<u>110,562</u>	<u>-</u>
Passed through State of California:				
Office of Traffic Safety				
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	PT18122	59,137	-
		PT19099	<u>44,444</u>	<u>-</u>
Total Minimum Penalties for Repeat Offenders for Driving While Intoxicated			<u>103,581</u>	<u>-</u>

CITY OF RIALTO, CALIFORNIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - Continued
Year Ended June 30, 2019

Federal Grantor/Pass-Through Grantor Program Title	Federal CFDA Number	Grant/Contract Number	Federal Expenditures	Subrecipient Expenditures
<u>United States Department of Transportation - Continued</u>				
National Priority Safety Programs	20.616	MC19002	23,721	-
Total United States Department of Transportation			1,372,532	-
<u>United States Department of Homeland Security</u>				
Passed through San Bernardino County Fire Protection District Homeland Security Grant Program	97.067	2015-SS-00078	\$ 25,809	\$ -
Total United States Department of Homeland Security			25,809	-
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 2,573,115	\$ 107,197

CITY OF RIALTO, CALIFORNIA
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2019

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

a) Scope of Presentation

The accompanying schedule presents only the expenditures incurred (and related awards received) by the City 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 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. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). 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 two major programs for the year ended June 30, 2019, consisting of expenditures from several grants from the United States Department of Housing and Urban Development and Department of Transportation. The major programs had disbursements of \$2,205,381. This amount calculates to 86% 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 RIALTO, CALIFORNIA
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2019

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

f) Contingencies

Under the terms of federal and state 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 RIALTO, CALIFORNIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2019

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of Auditors' Report Issued:	Unmodified
Internal Control Over Financial Reporting:	
Material Weakness(es) Identified?	Yes
Significant Deficiency(ies) Identified not Considered to be Material Weaknesses?	Yes
Noncompliance Material to Financial Statements Noted?	Yes

Federal Awards

Internal Control Over Major Programs:	
Material Weakness(es) Identified?	Yes
Significant Deficiency(ies) Identified not Considered to be Material Weaknesses?	Yes
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
14.218	U.S. Department of Housing and Urban Development; Community Development Block Grants/Entitlement Grants
20.500	U.S. Department of Transportation; Federal Transit – Capital Investment Grants

Dollar Threshold used to Distinguish Between Type A and Type B Programs:	\$ <u>750,000</u>
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Auditee Qualified as Low-Risk Auditee?	No
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CITY OF RIALTO, CALIFORNIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2019

SECTION II - SCHEDULE OF FINANCIAL STATEMENT FINDINGS

2019-001 - Material Weakness: 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.

Perspective Information: This matter is a systemic problem effecting all months within the fiscal period.

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.

Management's Response: Management recognizes the importance and risk of not having bank reconciliations complete in a timely manner. The city agrees with the recommendation and will implement a monthly close process that will include Bank Reconciliations to be completed within 60 days. Any reconciling item will be investigated and adjusted with the review and approval of a supervisor/manager. The City is hiring additional accounting staff to ensure the timeliness of the Bank Reconciliations.

CITY OF RIALTO, CALIFORNIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2019

SECTION II - SCHEDULE OF FINANCIAL STATEMENT FINDINGS - Continued

2019-002 - Significant Deficiency: Accounting Procedures and Policies Manual

Condition: During the audit, we noted that the City's Accounting Procedures and Policies Manual had not been updated in several years and was also not readily available to employees in the Finance Department for reference purposes.

Criteria: In order to ensure accuracy and consistency, the employees in the Finance Department should have an updated Accounting Procedures and Policies Manual available for reference.

Cause: The Finance Department had not updated their Accounting Procedures and Policies Manual since the 1990s to confirm to current practices and procedures.

Effect: The lack of an updated manual resulted in inconsistent procedures being performed and outdated policies within the Finance Department.

Perspective Information: The Finance Department had not updated their Accounting Procedures and Policies Manual to confirm to current practices and procedures.

Recommendation: We recommend that the City update its Accounting Procedures and Policies Manual and communicate with all City departments to ensure consistency and appropriate control procedures.

Management's Response: Management agrees with the recommendation and recognizes the importance of a consistent message across all city departments. Finance will make all existing and future adopted policies available on a central location on the intranet. Finance will also host training sessions for affected staff in other city departments for all updated policies as necessary. Finance will send out memos notifying other city departments of any changes to accounting policies and procedures. Overall, the city will improve the lines of communication between departments ensuring that consistent and appropriate control procedures are followed.

CITY OF RIALTO, CALIFORNIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2019

SECTION II - SCHEDULE OF FINANCIAL STATEMENT FINDINGS - Continued

2019-003 - Significant Deficiency - Conflict of Interest in Grant Administration

Condition: The City entered into a contract agreement with a subrecipient in which a member of the City's governing body has a family relationship with a managing member of the subrecipient organization and was also an active participant in the Committee that administers the selection process.

Criteria: The guidance in the grant administration of the California Board of State and Community Correction (Prop 47 Grant Funding) and the City's Conflict of Interest policy prohibits employees, officers, or agents from participating in the selection, award, or administration of the grant funds, if they have a conflict of interest.

Cause: The member of the City's governing body did not properly disclose or report the family relationship nor abstain from the selection and award of the agreement.

Effect: The City entered into a contract agreement with a subrecipient organization in which there was a conflict of interest with a member of the City's governing body which is prohibited by the City's Conflict of Interest Policy and State Grant Guidelines.

Perspective Information: There was only a single subrecipient organization that was identified by audit procedures that has been a subrecipient for several years and was the only subrecipient organization identified with a conflict of interest.

Recommendation: We recommend that the City take additional measures in the review of contracts with vendors and subaward recipients to ensure that conflicts of interests are identified with employees, officers, or agents. Also, training should be provided to actively communicate the requirements of the City's conflict of interest policy to the City Council, management and other appropriate personnel, as well as develop procedures and methods of reporting for any possible conflicts of interest.

Management's Response: The City Council, with the exception of Mayor Robertson who has recused herself from this item, authorized City staff to concur with the finding. City staff will work with special counsel to refine and create new programs to concur with conflict of interest laws and regulations.

CITY OF RIALTO, CALIFORNIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2019

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

2019-001 - Material Weakness and Compliance: Bank Reconciliations

Federal Agencies: U.S. Department of Housing and Urban Development and
U.S. Department of Transportation

Programs: Community Development Block Grants/Entitlement Grants and Federal Transit – Capital
Investment Grants

Award Numbers: All grant awards under the above programs.

Award Years: 2018-2019

Repeat Finding: Yes

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.

Questioned Costs: None.

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.

Perspective Information: This matter is a systemic problem effecting all months within the fiscal period.

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.

Management's Response: Management recognizes the importance and risk of not having bank reconciliations complete in a timely manner. The city agrees with the recommendation and will implement a monthly close process that will include Bank Reconciliations to be completed within 60 days. Any reconciling item will be investigated and adjusted with the review and approval of a supervisor/manager. The City is hiring additional accounting staff to ensure the timeliness of the Bank Reconciliations.

CITY OF RIALTO, CALIFORNIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2019

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS - Continued

2019-002 - Significant Deficiency and Compliance: Accounting Procedures and Policies Manual

Federal Agencies: U.S. Department of Housing and Urban Development and
U.S. Department of Transportation

Programs: Community Development Block Grants/Entitlement Grants and Federal Transit – Capital
Investment Grants

Award Numbers: All grant awards under the above programs.

Award Years: 2018-2019

Repeat Finding: Yes

Condition: During the audit, we noted that the City's Accounting Procedures and Policies Manual had not been updated in several years and was also not readily available to employees in the Finance Department for reference purposes.

Criteria: In order to ensure accuracy and consistency, the employees in the Finance Department should have an updated Accounting Procedures and Policies Manual available for reference.

Questioned Costs: None.

Cause: The Finance Department had not updated their Accounting Procedures and Policies Manual since the 1990s to confirm to current practices and procedures.

Effect: The lack of an updated manual resulted in inconsistent procedures being performed and outdated policies within the Finance Department.

Perspective Information: The Finance Department had not updated their Accounting Procedures and Policies Manual to confirm to current practices and procedures.

Recommendation: We recommend that the City update its Accounting Procedures and Policies Manual and communicate with all City departments to ensure consistency and appropriate control procedures.

Management's Response: Management agrees with the recommendation and recognizes the importance of a consistent message across all city departments. Finance will make all existing and future adopted policies available on a central location on the intranet. Finance will also host training sessions for affected staff in other city departments for all updated policies as necessary. Finance will send out memos notifying other city departments of any changes to accounting policies and procedures. Overall, the city will improve the lines of communication between departments ensuring that consistent and appropriate control procedures are followed.

CITY OF RIALTO, CALIFORNIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2019

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS - Continued

2019-004 - Compliance: Conflict of Interest in Grant Administration

Federal Agencies: U.S. Department of Housing and Urban Development

Programs: Community Development Block Grants/Entitlement Grants

Award Numbers: All grant awards under the above programs.

Award Years: 2018-2019

Repeat Finding: No

Condition: The City entered into a contract agreement with a subrecipient in which a member of the City's governing body has a family relationship with a managing member of the subrecipient organization and was also an active participant in the Committee that administers the selection process.

Criteria: Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administration Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and the City's Conflict of Interest policy prohibits employees, officers, or agents from participating in the selection, award, or administration of a contract supported by a Federal award in the event of a real or apparent conflict of interest.

Questioned Costs: \$38,475 represents the amount of expenditures to the subrecipient for the 2018-2019 award year.

Cause: The member of the City's governing body did not properly disclose or report the family relationship nor abstain from the selection and award of the agreement.

Effect: The City entered into a contract agreement with a subrecipient organization in which there was a conflict of interest with a member of the City's governing body which is prohibited by the Federal Regulations §200.318 and the City's Conflict of Interest Policy.

Perspective Information: There was only a single subrecipient organization that was identified by audit procedures that has been a subrecipient for several years and was the only subrecipient organization identified with a conflict of interest.

Recommendation: We recommend that the City take additional measures in the review of contracts with vendors and subaward recipients to ensure that conflicts of interests are identified with employees, officers, or agents. Also, training should be provided to actively communicate the requirements of Federal Regulations §200.318 and the City's conflict of interest policy to the City Council, management and other appropriate personnel, as well as develop procedures and methods of reporting for any possible conflicts of interest.

Management's Response: The City Council, with the exception of Mayor Robertson who has recused herself from this item, authorized City staff to concur with the finding. City staff will work with special counsel to refine and create new programs to concur with conflict of interest laws and regulations.

CITY OF RIALTO, CALIFORNIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2019

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS - Continued

2019-005 - Compliance: Timeliness of Reporting of Data Collection Form

Federal Agencies: U.S. Department of Housing and Urban Development and
U.S. Department of Transportation

Programs: Community Development Block Grants/Entitlement Grants and Federal Transit – Capital
Investment Grants

Award Numbers: All grant awards under the above programs.

Award Years: 2018-2019

Repeat Finding: No

Condition: The City's 2017-2018 single audit data collection form was not submitted to the Federal Audit Clearinghouse within nine months after the end of the fiscal year.

Criteria: Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administration Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) (Section 200.512), requires that the single audit data collection form be submitted within nine months after the end of the fiscal year (ie. March 31st).

Questioned Costs: None

Cause: The City was unable to timely file the 2017-2018 single audit data collection form due to delays in completing the year-end closing process.

Effect: The City did not meet the timing requirement of the filing of the 2017-2018 single audit data collection form as required by the Federal Regulations §200.512.

Perspective Information: This was the first time the City has not timely filed their single audit data collection forms.

Recommendation: We recommend that the City take steps to ensure that the year-end closing process is completed in a timely manner to allow for sufficient time for the single audit and subsequent data collection form to be submitted to the Federal Audit Clearinghouse.

Management's Response: Management recognizes the importance of the timely reporting of the Single Audit to the Federal Audit Clearing House. The City is recruiting and training additional Finance staff to ensure the timeliness of accurate data being reported during the audits. The city will also set processes in place to prevent delays to the year-end process.

CITY OF RIALTO, CALIFORNIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2019

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS - Continued

2019-006 - Compliance with Federal Awards: Procurement Policies

Federal Agencies: U.S. Department of Housing and Urban Development and
U.S. Department of Transportation

Programs: Community Development Block Grants/Entitlement Grants and Federal Transit – Capital
Investment Grants

Award Numbers: All grant awards under the above programs.

Award Years: 2018-2019

Repeat Finding: Yes

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.

Recommendation: We recommend that the City update their internal procurement policies to be in compliance with the Uniform Guidance. (the Procurement Policy was implemented in the last half of the 2019 fiscal year, but was not in effect for the majority of the fiscal year), 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).

CITY OF RIALTO, CALIFORNIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2019

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS - Continued

2019-006 - Compliance with Federal Awards: Procurement Policies

Management's Response: The City has updated their internal procurement policies to be in compliance with the Uniform Guidance and was approved on February 12, 2019 (TAB 5). 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.

CITY OF RIALTO, CALIFORNIA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended June 30, 2019

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

2018-001 - Material Weakness: Bank Reconciliations

Federal Agencies: U.S. Department of Housing and Urban Development

Programs: Community Development Block Grants/Entitlement Grants

Award Numbers: All grant awards under the above programs.

Award Years: 2017-2018

Repeat Finding: No

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.

Questioned Costs: None.

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.

Perspective Information: This matter is a systemic problem effecting all months within the fiscal period.

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 Bank Reconciliations finding was not corrected in the current fiscal year. See current year finding at 2019-001.

CITY OF RIALTO, CALIFORNIA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended June 30, 2019

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS - Continued

2018-002 - Material Weakness: Year-End Closing Procedures

Condition

Capital Assets

Detail schedules for capital assets did not include several construction in progress projects that were in progress during the fiscal year. There was a similar finding regarding capital assets in the prior year number 2017-003.

Due from Other Governments

During our review of gas tax revenues, we noted the City did not accrue certain payments related to the 2018 fiscal year.

Land Held for Resale/Development

During our review of land held for resale/development by the Successor Agency, we noted several properties that were to be transferred to the City based on the Long Range Property Management Plan had not been appropriately transferred to the City from the Successor Agency. There as a similar finding regarding Land Held for Resale/Development in the prior year finding number 2017-003.

Unearned Revenue

During our review of the balances in the Fair Share Agreement Capital Projects Fund, the City's fair share fees were recorded as unearned (unavailable) revenue. Upon further inquiry, it was determined that these amounts represented revenues collected that should have been recorded as revenue in the current year. There is a similar finding regarding Unearned Revenue relating to the enterprise funds in the prior year finding number 2017-003.

Compensated Absences

We noted that the supporting schedule for the amount of compensated absences recorded in the general ledger contained several errors as a result of the use of incorrect pay rates for certain employees. This is a repeat finding from the prior year based on finding number 2017-003.

Long-Term Debt Recognition

During our review of long-term debt, it was noted that the City had not timely recorded several debt issuances during the fiscal year.

Evidence Monies Held in Trust

During our audit, it was noted that the Evidence Monies held in trust by the City had not been reconciled to the records of the Police Department.

CITY OF RIALTO, CALIFORNIA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended June 30, 2019

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS - Continued

2018-002 - Material Weakness: Year-End Closing Procedures - Continued

Criteria

Capital Assets

All capital projects that take place during the year should be tracked and reflected in the capital asset detail schedules.

Due from Other Governments

Receivables should include all amounts for revenue that should be recognized during the year.

Land Held for Resale

All property that were to be transferred to the City should be appropriately recorded and reflected in the general ledger in the appropriate fund.

Unearned Revenue

Amounts collected from developers for fair share fees should recorded in the period in which they were earned.

Compensated Absences

Supporting schedules used to calculate compensated absences should contain data that agrees to the payroll records.

Long-Term Debt Recognition

All debt should be recorded once the obligation has been incurred and reflected in the general ledger in a timely manner.

Evidence Monies Held in Trust

The evidence monies that are held in trust should be reconciled to the Police Department's records to ensure completeness and accuracy.

Cause

Capital Assets

The City did not identify all capital projects that were still in progress during the fiscal year when updating the capital asset detail schedules and general ledger balances.

Due from Other Governments

The City did not accrue certain gas tax payments related to the 2018 fiscal year as a receivable.

CITY OF RIALTO, CALIFORNIA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended June 30, 2019

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS - Continued

2018-002 - Material Weakness: Year-End Closing Procedures - Continued

Land Held for Resale/Development

The City did not transfer the properties from the Successor Agency to the City based on the Long Range Property Management Plan.

Unearned Revenue

The City recorded revenues from fair share fees as unearned revenue during the fiscal year and also within the wrong funds.

Compensated Absences

The supporting schedule contained inaccurate payroll information.

Long-Term Debt Recognition

The long-term debt incurred during the fiscal year, which included a Refunding Tax Allocation Bond in the Successor Agency, Capital Lease, and Margin Loan, was not timely recorded into the general ledger.

Evidence Monies Held in Trust

The Finance Department did not reconcile the Evidence Monies with the Police Department's records throughout the fiscal year.

Effect

Capital Assets

Capital asset balances had to be updated to reflect the construction projects in progress that occurred during the year.

Due from Other Governments

The lack of accrual of certain gas tax payment resulted in an audit adjustment to recognize revenue and a receivable.

Land Held for Resale/Development

The properties had to be reclassified to the appropriate fund from the Successor Agency.

Unearned Revenue

This resulted in a significant prior period adjustment as the revenues relating to the fair share fees were erroneously classified as unearned revenues for several years.

CITY OF RIALTO, CALIFORNIA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended June 30, 2019

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS - Continued

2018-002 - Material Weakness: Year-End Closing Procedures - Continued

Compensated Absences

Compensated absences liabilities were miscalculated.

Long-Term Debt Recognition

The long-term debt was recognized in the general ledger several months after the end of the fiscal year.

Evidence Monies Held in Trust

This required a significant reconciliation of the balance and corrections several months after the end of the fiscal year.

Recommendation

Capital Assets

We recommend the City implement policies and procedures to ensure that all capital projects are tracked and reflected in the year-end balances and detail schedules.

Due from Other Governments

We recommend the City review the gas tax fund revenues for completeness at year-end, review the receivable detail schedules for accuracy and ensure the totals agree to the general ledger prior to finalizing the year-end balances.

Land Held for Resale/Development

We recommend the City communicate with the appropriate departments so that approved properties are classified in the appropriate funds.

Unearned Revenue

We recommend the City review unearned revenue balances at year-end to ensure such balances represent unearned revenue to the fund in which it is recorded or make correcting entries as is necessary.

Compensated Absences

We recommend that the compensated absences schedule be reviewed and corrected to ensure the accuracy of the amounts being recorded in the general ledger for compensated absences.

Long-Term Debt Recognition

We recommend that the City record long-term debt upon issuance in the general ledger.

CITY OF RIALTO, CALIFORNIA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended June 30, 2019

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS - Continued

2018-002 - Material Weakness: Year-End Closing Procedures - Continued

Evidence Monies Held in Trust

We recommend that the Finance Department reconcile the account in conjunction with the Police Department throughout the fiscal year.

Current Status

Capital Assets

The Capital Assets finding has been corrected.

Due from Other Governments

The Due from Other Governments finding has been corrected.

Land Held for Resale/Development

The Land Held for Resale/Development finding has been corrected.

Unearned Revenue

The Unearned Revenue finding has been corrected.

Compensated Absences

The Compensated Absences finding has been corrected.

Long-Term Debt Recognition

The Long-Term Debt Recognition finding has been corrected.

Evidence Monies Held in Trust

The Evidence Monies Held in Trust finding has been corrected.

CITY OF RIALTO, CALIFORNIA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended June 30, 2019

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS - Continued

2018-003 - Significant Deficiency: Accounting Procedures and Policies Manual

Federal Agencies: U.S. Department of Housing and Urban Development

Programs: Community Development Block Grants/Entitlement Grants

Award Numbers: All grant awards under the above programs.

Award Years: 2017-2018

Repeat Finding: No

Condition: During the audit, we noted that the City's Accounting Procedures and Policies Manual had not been updated in several years and was also not readily available to employees in the Finance Department for reference purposes.

Criteria: In order to ensure accuracy and consistency, the employees in the Finance Department should have an updated Accounting Procedures and Policies Manual available for reference.

Questioned Costs: None.

Cause: The Finance Department had not updated their Accounting Procedures and Policies Manual since the 1990s to confirm to current practices and procedures.

Effect: The lack of an updated manual resulted in inconsistent procedures being performed and outdated policies within the Finance Department.

Perspective Information: The Finance Department had not updated their Accounting Procedures and Policies Manual to confirm to current practices and procedures.

Recommendation: We recommend that the City update its Accounting Procedures and Policies Manual and communicate with all City departments to ensure consistency and appropriate control procedures.

Current Status: The Accounting Procedures and Policies Manual has yet to be updated. See current year finding at 2019-002

CITY OF RIALTO, CALIFORNIA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended June 30, 2019

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS - Continued

2018-004 - Compliance: Cemetery Endowment Fund

Condition: The Endowment Fees received by the City's Cemetery Fund are to be accounted for in a separate fund from regular cemetery operations under California Health and Safety Law 8738.2.

Criteria: The Endowment Fees were comingled in the City's Cemetery Fund.

Cause: The City's Finance Department did not appropriately account for the Endowment Fees in a separate fund.

Effect: A separate fund had to be created to separately account for the Endowment Fees.

Recommendation: We recommend that the City review California Health and Safety regulations relating to Cemeteries to ensure the appropriate treatment and accounting for Cemetery operations.

Current Status: Finance created a new Cemetery Endowment fund within the general ledger to separate general cemetery funds and an endowment funds. The Cemetery Endowment Fund Compliance finding has been corrected.

2018-005 - Compliance with Federal Awards: Procurement Policies

Federal Agencies: U.S. Department of Housing and Urban Development

Programs: Community Development Block Grants/Entitlement Grants

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.

CITY OF RIALTO, CALIFORNIA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended June 30, 2019

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS - Continued

2018-005 - Compliance with Federal Awards: Procurement Policies - Continued

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.

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).

Current Status: The City has updated their internal procurement policies to be in compliance with the Uniform Guidance and was approved on February 12, 2019. However, since it was not in effect for a majority of the fiscal year, the finding is still applicable to the 2019 fiscal year (see 2019-006).