



Federal Awards Reports in Accordance
with the Uniform Guidance
June 30, 2020

City of Jurupa Valley, California

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

To the Members of the City Council
City of Jurupa Valley, California

We have audited, 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Jurupa Valley, California (City), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated February 5, 2021. Our report included an emphasis of matter regarding a prior period adjustment for the correction of an error within the City's Gas Tax fund and Governmental Activities.

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) as a basis for designing 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 over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting 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 identified certain deficiencies in internal control that we consider to be material weaknesses and a significant deficiency.

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs, as items 2020-001 and 2020-002, to be material weaknesses.

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 deficiency described in the accompanying schedule of findings and questioned costs, as item 2020-003, 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 financial statements. 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*.

City's Response to Findings

The City's response to the findings identified in our audit are 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 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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Riverside, California
February 5, 2021



Independent Auditor’s Report on Compliance for Each Major Federal Program; Report on Internal Control over Compliance; and Report on the Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

To the Members of the City Council
City of Jurupa Valley, California

Report on Compliance for Each Major Federal Program

We have audited the City of Jurupa Valley, California’s (City) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the City’s major federal program for the year ended June 30, 2020. The City’s major federal program is 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 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 the City’s major federal program 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 and 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 the major federal program. However, our audit does not provide a legal determination of the City’s compliance.

Opinion

In our opinion, the City’s complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2020.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2020-004. Our opinion on the major federal program is not modified with respect to this matter.

The City's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs and separate corrective action plan. 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 the federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the 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 a 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 and significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a certain deficiency in internal control over compliance, described in the accompanying schedule of findings and questioned costs as items 2020-004 that we consider to be a significant deficiency.

The City's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs and separate corrective action plan. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated February 5, 2021, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by 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.

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Riverside, California
February 5, 2021

City of Jurupa Valley, California
 Schedule of Expenditures of Federal Awards
 Year Ended June 30, 2020

Federal Grantor/Pass-Through Grantor/Program or Cluster title	Federal CFDA Number	Grant Identification Number	Federal Expenditures	Amount Provided to Subrecipients
U.S. Department of Housing and Urban Development				
Direct Assistance:				
Community Development Block Grant/Entitlement Grants	14.218	B-18-MC-06-0607	\$ 728,227	\$ -
Community Development Block Grant/Entitlement Grants	14.218	B-19-MC-06-0607	<u>1,032,081</u>	<u>174,610</u>
Subtotal CDBG Entitlement Grants Cluster			<u>1,760,308</u>	<u>174,610</u>
Total U.S. Department of Housing and Urban Development			<u>1,760,308</u>	<u>174,610</u>
Total Federal Awards			<u>\$ 1,760,308</u>	<u>\$ 174,610</u>

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the schedule) includes the federal award activity of the City of Jurupa Valley, California (City) under programs of the federal government for the year ended June 30, 2020. The City's reporting entity is defined in Note 1 of the City's financial statements. All federal awards received directly from federal agencies as well as federal awards passed through from other government agencies are included on the Schedule of Expenditures of Federal Awards. The information 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). Because the schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position, changes in net position or fund balance, or cash flows of the City.

Amounts reported in the accompanying Schedule of Expenditures of Federal Awards agree with the amounts reported in the related federal financial reports. However, certain federal financial reports are filed based on cash expenditures. As such, certain timing differences may exist in the recognition of revenues and expenditures between the Schedule of Expenditures of Federal Awards and the federal financial reports.

Note 2 - Summary of Significant Accounting Policies

Funds received under the various grant programs have been recorded within the special revenue funds of the City. The City utilizes the modified accrual basis of accounting for the special revenue funds. Expenditures reported in the schedule, including subrecipient expenditures, are reported on the *modified accrual* basis of accounting. When applicable, such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 3 - Indirect Cost Rate

The City does not draw for indirect administrative expenses and has not elected to use the 10% de minimus cost rate.

Section I – Summary of Auditor’s Results

FINANCIAL STATEMENTS

Type of auditor's report issued	Unmodified
Internal control over financial reporting:	
Material Weaknesses identified	Yes
Significant deficiencies identified not considered to be material weaknesses	Yes

FEDERAL AWARDS

Internal control over major federal programs:	
Material Weaknesses identified	No
Significant deficiencies identified not considered to be material weaknesses	Yes

Type of auditor's report issued on compliance for major programs:	Unmodified
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Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance 2 CFR 200.516:	Yes
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Identification of major federal programs:

Name of Federal Program or Cluster	CFDA Number
CDBG - Entitlement Grants Cluster	14.218
Dollar threshold used to distinguish between Type A and Type B programs:	\$750,000
Auditee qualified as low-risk auditee?	No

Section II – Financial Statement Findings

Finding Number 2020-001

AGENCY FUND – DEPOSITS

Criteria:

The Agency fund reports Deposits Payable, which reflect deposits paid by developers to be applied to future permits and fees remitted to the City's General Fund and other agencies (such as TUMF and MSHCP). Once the fees have been applied, any remaining deposits are returned to the developers. As such, positive balances should reflect the amount due to developers as of June 30, 2020. Negative balances should be avoided, which would reflect City services or payments in excess of the developer deposits.

Condition:

The City classified \$962 thousand as due from others, which reflect negative balances of deposits payable. These negative deposit balances for planning, building, and engineering deposits reflects services rendered by the City in excess of the developer's initial deposits; these amounts are owed by developers to the City. As the City manages its liquidity and cash in a pooled environment, deficit balances in the Agency fund are cured by either collecting the amounts from the developers or by the City replenishing the cash. The City has made an effort in the current year to collect or write off these balances, but continues to have significant negative balances reported within the overall deposit balance as of June 30, 2020.

Context:

The condition was noted during our testwork over the Agency fund deposits.

Effect:

\$961,552 reflects amounts applied to permits for developers, but fees have not been remitted to the Agency fund from developers. To the extent cash was remitted from the Agency fund, such cash could be related to developers balances on deposit for which services have not been performed.

Cause:

The City reported \$962 thousand as Due from Others within the Agency fund.

Recommendation:

We recommend the City continue to develop and formalize procedures to ensure deposits and related amounts due for permits is properly captured, collected by the City, and reported within the Agency fund. For older balances due to the Agency fund, the City should consider plans for collection or write-off of such balances due.

Views of Responsible Officials and Planned Corrective Actions:

Management agrees. See separately issued Corrective Action Plan.

Finding Number 2020-002

FINANCIAL REPORTING AND CLOSING

Criteria:

Management is responsible for the preparation of the basic financial statements and all accompanying information and well as representations contained therein, and the fair presentation in conformity with U.S. generally accepted accounting principles. This requires management to perform a year-end closing process to accumulate, reconcile and summarize information for inclusion in the annual financial statements.

Condition:

During the audit, we identified adjustments, which were posted as part of the audit, for the following:

- The City filed a petition with the state for certain sales taxes from prior periods. During the year, the petition was granted, and the City was awarded additional sales tax revenues. As a result, we proposed an adjustment for the following:
- Increase of \$1 million of accounts payable and related expenses for the associated revenue neutrality payment, due to the additional sales tax revenues;
- The City also identified an increase to sales tax revenue and related accounts receivable of \$5.1 million, and an increase of accounts payable and related expenses for \$844 thousand due to the City's sales tax consultant fees;
- Reversal of July 2021 sales tax revenues of \$195 thousand, including related reduction of accounts receivable, in the General Fund.

The City also identified a restatement within the Gas Tax fund for \$156 thousand as described in Note 13 to the financial statements.

We also proposed adjustments for the following items, which were not adjusted by the City, as the City determined the impact to be immaterial to the financial statements:

- Increase of \$162 thousand to investments and interest income for LAIF fair value adjustment at June 30, 2020;
- \$82 thousand reclass from revenues to deferred inflows of resources in the aggregate remaining funds for CDBG drawdowns received after the period of availability.

The City also identified corrections to the government wide capital asset balances, resulting in a net increase of capital asset balances of \$281 thousand. The City corrected the balances through current year activity, as they concluded the impact was immaterial to the government wide financial statements.

Lastly, as part of our consideration of the City's Schedule of Federal Expenditures, we noted there was lack of a documented review of the schedule by City management.

Context:

The condition was noted during our audit of the City for the year ended June 30, 2020.

Effect:

Journal entries were posted, and adjustments made to the financial statements (including restatement), in order to fairly present the financial statements. Further, the internal control environment is weakened.

Cause:

The City's procedures did not allow for the proper classification or timely reporting of information required for financial reporting. The restatement further demonstrates insufficient controls were in place to allow for the timely identification of adjustments for the financial statements. Lastly, the City's process did not allow for evidence to support internal controls in place over the preparation of the Schedule of Federal Expenditures.

Recommendation:

We recommend the City review its closing policies and procedures in place to ensure amounts are properly captured, reconciled, classified, and reported in a timely manner. Further, the City should review its procedures over the preparation of the Schedule of Expenditures of Federal Awards to ensure there is a documented review and approval, or other appropriate internal controls.

Views of Responsible Officials and Planned Corrective Actions:

Management agrees. See separately issued Corrective Action Plan.

Finding Number 2020-003

INTERNAL CONTROLS OVER PAYROLL

Criteria:

Management is responsible for implementing internal controls to ensure that proper segregation of duties exist over the payroll process.

Condition:

During the audit, we noted the same individual who has the access and ability to modify pay rates and employee hours in the system also reviews the PayChex Change reports, without sufficient mitigating controls in place to address segregation of duties.

Context:

The condition was noted during our audit of the City for the year ended June 30, 2020.

Effect:

The City's internal controls are weakened by the condition noted above.

Cause:

The City's internal controls do not ensure that proper segregation of duties exists between the individual who has the access and ability to modify pay rates and employee hours in the system from the individual who reviews the PayChex Change reports, nor where there sufficient mitigating controls to address this risk.

Recommendation:

We recommend that the City consider appropriate mitigating controls, such as a different individual assigned to the review of the PayChex Change reports, to ensure proper segregation of duties over the payroll function.

Views of Responsible Officials and Planned Corrective Actions:

Management agrees. See separately issued Corrective Action Plan.

Section III – Federal Award Findings and Questioned Costs

The following findings represent significant deficiencies and/or instances of noncompliance, including questioned costs, required to be reported in accordance with 2 CFR 200, Subpart F.

Finding 2020-004

Program: Community Development Block Grant/Entitlement Grants

CFDA No.: 14.218

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

Passed-through: N/A – Direct Assistance

Award No. and Year: B-18-MC-06-0607 & B-19-MC-06-0607, FY 19-20

Compliance Requirements: Reporting – Performance Reporting (HUD 60002, Section 3 Summary Report, Economic Opportunities for Low- and Very Low-Income Persons)

Type of Finding: Significant Deficiency in Internal Control and Instance of Non-Compliance

Criteria:

The Uniform Guidance Compliance Supplement requires that each recipient that administers covered public and Indian housing assistance, regardless of the amount expended, and each recipient that administers covered housing and community development assistance in excess of \$200,000 in a program year, must submit HUD 60002 information using the automated Section 3 Performance Evaluation and Registry System (SPEARS).

Condition:

While the City prepared the report, the performance reporting requirement to submit an annual HUD 60002, Section 3 Summary Report, Economic Opportunities for Low- and Very Low-Income Persons did not occur in a timely manner prior to the audit.

Questioned Costs:

No questioned costs were identified as a result of our procedures.

Context/Sampling:

A sample of 1 was selected for testing of Annual Performance Reporting.

Repeat Finding from Prior Year:

No.

Effect:

Failure to follow performance reporting requirements results in noncompliance with federal regulations.

Cause:

The condition was primarily caused by technical issues the City encountered while attempting to submit the performance report through SPEARS.

Recommendation:

We recommend that the City review its established policies and procedures regarding the reporting process to ensure that required reports are submitted timely, in accordance with Federal requirements.

Views of Responsible Officials and Planned Corrective Actions:

Management agrees. See separately issued Corrective Action Plan.

Financial Statement Findings

Finding No.	Area	Status of Corrective Action
2019-001	Agency Fund - Deposits	In progress. See current year finding 2020-001
2019-002	Budget and Long-Term Financial Plans of the City	Implemented
2019-003	Financial Reporting and Closing	In progress. See current year finding 2020-002

Federal Awards Findings

None noted.