



# CITY OF FULLERTON

## JUNE 30, 2018

SINGLE AUDIT REPORT

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CITY OF FULLERTON, CALIFORNIA

SINGLE AUDIT REPORT

JUNE 30, 2018

**CITY OF FULLERTON**

**JUNE 30, 2018**

**TABLE OF CONTENTS**

	<u>Page Number</u>
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 <i>Government Auditing Standards</i> .....	1
Independent Auditors' Report on Compliance for Each Major Program and on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance .....	3
Schedule of Expenditures of Federal Awards for the Fiscal Year Ended June 30, 2018.....	6
Notes to the Schedule of Expenditures of Federal Awards .....	8
Schedule of Findings and Questioned Costs for the Fiscal Year Ended June 30, 2018.....	9
Schedule of Prior Year Findings and Questioned Costs for the Fiscal Year Ended June 30, 2017.....	12



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*

To the Honorable Mayor and Members of the City Council  
City of Fullerton, 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 Fullerton, California (the City), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 10, 2018.

**Internal Control over Financial Reporting**

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

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City's financial statements are free 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*.



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

### **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.

*Lance, Soll & Lughard, LLP*

Brea, California  
December 10, 2018



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND  
ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES  
OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE

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

**Report on Compliance for Each Major Federal Program**

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

***Management's Responsibility***

Management is responsible for compliance with federal statutes, regulations, and 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 the audit 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). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

***Opinion on Each Major Federal Program***

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



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

### ***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 questioned costs as item 2018-001. Our opinion on each major federal program is not modified with respect to these matters.

The City's response to the noncompliance 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 the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2018-001, that we consider 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.



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

### **Report on the Schedule of Expenditures of Federal Awards Required by the Uniform Guidance**

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 of Fullerton, California, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated December 10, 2018, which contained an unmodified opinion 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 the 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 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.

*Lance, Soll & Lughard, LLP*

Brea, California

March 25, 2019 (except for our report on the Schedule of Expenditures of Federal Awards, for which the date is December 10, 2018.)



## CITY OF FULLERTON

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

<b>Federal Grantor/Pass-Through Grantor/Program Title</b>	<b>Federal CFDA Number</b>	<b>Pass-Through Grantor's Number</b>	<b>Passed Through to Subrecipients</b>	<b>Expenditures</b>
<u>U.S. Department of Housing and Urban Development</u>				
Direct Programs:				
Community Development Block Grant	14.218	N/A	\$ 239,483	\$ 1,619,659
HOME Investment Partnership Programs*	14.239	N/A	-	575,968
<b>Total U.S. Department of Housing and Urban Development</b>			<b>239,483</b>	<b>2,195,627</b>
<u>U.S. Department of the Interior</u>				
Passed through the State of California - Department of Parks & Recreation:				
Outdoor Recreation Acquisition, Development, and Planning	15.916	037008094	-	48,595
<b>Total U.S. Department of the Interior</b>			<b>-</b>	<b>48,595</b>
<u>U.S. Department of Justice</u>				
Direct Program:				
Equitable Sharing Program*	16.922	N/A	-	291,561
<b>Total U.S. Department of Justice</b>			<b>-</b>	<b>291,561</b>
<u>U.S. Department of Transportation</u>				
Direct Program:				
Airport Improvement Program	20.106	N/A	-	150,000
Passed through Orange County Transportation Authority:				
Highway Planning and Construction	20.205	153947940	-	2,192,100
	20.205	153947940	-	128,341
	20.205	153947940	-	4,003
	20.205	153947940	-	1,311
			-	2,325,755
Passed through the State of California Department of Transportation:				
Highway Planning and Construction	20.205	031877847	-	1,320
Passed through the State of California Office of Traffic Safety:				
State and Community Highway Safety:				
Selective Traffic Enforcement Program 16-17	20.600	965053908	-	17,241
Selective Traffic Enforcement Program 17-18	20.600	965053908	-	31,082
National Priority Safety Programs:				
Selective Traffic Enforcement Program 16-17	20.616	965053908	-	1,657
Selective Traffic Enforcement Program 17-18	20.616	965053908	-	72,286
<b>Total Highway Safety Cluster</b>			<b>-</b>	<b>122,266</b>
Passed through the State of California Office of Traffic Safety:				
Minimum Penalties for Repeat Offenders for Driving While Intoxicated:				
Selective Traffic Enforcement Program 16-17	20.608	965053908	-	85,129
Selective Traffic Enforcement Program 17-18	20.608	965053908	-	105,201
			-	190,330
<b>Total U.S. Department of Transportation</b>			<b>-</b>	<b>2,789,671</b>
<u>U.S. Department of Health &amp; Human Services</u>				
Passed through the County of Orange:				
Special Programs for the Aging - Title III, Part B				
Grants for Supportive Services and Senior Centers	93.044	009657602	-	80,030
<b>Total U.S. Department of Health &amp; Human Services</b>			<b>-</b>	<b>80,030</b>

## CITY OF FULLERTON

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

<b>Federal Grantor/Pass-Through Grantor/Program Title</b>	<b>Federal CFDA Number</b>	<b>Pass-Through Grantor's Number</b>	<b>Passed Through to Subrecipients</b>	<b>Expenditures</b>
<u>U.S. Department of Homeland Security</u>				
Passed through the State of California - Office of Emergency Services: Emergency Management Performance Grants	97.042	947436176	-	8,982
Passed through the County of Orange: Emergency Management Performance Grants	97.042	009657602	-	20,554
<b>Total U.S. Department of Homeland Security</b>			-	<b>29,536</b>
<b>Total Federal Expenditures</b>			<b>\$ 239,483</b>	<b>5,435,020</b>

**Federal Loan Balances with a Continuing Compliance Requirement**

CDBG Rehabilitation Revolving Loan (beginning balance)	14.218	1,186,673
CDBG Neighborhood Stabilization Program (beginning balance)	14.228	206,074
HOME Acquisition and Rehabilitation Program (beginning balance)*	14.239	10,355,330
HOME Rehabilitation Program (beginning balance)*	14.239	1,058,810
HOME Down Payment Assistance Program (beginning balance)*	14.239	556,380
<b>Total Federal Loan Balances with a Continuing Compliance Requirement</b>		<b>13,363,267</b>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS INCLUDING LOANS</b>		<b>\$ 18,798,287</b>

\* Major Program

Note a: Refer to Note 1 to the schedule of expenditures of federal awards for a description of significant accounting policies used in preparing this schedule.

Note b: There was no federal awards expended in the form of noncash assistance and insurance in effect during the year.

CITY OF FULLERTON

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2018

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**Note 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 by the City of Fullerton, California, that are reimbursable under federal programs of federal financial assistance. For the purposes of this schedule, federal awards include 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 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 modified accrual basis of accounting. Under the modified accrual basis of accounting, expenditures are incurred when the City becomes obligated for payment as a result of the receipt of the related goods and services. Expenditures reported included any property or equipment acquisitions incurred under the federal program.

**c. Indirect Cost Rate**

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

**d. Loan Programs with Continuing Compliance Requirements**

The program loans listed below are administered directly by the City of Fullerton, and balances and transactions relating to these programs are included in the City's basic financial statements. Loans outstanding at the beginning of the year and loans made during the year are included in the federal expenditures presented in the Schedule of Expenditures of Federal Awards. The balance of loans outstanding at June 30, 2018 consists of:

<b>CFDA Number</b>	<b>Program Name</b>	<b>Outstanding Balance at June 30, 2018</b>
14.218	Rehabilitation Revolving Loan	\$ 1,141,649
14.228	Neighborhood Stabilization Program	206,074
14.239	Acquisition and Rehabilitation Program	10,469,762
14.239	Rehabilitation Program	1,130,297
14.239	Down Payment Assistance Program	456,636
		<u>\$ 13,404,418</u>

**CITY OF FULLERTON**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

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**SECTION I - SUMMARY OF AUDITORS' RESULTS**

Financial Statements

Type of auditors' report issued: Unmodified Opinion

Internal control over financial reporting:

- Significant deficiencies identified? ☐ yes ☒ no
- Material weaknesses identified? ☐ yes ☒ none reported

Noncompliance material to financial  
statements noted?

☐ yes ☒ no

Federal Awards

Internal control over major programs:

- Significant deficiencies identified? ☒ yes ☐ no
- Material weaknesses identified? ☐ yes ☒ none reported

Type of auditors' report issued on compliance for major programs: Unmodified Opinion

Any audit findings disclosed that are required to be  
reported in accordance with Title 2 U.S. Code  
of Federal Regulations Part 200?

☒ yes ☐ no

Identification of major programs:

CFDA Number(s)

Name of Federal Program or Cluster

14.239  
16.922

HOME Investment Partnership Program  
Equitable Sharing Program

Dollar threshold used to distinguish  
between type A and type B program

\$750,000

Auditee qualified as low-risk auditee?

☒ yes ☐ no

## CITY OF FULLERTON

### SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED) FOR THE FISCAL YEAR ENDED JUNE 30, 2018

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#### SECTION II - FINANCIAL STATEMENT FINDINGS

No matters were reported.

#### SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

##### **Finding 2018-001 – Reporting**

Noncompliance/Significant Deficiency

##### Federal Award Information

CFDA number: 14.239

Program Title: HOME Investment Partnership Programs

Federal Award Number: M-17-MC-06-0510

Federal Award Year: 2017

Name of Federal Agency: U.S. Department of Housing and Urban Development

##### Criteria or Specific Requirement

The City's HOME Investment Partnership Programs annual performance report is required to be submitted to HUD within 90 days after the close of the City's program year ended June 30, 2018. The Section 3 summary report should be submitted with the annual performance report.

##### Condition

A communication from a HUD representative to City staff indicated that as of November 20, 2018, HUD had not yet received the City's Section 3 report for the 2018 Federal award year, which would have been due September 28, 2018.

##### Cause of the Condition

Communications between City staff and a HUD representative indicated that factors beyond the control of the program management are likely the cause of the deficiency, with City staff claiming to have access issues to HUD's Section 3 Performance Evaluation and Registry System (SPEARS) and the HUD representative acknowledging the program manager's locked access to SPEARS preventing timely submission of their report to HUD.

##### Effect or Possible Effect

Late submission of reports may prevent HUD from timely identification of the extent to which employment and economic opportunity generated by HUD financial assistance is benefiting low and very low-income persons.

##### Questioned Costs

None.

##### Context

The *Section 3 Summary Report* is an annual report that is filed with the CAPERs report.

##### Repeat Finding

This is a repeat finding in the fiscal year ended June 30, 2016. Refer to Finding 2016-003 in the Schedule of Prior year Findings and Questioned Costs.

##### Recommendation

We recommend that City staff maintain records of issues with submissions of reports by printing and retaining communications or taking screen captures of submission issues, ensuring these confirmations include date and time stamps before the submission deadline.

**CITY OF FULLERTON**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

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**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)**

Management Response

City staff will maintain records of date and time stamps of submissions of reports. In addition, City staff will also include verification of any issues with submissions of reports by printing and retaining communications including taking screen captures of submission issues.



## CITY OF FULLERTON

Administrative Services Department

Administration (714) 738-6521  
Fiscal Services (714) 738-6529  
Information Technology (714) 738-6538  
Purchasing (714) 738-6533

### **SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED) FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

#### **SECTION II - FINANCIAL STATEMENT FINDINGS**

No matters were reported.

#### **SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

##### **Finding 2017-001 - Reporting**

Significant Deficiency

##### Federal Award Information

CFDA number: 14.239

Program Title: HOME Investment Partnership Programs

Federal Award Number: B-11-MC-06-0510; B-14-MC-06-0510; B-15-MC-06-0510

Federal Award Year: 2015

Name of Federal Agency: U.S. Department of Housing and Urban Development

##### Criteria or Specific Requirement

The City is required to submit an annual performance report for the Home Investment Partnerships Program to HUD, which is included in the Consolidated Annual Performance and Evaluation Report (CAPER). This annual performance report is required to include all data elements applicable to the program during the year.

##### Condition

The City received cumulative program income amount of \$344,799.20 which included interest earned in the amount of \$2,947.49, however, a total amount of \$361,354.00 was reported in the CAPER.

##### Cause of the Condition

The amount was incorrectly reported due to management oversight over reconciliation between the general ledger and amounts reported to HUD.

##### Effect or Possible Effect

The City has a deficiency in internal control over compliance.

##### Questioned Costs

No questioned costs were identified (\$0).

##### Context

The CAPERs report is an annual report that is filed with the *Section 3 Summary Report*.

##### Repeat Finding

This is a new finding for June 30, 2017.

##### Recommendation

We recommend that City staff complete a reconciliation of amounts reported to HUD to amounts recorded in the general ledger before submission of the report. The reconciliation should be properly reviewed and approved by City management.

#### **THE EDUCATION COMMUNITY**







## CITY OF FULLERTON

Administrative Services Department

Administration (714) 738-6521

Fiscal Services (714) 738-6529

Information Technology (714) 738-6538

Purchasing (714) 738-6533

### **SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED) FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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#### **SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)**

##### Management Response

City staff has now properly reconciled the amounts reported to HUD. In the future, staff will run the Program Income PR-09 Detail Report and reconcile the information with the Finance Department, to ensure reconciliation with the general ledger, prior to CAPER submission.

##### Status of Prior Period Finding

This finding is considered to be resolved. The City currently performs reconciliations of amounts reported to HUD as Housing staff provide IDIS Program Income report to the Finance Department. The Finance Department has reconciled the program income amount to the general ledger, prior to CAPER submission.

#### **THE EDUCATION COMMUNITY**

