

# **City of Hemet**

Hemet, California

## **Single Audit and Independent Auditors' Reports**

*For the Year Ended June 30, 2020*





# City of Hemet

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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 Hemet  
Hemet, 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 Hemet, California (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, and have issued our report thereon dated March 1, 2021.

**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.

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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs as items 2020-001 and 2020-002 that we consider to be significant deficiencies.

**200 E. Sandpointe Ave., Suite 600, Santa Ana, California 92707**

**Tel: 949-777-8800 • Fax: 949-777-8850**

**[www.pungroup.cpa](http://www.pungroup.cpa)**

To the Honorable Mayor and Members of City Council  
of the City of Hemet  
Hemet, California  
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### **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*.

### **The City's Response to Findings**

The City's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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 black ink that reads "The PwC Group, LLP". The signature is written in a cursive, flowing style.

Santa Ana, California  
March 1, 2021



**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**

**Independent Auditors' Report**

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

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

We have audited the City of Hemet, 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, 2020. 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 the terms and conditions of its federal awards applicable to its federal programs.

***Auditors' 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* (the "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, 2020.

**200 E. Sandpointe Ave., Suite 600, Santa Ana, California 92707**

**Tel: 949-777-8800 • Fax: 949-777-8850**

**[www.pungroup.cpa](http://www.pungroup.cpa)**

## **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.

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 Hemet  
Hemet, California  
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### **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 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 March 1, 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 other 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 Expenditure of Federal Awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

*The PwC Group, LLP*

Santa Ana, California  
March 31, 2021, with the exception of the Schedule of Federal Expenditures of Federal Awards, which is as of March 1, 2021.

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**City of Hemet**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended June 30, 2020**

<u>Federal Grantor/Pass-Through Grantor/ Program Title</u>	<u>CFDA Number</u>	<u>Grant Identification Number</u>	<u>Federal Expenditures</u>	<u>Expenditures To Subrecipients</u>
<b><u>U.S. Department of Housing and Urban Development</u></b>				
<i>Direct Assistance:</i>				
CDBG - Entitlement Grants Cluster:				
Community Development Block Grants/Entitlement Grants	14.218	B-17-MC-06-0579	\$ 9,061	\$ -
Community Development Block Grants/Entitlement Grants	14.218	B-18-MC-06-0579	173,494	-
Community Development Block Grants/Entitlement Grants	14.218	B-19-MC-06-0579	465,810	163,710
Neighborhood Stabilization Grant	14.218	B-08-MN-06-0508	3,132	-
Total CDBG - Entitlement Grants Cluster			<u>651,497</u>	<u>163,710</u>
<b>Total U.S. Department of Housing and Urban Development</b>			<u>651,497</u>	<u>163,710</u>
<b><u>U.S. Department of Justice</u></b>				
<i>Direct Assistance:</i>				
Coronavirus Emergency Supplemental Funding Program	16.034	2020-VD-BX-1744	52,407	-
<i>Passed through the County of Riverside Sheriff's Department:</i>				
Edward Byrne Memorial Justice Assistance Grant (JAG) Program	16.738	2017-DJ-BX-0759	33,983	-
Edward Byrne Memorial Justice Assistance Grant (JAG) Program	16.738	2018-DJ-BX-0856	5,461	-
<b>Total U.S. Department of Justice</b>			<u>91,851</u>	<u>-</u>
<b><u>U.S. Department of Transportation</u></b>				
<i>Passed through the State of California Office of Traffic Safety:</i>				
Minimum Penalties for Repeat Offenders for Driving				
While Intoxicated	20.608	PT19048	13,764	-
Minimum Penalties for Repeat Offenders for Driving				
While Intoxicated	20.608	PT20059	11,286	-
Total Minimum Penalties for Repeat Offenders for Driving While Intoxicated			<u>25,050</u>	<u>-</u>
Highway Safety Grants Cluster:				
State and Community Highway Safety	20.600	PT19048	21,842	-
State and Community Highway Safety	20.600	PT20059	2,704	-
Total Highway Safety Grants Cluster			<u>24,546</u>	<u>-</u>
<b>Total U.S. Department of Transportation</b>			<u>49,596</u>	<u>-</u>
<b><u>U.S. Department of Homeland Security</u></b>				
<i>Passed through the County of Riverside Emergency Management Department:</i>				
Homeland Security Grant Program	97.067	2018-0054	211,627	-
<b>Total U.S. Department of Homeland Security</b>			<u>211,627</u>	<u>-</u>
<b>Total Expenditures of Federal Awards</b>			<u>\$ 1,004,571</u>	<u>\$ 163,710</u>

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

**City of Hemet**  
**Notes to the Schedule of Expenditures of Federal Awards**  
**For the Year Ended June 30, 2020**

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**Note 1 – Reporting Entity**

The financial reporting entity, as defined by the Governmental Accounting Standards Board (“GASB”) Codification, consists of the primary government, which is the City of Hemet, 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 City’s financial statements to be misleading or incomplete.

**Note 2 – Summary of Significant Accounting Policies**

***Basis of Accounting***

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. The accompanying Schedule of Expenditures of Federal Awards (the “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*. Therefore, some amounts presented in the Schedule may differ from amounts presented in, or used in, the preparation of City’s basic financial statements.

***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 Office of Traffic Safety, County of Riverside Emergency Management Department, and the County of Riverside Sheriff’s Department, are included in the Schedule. The Schedule was prepared from only the accounts of various grant programs and, therefore, does not present the financial position or results of operations of the City.

**Note 3 – Subrecipients**

For the fiscal year ended June 30, 2020, the City had the following subrecipients funded by the Community Development Block Grant:

Valley-Wide Recreation and Park District	\$	75,000
Fair Housing Council of Riverside County		35,330
Car-A-Van Transit		25,000
Community Pantry		14,722
Center Against Sexual Assault of Southwest Riverside County		13,658
Total	\$	163,710

**Note 4 – Indirect Cost Rate**

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

**City of Hemet**  
**Schedule of Findings and Questioned Costs**  
**For the Year Ended June 30, 2020**

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**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? 2020-001 and 2020-002

Noncompliance material to financial statements noted? No

**Federal Awards**

Internal control over major federal programs:

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

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

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

Identification of major federal programs:

CFDA Number(s)	Name of Federal Program or Cluster	Expenditures
14.218	CDBG - Entitlement Grants Cluster	\$ 651,497
	Total Expenditures of All Major Federal Programs	\$ 651,497
	Total Expenditures of Federal Awards	\$ 1,004,571
	Percentage of Total Expenditures of Federal Awards	64.85%

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

Auditee qualified as low-risk auditee under 2 CFR section 200.520? No

**City of Hemet**  
**Schedule of Findings and Questioned Costs (Continued)**  
**For the Year Ended June 30, 2020**

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**Section II – Financial Statement Findings**

**A. Current Year Findings – Financial Statements**

**Finding 2020-001 Accounting Policies and Procedures**

**Criteria:**

Accounting Policies and Procedures would aid the Finance Department and the City in providing training for accounting personnel, communicating and providing a source of reference to approved policies, and maintaining consistency of recording financial transactions.

**Condition:**

During our audit, we noted that the City lacked formal policies and procedures. Although the City has informal policies, the City should establish formal and comprehensive policies to provide detailed guidance to employees and management of the City.

**Cause:**

The City did not implement the accounting policies and procedures during the year ended June 30, 2020.

**Effect of Potential Effect:**

Without the Accounting Policies and Procedures, personnel responsible for the daily work and transactions do not have a clear understanding of their role and responsibilities or the accounting standards applicable to their function. In addition, the absence of standardized procedures can create inefficient and inconsistent processing of transactions.

**Recommendation:**

We recommend that the City develop a comprehensive accounting manual that would set the guidelines for recording significant transactions in the general ledger. In addition, Management should consider developing an accounting manual which includes at a minimum:

- Specific duties and responsibilities (desk procedures)
- Minimum required qualifications or standards
- Council/Management approved policies relating to specific transactions
- Procedures for processing of specific financial activities
- Appropriate monitoring and review controls

**Views of the Responsible Officials:**

The Finance Department has become fully staffed over this fiscal year and has been able to draft a comprehensive set of department policies. This initial draft was presented to Council on January 26, 2021 for discussion and direction. A final draft is anticipated to be presented to Council for approval within the next few months. In addition to an official Finance Policy, desk procedures have been updated and physical and electronic copies can be found at each desk.

**City of Hemet**  
**Schedule of Findings and Questioned Costs (Continued)**  
**For the Year Ended June 30, 2020**

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**Section II – Financial Statement Findings (Continued)**

**A. Current Year Findings – Financial Statements (Continued)**

**Finding 2020-002 Internal Service Funds**

**Criteria:**

Governmental Accounting Standards Board (GASB) Statement No. 34 Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments, provides that internal service funds (“ISFs”) may be used to report any activities that provide goods or services to other funds, departments, or agencies of the primary government and its component units, or other governments, on a cost-reimbursement basis. Internal service funds use the full accrual basis of accounting; accordingly, charges to other funds for goods or services should be set to provide for the cost-reimbursement of the accrual-based expenses incurred by the activity. Internal service funds are voluntary under generally accepted accounting principles and are designed to recover the full cost of an activity from participating funds, departments or agencies. GASB 34 also states if a government does not intend to recover the full cost of providing goods or services, the use of an internal service fund would not be appropriate.

**Condition:**

The City has the following two internal service funds with fund deficits at June 30, 2020:

• Administrative Services Fund	\$ (5,682,401)
• Liability Insurance Fund	\$ (632,456)

**Cause:**

The deficits in the ISFs were caused by:

1. The timing of litigation settlements;
2. Implementation of GASB 68, Accounting and Financial Reporting for Pensions; and
3. Implementation of GASB 75, Accounting and Financial Reporting for Postemployment Benefits other than Pensions.

These long-term liabilities were being recovered on a long-term basis.

**Effect or Potential Effect:**

By definition, an internal service fund is operated on a cost-reimbursement basis. For an internal service fund to operate on a cost-reimbursement basis, its charges to other funds should result in revenues and expenses that are approximately equal over time, even though it periodically may report annual increases or decreases in net position. Because the intent of internal service funds is to facilitate cost allocation, the accumulation of net position surpluses or deficits over time generally indicates that service is no longer being made on a cost-reimbursement basis.

**Recommendation:**

The City should reassess the cost allocation methodology of its various ISFs so that the user funds or departments are charged a sufficient amount to cover the cost of providing the respective services and report the recovered costs as charges for services.

**City of Hemet**  
**Schedule of Findings and Questioned Costs (Continued)**  
**For the Year Ended June 30, 2020**

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**Section II – Financial Statement Findings (Continued)**

**A. Current Year Findings – Financial Statements (Continued)**

**Finding 2020-002 Internal Service Funds (Continued)**

**View of Responsible Officials:**

The Administrative Services Fund has a negative balance as a result of the implementation of GASB 68 and GASB 75. For presentation purposes, the fund has a deficit. However, this is not actually the case on a cash basis. Moving forward, under direction of Council, budget will be allocated in each appropriate Fund as part of the City's Internal Service Funds recurring journal entries to begin contributing to this future liability.

The Liability Insurance Fund has a negative fund balance as a result of several litigated cases that were settled during the fiscal year. The City works with its excess insurance carrier to receive reimbursement of these funds.

**B. Prior Year Findings – Financial Statements**

**Finding 2019-001 Accounting Policies and Procedures**

**Condition:**

During our review of control environment, we noted that the City lacked formal policies and procedures. Although the City has informal policies, the City should establish formal and comprehensive policies approved by the City Council to provide detailed guidance to employees and management of the City.

**Recommendation:**

We recommend that the City develop a comprehensive accounting manual that would set the guidelines for recording significant transactions in the general ledger. In addition, Management should consider developing an accounting manual which includes at a minimum:

- Specific duties and responsibilities (desk procedures)
- Minimum required qualifications or standards
- Council/Management approved policies relating to specific transactions
- Procedures for processing of specific financial activities
- Appropriate monitoring and review controls

**Status:**

Continued in current year as finding 2020-001.

**City of Hemet**  
**Schedule of Findings and Questioned Costs (Continued)**  
**For the Year Ended June 30, 2020**

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**Section II – Financial Statement Findings (Continued)**

**B. Prior Year Findings – Financial Statements (Continued)**

**Finding 2019-002 Internal Service Funds**

**Condition:**

The City had the following two internal service funds with fund deficits at June 30, 2019:

• Administrative Services Fund	\$ (7,320,760)
• Liability Insurance Fund	\$ (470,790)

**Recommendation:**

The City should reassess the cost allocation methodology of its various ISFs so that the user funds or departments are charged a sufficient amount to cover the cost of providing the respective services and either:

1. Continue the use of ISFs with the strong monitoring by the City management on a monthly basis to ensure that the ISFs are allocating costs to the appropriate funds;
2. Discontinue the use of ISFs and provide the accounting allocation of costs to other funds and the General Fund in order to set aside cash reserves to fund long-term liabilities (e.g., insurance claims liabilities).

**Status:**

Continued in current year as finding 2020-002

**Finding 2019-003 Internal Control Over Bank Reconciliation and Financial Reporting**

**Condition:**

During the performance of walkthrough over bank reconciliation in August 2019, we noted significant delay in performing bank reconciliations. January 2019 was prepared while it was not finalized and the bank reconciliation had a material variance between the reconciliation and the balance in the general ledger. The fixed asset schedule was not available for the auditors to review until January 2020.

**Recommendation:**

We recommend the City establish effective monthly and year end closing procedures that reduce the risk in accounting errors and the need for correcting journal entries after the year end closing. These procedures would include timely review and approval by management of account reconciliations, sub-ledger transactions, cutoff review for account balances at fund and overall government-wide levels, and revenue and expenditures/expense review.

**Status:**

Finding was resolved during the year ended June 30, 2020.

**City of Hemet**  
**Schedule of Findings and Questioned Costs (Continued)**  
**For the Year Ended June 30, 2020**

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**Section III – Federal Award Findings and Questioned Costs**

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

No findings or questioned costs were noted on the City’s major programs for the year ended June 30, 2020.

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

No findings or questioned costs were noted on the City’s major programs for the year ended June 30, 2019.