

City of Escondido

Escondido, California

Single Audit and Independent Auditors' Reports

For the Year Ended June 30, 2017



City of Escondido

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**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**

Independent Auditors' Report

To the Honorable Mayor and Members of City Council
of the City of Escondido
Escondido, 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 Escondido, California (the "City"), as of and for the year ended June 30, 2017, and the related notes to the basic financial statements which collectively comprise the City's basic financial statements and have issued our report thereon dated December 27, 2017.

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 to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's basic 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 City Council
of the City of Escondido
Escondido, California
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Purpose of this Report

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

The PwC Group, LLP

San Diego, California
December 27, 2017

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM,
ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE
UNIFORM GUIDANCE, AND ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

Independent Auditors' Report

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

Report on Compliance for Each Major Federal Program

We have audited the City of Escondido, 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, 2017. The City's major federal programs are identified in the summary of the 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 terms and conditions of 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 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, 2017.

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 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 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.

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.

To the Honorable Mayor and Members of City Council
of the City of Escondido
Escondido, California
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Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City as of and for the year ended June 30, 2017, and have issued our report thereon dated December 27, 2017 which contained unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming our opinion on the City's Basic Financial Statements. The accompanying Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis 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 basic financial statements and certain other 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 Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

The PwC Group, LLP

San Diego, California
December 27, 2017

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City of Escondido
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2017

Federal Grantor/Pass - Through Grantor/Program Title	Federal CFDA Number	Grant Identification Number	Federal Expenditures	Amount Provided to Subrecipients
<u>U.S. Department of Housing and Urban Development</u>				
CDBG - Entitlement Grants Cluster				
<i>Direct Program:</i>				
Community Development Block Grant	14.218	B-14-MC-06-0552	\$ 306,657	\$ 147,226
Community Development Block Grant	14.218	B-15-MC-06-0552	20,838	-
Community Development Block Grant	14.218	B-16-MC-06-0552	522,158	-
Total CDBG - Entitlement Grants Cluster			849,653	147,226
Emergency Solutions Grant Program	14.231	B-16-MC-06-0552	120,953	-
HOME Investment Partnership	14.239	M-14-MC-06-0542	26,709	-
HOME Investment Partnership	14.239	M-15-MC-06-0542	592,853	-
HOME Investment Partnership	14.239	M-16-MC-06-0542	485,210	-
Total - Home Investment Partnership Program Grants			1,104,772	-
Total U.S. Housing and Urban Development			2,075,378	147,226
<u>U.S. Department of Justice</u>				
<i>Direct Program:</i>				
Safe Streets Task Force	16.unk	N/A	17,680	-
Fugitive Task Force (US Marshals)	16.unk	N/A	8,953	-
Child Exploitation Task Force (FBI)	16.unk	N/A	12,812	-
Internet Crimes Against Children Training	16.543	2015-MC-FX-K037	5,131	-
Narcotic Task Force Cooperative Agreement	16.751	N/A	17,702	-
Body Worn Camera Policy & Implementation Program	16.835	2016-BC-BX-K045	4,006	-
Equitable Sharing Program	16.922	N/A	401,639	-
JAG Program Cluster				
<i>Direct Program:</i>				
Edward Byrne Memorial Justice Assistance Grant	16.738	2014-DJ-BX-0029	2,744	-
Edward Byrne Memorial Justice Assistance Grant	16.738	2015-DJ-BX-0306	18,944	-
Total JAG Program Cluster			21,688	-
Total U.S. Department of Justice			489,611	-
<u>U.S. Department of Transportation</u>				
<i>Passed through the California Department of Transportation</i>				
Highway Safety Improvement Program Traffic Signals	20.200	HSIP-5081-019	7,680	-
Highway Safety Cluster:				
<i>Passed through California Office of Traffic Safety:</i>				
OTS -2016 DUI Enforcement and Awareness	20.600	PT1670	38,090	-
OTS -2017 DUI Enforcement and Awareness	20.600	PT1736	74,412	-
Subtotal - Program 20.600			112,502	-
<i>Passed through California Office of Traffic Safety:</i>				
OTS -2017 DUI Enforcement and Awareness	20.616	PT1736	30,000	-
<i>Passed through the California Department of Alcoholic Beverage Control:</i>				
Minor Decoy, Shoulder Tap Programs	20.616	16-OTS05	21,076	-
Subtotal - Program 20.616			51,076	-
Total Highway Safety Cluster			163,578	-

See accompanying Notes to the Schedule of Expenditures of Federal Awards.

City of Escondido
Schedule of Expenditures of Federal Awards (Continued)
For the Year Ended June 30, 2017

Federal Grantor/Pass - Through Grantor/Program Title	Federal CFDA Number	Grant Identification Number	Federal Expenditures	Amount Provided to Subrecipients
<u>U.S. Department of Transportation (Continued)</u>				
<i>Passed through California Office of Traffic Safety:</i>				
OTS -2016 DUI Enforcement and Awareness	20.608	PT1670	61,695	-
OTS -2017 DUI Enforcement and Awareness	20.608	PT1736	106,625	-
Subtotal - Program 20.608			168,320	-
Total U.S. Department of Transportation			339,578	-
<u>U.S. Department of Health and Human Services</u>				
<u>Aging Cluster:</u>				
<i>Passed through the County of San Diego Health and Human Services Agency:</i>				
Title III - B Transportation	93.044	547766	53,800	-
Title III - C1 Congregate Meals	93.045	547766	89,436	-
Title III - NSIP C1 Incentive	93.053	547766	22,213	-
Total Aging Cluster			165,449	-
<i>Passed through the State of California Health Care Services:</i>				
Ground Emergency Medical Transportation Program	93.778	SPA 09-024	234,467	-
Total U.S. Department of Health and Human Services			399,916	-
<u>U.S. Department of Homeland Security</u>				
<u>Homeland Security Grant Program:</u>				
<i>Passed through the County of San Diego Office of Emergency Services:</i>				
2015 State Homeland Security Grant - Equipment	97.067	073-00000	27,982	-
2015 State Homeland Security Grant - Planning	97.067	073-00000	11,253	-
<i>Passed through the City of San Diego Office of Homeland Security:</i>				
FY 15 UASI Training	97.067	073-66000	11,458	-
FY 15 UASI Training	97.067	073-66000	2,380	-
<i>Passed through the County of San Diego Sheriff's Department:</i>				
2014 CalEMA Operation Stonegarden Grant	97.067	2015-1078	50,000	-
Total Homeland Security Grant Program			103,073	-
Total U.S. Department of Homeland Security			103,073	-
Total Expenditures of Federal Awards			\$ 3,407,556	\$ 147,226

See accompanying Notes to the Schedule of Expenditures of Federal Awards.

City of Escondido
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2017

Note 1 – Reporting Entity

The financial reporting entity, as defined by the Governmental Accounting Standard Board (“GASB”), consists of the primary government, which is the City of Escondido, California (the “City”), organizations for which the primary government is financially accountable, and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity’s financial statements to be misleading or incomplete.

Note 2 – Basis of Accounting

Funds received under the various grant programs have been recorded within the general fund and special revenue funds of the City. The City utilizes the modified accrual method of accounting for the general fund and special revenue funds. The accompanying Schedule of Expenditures of Federal Awards (“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). Therefore, some amounts presented in the schedule may differ from amounts presented in, or used in, the preparation of the City’s basic financial statements.

Note 3 – Schedule of Expenditures of Federal Awards

The accompanying Schedule presents the activity of all federal financial assistance programs of the City. Federal financial assistance received directly from federal agencies as well as federal financial assistance passed through the State of California, County of San Diego, San Diego Association of Governments, and City of San Diego is included in the Schedule. The Schedule was prepared from only the accounts of various grant programs and, therefore, does not present the financial position, change in fund balance, or results of operations of the City.

Note 4 – Indirect Cost Rate

With the exception of the following program, the City has not elected to use the 10-percent de minimis indirect rate as allowed under the Uniform Guidance:

CFDA Number	Award Number	Program Name
20.200	HSIP-5081-019	Highway Safety Improvement Program Traffic Signals

City of Escondido
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2017

Section I – Summary of Auditor’s Results

Financial Statements

Type of report the auditors issued on whether the financial statements audited were prepared in accordance with GAAP: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? No
- Significant deficiency(ies) identified? None Reported

Noncompliance material to financial statements noted? No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? No
- Significant deficiency(ies) identified? None Reported

Type of auditor’s report issued on compliance for major programs Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>	<u>Expenditures</u>
14.218	CDBG - Entitlement Grants Cluster	\$ 849,653
	Total Expenditures of All Major Federal Programs	<u>\$ 849,653</u>
	Total Expenditures of Federal Awards	<u>\$ 3,407,556</u>
	Percentage of Total Expenditures of Federal Awards	<u>24.93%</u>

Dollar threshold used to distinguish between type A and type B program \$750,000

Auditee qualified as low-risk auditee in accordance with 2 CFR 200.520? Yes

City of Escondido
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2017

Section II – Financial Statement Findings

A. Current Year Findings – Financial Statement Audit

No findings were noted on the City’s financial statement audit for the year ended June 30, 2017.

B. Prior Year Findings – Financial Statement Audit

No findings were noted on the City’s financial statement audit for the year ended June 30, 2016.

Section III – Federal Award Findings

A. Current Year Findings and Questioned Costs – Major Federal Award Program Audit

No findings or questioned costs were noted on the City’s major federal programs for the year ended June 30, 2017.

B. Prior Year Findings and Questioned Costs – Major Federal Award Program Audit

No findings or questioned costs were noted on the City’s major federal programs for the year ended June 30, 2016.

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