

CITY OF PERRIS
Perris, California

SINGLE AUDIT REPORT ON
FEDERAL AWARD PROGRAMS

Year Ended June 30, 2012

CITY OF PERRIS
SINGLE AUDIT REPORT ON FEDERAL AWARD PROGRAMS
Year Ended June 30, 2012

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City Council
City of Perris
Perris, California

**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***

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 Perris (the "City") as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements and have issued our report thereon dated December 20, 2012. We conducted our audit in accordance with 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.

Internal Control Over Financial Reporting

Management of the City of Perris is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

This report is intended solely for the information and use of the management, the City Council, others within the City, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Teaman Ramirez & Smith, Inc.

Riverside, California
December 20, 2012

City Council
City of Perris
Perris, California

Independent Auditor's Report on Compliance With Requirements That Could Have a Direct and Material Effect on Each Major Program, Internal Control Over Compliance and on the Schedule of Expenditures of Federal Awards in Accordance with OMB Circular A-133

Compliance

We have audited City of Perris' (the "City") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2012. 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. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

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. Our audit does not provide a legal determination of the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the 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, 2012.

Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

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, 2012, and have issued our report thereon dated December 20, 2012, which contained unqualified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the 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 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

This report is intended solely for the information and use of the City Council, management, others within the City, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Seaman Ramirez & Smith, L.L.C.

Riverside, California
December 20, 2012

CITY OF PERRIS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2012

| <u>Federal Grantor/Pass-Through Grantor Program Title</u> | <u>Federal CFDA Number</u> | <u>Grant/Contract Number</u> | <u>Expenditures</u> |
|---|--------------------------------|----------------------------------|---------------------|
| MAJOR PROGRAMS | | | |
| <u>United States Department of Housing and Urban Development:</u> | | | |
| Community Development Block Grant Entitlement Program | 14.218 | B-10-MC-06-0602 | \$ 113,000 |
| Community Development Block Grant Entitlement Program | 14.218 | B-09-MC-06-0603 | 50,712 |
| Community Development Block Grant Entitlement Program | 14.218 | B-09-MC-06-0604 | <u>328,077</u> |
| Subtotal | | | <u>491,789</u> |
| <u>United States Department of Energy:</u> | | | |
| ARRA - Energy Efficiency and Conservation Block Grant | 81.128 | SC0003149 | <u>190,595</u> |
| Subtotal | | | <u>190,595</u> |
| OTHER FEDERAL AWARDS | | | |
| <u>United States Department of Justice</u> | | | |
| Edward Byrne Memorial Justice Assistance Grant | 16.738 | 2011-DJ-BX-0008 | 17,573 |
| Edward Byrne Memorial Justice Assistance Grant | 16.738 | 2011-UM-WX-0028 | <u>260,970</u> |
| Subtotal | | | <u>278,543</u> |
| <u>United States Department of Housing and Urban Development</u> | | | |
| Neighborhood Stabilization Program 3 Grant | 14.264 | B-11-MN-06-0525 | <u>273,041</u> |
| <u>United States Department of Homeland Security - Federal Emergency Management Agency:</u> | | | |
| <i>Passed through California Emergency Management Agency</i> | | | |
| Public Assistance Grants | 97.073 | 2010-SS-0085 | 8,194 |
| Public Assistance Grants | 97.067 | 2011-SS-0077 | 7,546 |
| Public Assistance Grants | 97.042 | 2011-0048 | <u>20,444</u> |
| Subtotal | | | <u>36,184</u> |
| Total Expenditures of Federal Awards | | | <u>\$ 1,270,152</u> |

CITY OF PERRIS
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2012

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

a) Scope of Presentation

The accompanying schedule presents only the expenditures incurred (and related awards received) by the City of Perris that are reimbursable under programs of federal agencies providing financial assistance. For the purpose of this schedule, financial assistance includes both federal financial assistance received directly from a federal agency, as well as federal funds received indirectly by the City of Perris from a non-federal agency or other organization. Only the portion of the program expenditures reimbursable with such federal funds is reported in the accompanying schedule. Program expenditures in excess of the maximum federal reimbursement authorized or the portion of the program expenditures that were funded with state, local or other non-federal funds are excluded from the accompanying schedule.

b) Basis of Accounting

The expenditures included in the accompanying schedule were reported on the accrual basis of accounting. Under the accrual basis of accounting, expenditures are recognized in the period incurred. Expenditures reported include any property or equipment acquisitions incurred under the federal program.

c) Major Programs

The City had two major programs for the year ended June 30, 2012, consisting of expenditures from several grants from the United States Department of Housing and Urban Development and United States Department of Energy. The major programs had disbursements of \$682,384. This amount calculates to 54% of the total disbursements from federal awards. The City qualified as a low-risk auditee which requires major programs to cover at least 25 percent of the total expenditures of federal awards. The Energy Efficiency and Conservation Block Grant was elected to be a major program because of the higher risk associated with the American Reinvestment and Recovery Act (ARRA) grants.

d) 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 PERRIS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2012

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

| | |
|--|-------------|
| Type of Auditors' Report Issued: | Unqualified |
| Internal Control Over Financial Reporting: | |
| Material Weakness(es) Identified? | No |
| Significant Deficiency(ies) Identified not Considered to be Material Weaknesses? | No |
| Noncompliance Material to Financial Statements Noted? | No |

Federal Awards

| | |
|---|-------------|
| Internal Control Over Major Programs: | |
| Material Weakness(es) Identified? | No |
| Significant Deficiency(ies) Identified not Considered to be Material Weaknesses? | No |
| Type of Auditors' Report Issued on Compliance for Major Programs: | Unqualified |
| Any Audit Findings Disclosed that are Required to be Reported in Accordance With Circular A-133, Section .510(a)? | No |

Identification of Major Programs:

| <u>CFDA Numbers</u> | <u>Name of Federal Program or Cluster</u> |
|---------------------|--|
| <u>14.218</u> | <u>Community Development Block Grant Entitlement Program</u> |
| <u>81.128</u> | <u>ARRA - Energy Efficiency and Conservation Block Grant</u> |

| | |
|--|-------------------|
| Dollar Threshold used to Distinguish Between Type A and Type B Programs: | \$ <u>300,000</u> |
|--|-------------------|

| | |
|--|-----|
| Auditee Qualified as Low-Risk Auditee? | Yes |
|--|-----|

CITY OF PERRIS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2012

SECTION II - FINANCIAL STATEMENT FINDINGS

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

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There were no auditors' findings required to be reported in accordance with paragraph .510(a) of OMB Circular A-133.

CITY OF PERRIS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended June 30, 2012

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

2011-1: Filing of the Fiscal Year 2010 Annual Report

Condition and Criteria: Under Health and Safety Code Section 33080.1 requires each redevelopment agency to file an annual report with its legislative body within six months of the end of the Agency's fiscal year. The annual report includes the following:

- a) Financial Statement Audit;
- b) Fiscal Statement for the previous fiscal year;
- c) A description of the Agency's activities in the previous fiscal year affecting housing and displacement;
- d) A description of the Agency's progress, including specific actions and expenditures, in alleviating blight in the previous fiscal year;
- e) A list of, and status report on all loans \$50,000 or more, that in the previous fiscal year were in default or not in compliance with the terms of the loan;
- f) A description of the total number and nature of the properties that the Agency owns and those properties the Agency has acquired in the previous fiscal year;
- g) A list of the fiscal years that the Agency expects specified time limits of the plans to expire;
- h) Any Other Information that the Agency believes useful to explain its programs, including, but not limited to, the number of jobs created and lost in the previous fiscal year as a result of its activities.

The Perris Redevelopment Agency did submit the above reports for the fiscal year 2010 within six months to the Board of Directors, except for item b, the Fiscal Statement.

Recommendation: We recommend that the Perris Redevelopment Agency prepare and submit the Fiscal Statement to the Board of Directors along with the fiscal year 2011 annual report described under Health and Safety Code Section 33080.1.

Current Status: As of January 31, 2012, the Perris Redevelopment Agency was dissolved by legislation from the California State Legislature and a decision by the California Supreme Court.

CITY OF PERRIS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended June 30, 2012

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS - CONTINUED

2011-2: Annual Budget Requirement Information

Condition and Criteria: Section 33606 of the Health and Safety Code requires the Perris Redevelopment Agency to adopt an annual budget containing the following information including all the activities to be financed by the Low and Moderate Income Housing Fund:

- a) The proposed expenditures of the agency
- b) The proposed indebtedness to be included by the agency
- c) The anticipated revenues of the agency
- d) The work program for the coming year, including goals
- e) An examination of the previous year's achievements and a comparison of the achievements with the goals of the previous year's work program

The Perris Redevelopment Agency did adopt a budget for the 2010/2011 fiscal year, however, it did not include the information for the Low and Moderate Income Housing Fund work program goals and an examination of the previous year's achievements and a comparison of the achievements with the goals of the previous year's work program as referenced above.

Recommendation: We recommend that the Agency incorporate a work program and the examination of the previous years' achievements, as mentioned above, in its annual budget as described under Health and Safety Code Section 33606.

Current Status: As of January 31, 2012, the Perris Redevelopment Agency was dissolved by legislation from the California State Legislature and a decision by the California Supreme Court.

2011-3: Ineligible Program Expenditures

Condition and Criteria: Section 33334.3(e)[2] of the Health and Safety Code stipulates improvements or rehabilitation of affordable housing units for low-or-moderate income persons that are directly benefited by the housing units, and that that the agency requires that the units remain available at affordable housing cost to, and occupied by, persons and families of extremely low, very low, low, or moderate income for the time period dictated by law.

CITY OF PERRIS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended June 30, 2012

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS - CONTINUED

2011-3: Ineligible Program Expenditures - Continued

The Perris Redevelopment Agency used monies from the Low and Moderate Income Housing Fund for improvements and/or rehabilitation of housing units under the "Foreclosure Abatement Program". Upon further review of the overall program, it was noted that the program was not originally approved as a Redevelopment Agency program but as a program for the City of Perris' General Fund. The expenditures for the housing units receiving improvements and/or rehabilitation were not for low-or moderate income persons or documented as such. Subsequently, upon recommendation to management, the Low and Moderate Income Housing Fund was reimbursed for the ineligible expenditures from the City of Perris' General Fund.

Recommendation: We recommend that the Perris Redevelopment Agency monitor the expenditures from the Low and Moderate Income Housing Fund to ensure that they are in compliance with applicable laws and regulations.

Current Status: As of January 31, 2012, the Perris Redevelopment Agency was dissolved by legislation from the California State Legislature and a decision by the California Supreme Court.

United States Department of Housing and Urban Development

2011-4: Community Development Block Grant Entitlement Program - CFDA No. 14.218, Grant Nos. B-10-MC-06-0602 and B-09-MC-06-0602

Criteria and Condition: During our audit of the CDBG Code Enforcement Program it was noted that the City charged a percentage of the code enforcement staff's time to the CDBG program instead of using actual time. The percentage of time used was based on an estimate performed by program managers during the budget process with no substantiating records of the determination of the percentage. Further, at the time of the implementation of this program the City did not have staff with adequate experience and understanding of the regulations to properly operate CDBG Code Enforcement related programs consistent with HUD requirements.

Recommendation: We recommend that the City implement changes to the administration of their time tracking for their time spent on the CDBG Code Enforcement Program. Also, we recommend that the City consider hiring or training staff to properly administer CDBG programs.

Current Status: The City has implemented the recommended changes to the administration of the CDBG Code Enforcement Program. Also, the City has a full time experienced staff member and outside consultant to properly administer the CDBG programs.