

# **City of Arvin**

Arvin, California

## **Single Audit Report**

*For the Year Ended June 30, 2015*





**City of Arvin**  
**Single Audit Report**  
**For the Year Ended June 30, 2015**

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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 *GOVERNMENTAL AUDITING STANDARDS***

***Independent Auditors' Report***

To the Honorable Mayor and Members of City Council  
of the City of Arvin  
Arvin, 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 Arvin, California (the "City") as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated August 23, 2016.

**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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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 were not 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 significant deficiencies.

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 to be material weaknesses as items 2015-01, 2015-02, 2015-03 and 2015-04.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than an material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies as items 2015-05 and 2015-06.

To the Honorable Mayor and Members of City Council  
of the City of Arvin  
Arvin, 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 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*.

### **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  
August 23, 2016



**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 OMB CIRCULAR A-133**

**Independent Auditors' Report**

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

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

We have audited the City of Arvin, California's (the "City") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2015. 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 the requirements of laws, regulations, contracts, and grants 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion 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, 2015.

### **Other Matter**

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2015-008. 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 OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *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 that we consider in the accompanying Schedule of Findings and Questioned Costs as items 2015-007 to 2015-009 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.

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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

To the Honorable Mayor and Members of City Council  
of the City of Arvin  
Arvin, California  
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**Report on the Schedule of Expenditures of Federal Awards Required by OMB Circular A-133**

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, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We have issued our report thereon dated August 23, 2016, 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 OMB Circular A-133 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.

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Santa Ana, California  
August 23, 2016

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**City of Arvin**  
**Single Audit Report**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended June 30, 2015**

Federal Grantor/Pass-Through Grantor Program Title	CFDA Number	Grant Award Number	Federal Expenditures
<b>U.S. Department of Housing and Urban Development</b>			
<i>Passes through County of Kern, California</i>			
CDBG - Entitlement Grants Cluster			
Community Development Block Grants/Entitlement Grants	14.218	12.12.1 - 12.12.1	\$ 13,854
<b>Total U.S. Department of Housing and Urban Development</b>			<b>13,854</b>
<b>U.S. Department of Justice</b>			
<i>Direct Program</i>			
Public Safety Partnership and Community Policing Grants	16.710	2013UMWX0017	23,832
<b>Total U.S. Department of Justice</b>			<b>23,832</b>
<b>U.S. Department of Transportation</b>			
<i>Passed through California State Department of Transportation</i>			
Highway Planning and Construction	20.205	STPL-5370(024)	417,746
Highway Planning and Construction	20.205	STPL-5370(026)	34,416
Total Highway Planning and Construction			452,162
ARRA - Formula Grants for Rural Areas	20.509	649809	65,879
<b>Total U.S. Department of Transportation</b>			<b>518,041</b>
<b>Total Expenditures of Federal Awards</b>			<b>\$ 555,727</b>

See accompanying Notes to Schedule of Expenditures of Federal Awards.

**City of Arvin**  
**Single Audit Report**  
**Notes to Schedule of Expenditures of Federal Awards**  
**For the Year Ended June 30, 2015**

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**Note 1 – Reporting Entity**

The financial reporting entity consists of the primary government, City of Arvin (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.

The City Council acts as the governing body and is able to impose its will on the following organizations, establishing financial accountability:

- The Arvin Joint Public Financing Authority

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

Basis of Accounting

Funds received under the various grant programs have been recorded within the special revenue and capital projects funds of the City. The City utilizes the modified accrual basis of accounting for the special revenue and capital projects funds. The accompanying Schedule of Expenditures of Federal Awards (the “Schedule”) is presented in accordance with the requirements of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. 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 assistances passed through the County of Kern, California and the State of California are included in the Schedule. The Schedule was prepared only from the accounts of various grant programs and, therefore, does not present the financial position or results of operations of the City.

**City of Arvin**  
**Single Audit Report**  
**Schedule of Findings and Questioned Costs**  
**For the Year Ended June 30, 2015**

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**Section I – Summary of Auditor’s Results**

**Financial Statements**

Types of auditors’ report issued: **Unmodified**

Internal control over financial reporting:

- Material weakness(es) identified? **2015-001 to 2015-004**
- Significant deficiency(ies) identified? **2015-005 and 2015-006**

Noncompliance material to financial statements noted? **No**

**Federal Awards**

Internal control over major federal programs:

- Material weakness(es) identified? **No**
- Significant deficiency(ies) identified? **2015-007-2015-009**

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 Section 510(a) of OMB Circular A-133 **Yes**

Identification of major federal programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>	<u>Expenditures</u>
20.205	Highway Planning and Construction	\$ 452,162
	<b>Total Expenditures of All Major Federal Programs</b>	<b>\$ 452,162</b>
	<b>Total Expenditures of Federal Awards</b>	<b>\$ 555,727</b>
	<b>Percentage of Total Expenditures of Federal Awards</b>	<b>81.36%</b>

Dollar threshold used to distinguish between type A and type B programs: **\$300,000**

Auditee qualified as low-risk auditee under Section 530 of OMB Circular A-133? **No**

**City of Arvin**  
**Single Audit Report**  
**Schedule of Findings and Questioned Costs (Continued)**  
**For the Year Ended June 30, 2015**

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**Section II – Financial Statement Findings**

**Finding 2015-001 Timeliness in Financial Reporting**

**Criteria:**

Management is responsible for the accuracy of the financial statements, including disclosures. As part of satisfying that responsibility, staff should possess the skills and knowledge necessary to complete the year-end close and diligently employ that knowledge and skill to produce reliable and accurate financial information.

**Condition:**

The bank reconciliation process was delayed significantly. At the time of fieldwork in November 2015, the bank reconciliation was only completed through February 2015. In addition, the bank reconciliation was subsequently revised for the entire fiscal year in June 2016.

The delay in bank reconciliation also affected the following accounts: due to other funds, due from other funds, accounts payables, transfers in, and transfers out. As a result, the preparation of the basic financial statements and the Single Audit report was delayed.

**Cause:**

The Finance Department did not have adequate accounting personnel with the appropriate skills, knowledge and experience to take on the financial responsibilities of the finances of the City.

**Effect:**

Delays in processing transactions timely and closing accounting periods can create accounting errors that could go undetected and may lead the financial statements to be materially misstated and create further delays in the release of audited financial statements. This also led to a prior period adjustment in the amount of \$264,965 under the General Fund to correct unknown errors.

**Recommendation:**

Finance Department should develop standard operating procedures to facilitate monthly and year end close process and the preparation of its basic financial statements. Because the basic financial statements are the responsibility of the City, it is in its own best interest to closely monitor the accounting process to ensure that financial position and operating results are accurately and timely reported. The following steps could be used to avoid future delays:

- Assign qualified accounting personnel in handling complex transactions;
- Identify critical due dates and develop a listing of assignment, including department coordinated items, based on available resources to meet those due dates;
- Hold periodic meetings to monitor the progress of assignments and responsibilities; and
- Conduct management review of financial statements and audit schedules prior to presenting them to the auditors

**City of Arvin**  
**Single Audit Report**  
**Schedule of Findings and Questioned Costs (Continued)**  
**For the Year Ended June 30, 2015**

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

**Finding 2015-001 Timeliness in Financial Reporting (Continued)**

**Views of Responsible Officials and Planned Corrective Actions:**

When the Finance Director came on board in May of 2014, several issues confronted him. The mid-year budget had not been done and the next year's budget had not been started. Several invoices to the government had not been sent to Cal Trans, which amounted to over \$1 million. Then on top of all this, the 2013-2014 audit was about to begin and no work in anticipation of the audit had been prepared. Responses were needed for a CalPERS Audit of 2012 and had not been done. Everything had to be created from scratch. As far as the audit goes, the worst part was that a bank reconciliation had not been done for over two years.

In addition, the finance department had many other significant challenges during this time. There were 3 audits requiring the same resources: The financial audit, the TDA audit and the Triennial audit. There were 2 union contracts being negotiated that required analysis. We also had a major grievance that required several years of information about our employees. Not only did we have to go back to 2004 for information, but the finance department had to work with CalPERS to obtain much of the information. The CalPERS computer system only had information going back to 2010. The rest had to be created by the CalPERS computer team. With all this, the financial auditors were requiring the finance department to fill in information that had not been obtained for the audit from the previous finance management.

With all the above due almost immediately, management also found it difficult to find personnel that was qualified to perform the tasks at hand. The original staff accountant was terminated due to her inability to handle complex information and did not have the education to actually be an accountant.

Fortunately, we were able to get through most of the above situations, but the bank reconciliations were the most complicated, since the records were in horrible shape and some records and documentation for the period in question were missing. The finance department moved forward with the available resources, but found that the staff was lacking significantly in experience and education.

In regards to redoing the bank reconciliations, in April of 2016 finance management had to terminate one of its temporary employees who was the main person performing bank reconciliations. During the audit, financial management determined that major errors had occurred in the reconciliations by the person creating the reconciliations. It was also determined that the previously completed reconciliations had been modified compounding the errors. The Finance Director had redo the entire year of bank reconciliations for the City and of course this created more delays in closing the audit.

While the finance department could use one more staff person to resolve issues with timeliness, the department on a whole is no more than three months behind in being able to report the financial results of a particular month. In addition, Bank reconciliations are now broken down into three sections. Perla, a City Accountant balances cash receipts and creates the deposit-in-transit list, while Elsa, our other City Accountant balances cash disbursements and creates the outstanding checks listing. Both of these items are then combined into a monthly bank reconciliation by Robert Ruiz, the Finance Director, which will be completed no later than one month after the month has ended.

**City of Arvin**  
**Single Audit Report**  
**Schedule of Findings and Questioned Costs (Continued)**  
**For the Year Ended June 30, 2015**

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

**Finding 2015-002 Cash Shortfalls**

**Criteria:**

Sound internal control over cash management prevents cash overdrafts and minimizes subsidies needed from other funds.

**Condition:**

Many of the funds had material cash shortfalls and required the General Fund to provide subsidy.

- CDBG Special Revenue Fund \$67,171
- RSTP Special Revenue Fund \$310,863
- Many of the cash shortfalls occurred in other funds were carried over from prior years due to lack of funding sources. The shortfalls were cleaned up by transferring funds from General Fund in the year ended June 30, 2016.

**Cause:**

The City's risk assessment process is lacking to timely perform the cash flow analysis. In addition, billings to the grantor agency are not requested frequently to ensure the City's cash needed is fulfilled.

**Effect:**

Due to lack of internal control over cash management, the City's General Fund had to subsidize the cash needs of other funds.

**Recommendation:**

We recommended the City to develop policy and procedures to bill the grantor agencies on quarterly basis instead of at the end of the project. It is also important to project cash needs for each fund more frequently and notify the department heads of all funds overdrawn.

**Views of Responsible Officials and Planned Corrective Actions:**

Whenever funds are expended for projects, the General Fund has to fund these projects until the Grant can reimburse the City. In the case of CDBG, the city authorized the funds to be paid for engineering in order to determine the cost of the Skate Park. The City received \$117,000 from Cal Endowment and \$15,000 from the Tony Hawk foundation, but too late for the 2014-2015 audit year. This is also similar to the other projects listed. The City has received the payment of \$310,863 for the RSTP project in the next fiscal year. This lag is normal, since there are several obstacles that must occur before a contractor's invoice can be paid and before the government will reimburse the city for completed work.

**City of Arvin**  
**Single Audit Report**  
**Schedule of Findings and Questioned Costs (Continued)**  
**For the Year Ended June 30, 2015**

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

**Finding 2015-003 Budget Process**

**Criteria:**

In order to promote a balanced financial condition, the City's budget needs ought to be evaluated thoroughly. In addition, mid-year budget review provides an assessment of the City's budget condition in the current fiscal year as compared to the adopted budget.

**Condition:**

Prior to commencing the Traffic HISP Derby Signal Light project, Sycamore Road Flood Reduction project, Safe Route to School project, the City did not properly secure the funding and resulted in General Fund subsidizing the costs during the year ended June 30, 2015.

Although a mid-year budget review was conducted, there was either no sufficient budget nor amended budget for many funds.

During the audit, we noted that there were no adopted operating budgets for Prop 1B Special Revenue Fund, Traffic HISP Derby Signal Light Special Revenue Fund, ARRA Grant Special Revenue Fund, Sycamore Road Flood Reduction Special Revenue Fund, JARC Capital Grant Special Revenue Fund, Prop 84 Park Special Revenue Fund, Safe Route to School Special Revenue Fund, and Jewett Square Development Capital Project Fund.

**Cause:**

The City did not have adequate risk assessment activities and monitoring control over its operating and capital project budget.

**Effect:**

The City's General Fund had to subsidize other special revenue funds where there were no other intergovernmental revenues to support the activities. It created significant financial burden to the City's General Fund.

**Recommendation:**

We recommended that the City go through thorough cost analysis for each project and to secure the funding during the design and planning phase of the project. We also recommended that the City maintain on going communication with the grantor to ensure the funding will be provided. In event the funding will not be provided, the City will terminate the project as early as possible to prevent incurring additional costs that will be not recovered.

In addition, the City should implement policy requiring mid-year budget review be conducted to ensure that the City's operating and project needs are monitored and adjusted accordingly.

**City of Arvin**  
**Single Audit Report**  
**Schedule of Findings and Questioned Costs (Continued)**  
**For the Year Ended June 30, 2015**

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

**Finding 2015-003 Budget Process (Continued)**

**Views of Responsible Officials and Planned Corrective Actions:**

The City has taken the position on a few projects to start working on the project prior to funding in order to be able to apply for funding immediately. We were aware that many agencies with grants were looking for projects that were “shovel ready”, which means that General Funds would have to be used.

This was the first budget that I created after being hired in May of 2014, so many items were left out due to lack of specific information or lack of documentation.

A formal mid-year review was completed and a new budget was created. The problem occurred that the City Engineer promised projects to be started and never met the deadlines on these projects. Delays occurred until the City engineer was replaced.

While we did have a formal process in place to project funding for any particular project, the previous City Engineer was never able to determine the correct timing of these projects. Since then the City Manager has had the City Engineer create a new CIP Capital Project book with a 5 year guideline for accounting to use to determine budgeting requirements for the 2016-2017 year.

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**Single Audit Report**  
**Schedule of Findings and Questioned Costs (Continued)**  
**For the Year Ended June 30, 2015**

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

**Finding 2015-004 PTMISEA Fence Project**

**Criteria:**

Program manager and management are responsible to understand the grant type and keep track of grant revenues and expenditures in order to ensure the accounting treatment for grant related revenues and expenditures is in accordance with accounting principles generally accepted in the United States of America.

**Condition:**

During the financial audit, we noted that the City recognized PTMISEA advance funding revenue in the prior year; however, the City has not spent the funding and not met the revenue recognition. This resulted in a prior period adjustment in the amount of \$171,366.

**Cause:**

The City's Finance Department is short staffed and the City had not been able to recruit experienced and skilled staff to share the workload.

**Effect:**

The City did not have a well structured Finance Department and it caused significant delay in financial reporting process and created accounting errors. In addition, it creates the risk of noncompliance. (also refer to Finding 2015-01 and 2015-05).

**Recommendation:**

We recommended that the City establish a well-defined accounting manual and grant management policies for City employees to follow and ensure the accounting treatment for grants is accurate and in compliance.

**Views of Responsible Officials and Planned Corrective Actions:**

The turmoil during the finance management's first few months in office created this situation. While the financial audit was occurring, another audit was also in process. The TDA audit required by Cal Trans and Kern COG is an audit of the transportation system and all grants related from the Public Transportation Modernization, Improvement, and Service Enhancement Account (PTMISEA funds). Included in the fund is the grant for the security fence that the City has been involved in for several years. The city received \$177,000 during the year, but did not spend the money. In order to accurately state the amounts in their proper categories, the financial statements had to make a prior period adjustment.

This year has been cleaned up of prior year's abuses and the financial statements will no longer have any of these issues

**City of Arvin**  
**Single Audit Report**  
**Schedule of Findings and Questioned Costs (Continued)**  
**For the Year Ended June 30, 2015**

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

**Finding 2015-005 Accounting Policies and Manuals**

**Criteria:**

Accounting policies and manuals would aid the Finance Department 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 does not have formal accounting policies and manuals, especially over the following key transaction classes:

- Financial reporting and closing, including bank reconciliation
- Cash receipts, revenue and receivables
- Cash disbursements, expenditures/expenses and payable
- Payroll process
- Capital assets
- IT policy and disaster recovery plan

In addition, the City's purchasing policy was last updated in 1978 and does not properly reflect the current procurement environment for municipalities. The City's policy for the year ended June 30, 2015 required sealed bids for single purchases over \$2,500.

Furthermore, the City's investment policy was last updated in 2006. As a result, the policy does not address the City's investment needs and has not been updated to the latest California Government Codes during the year ended June 30, 2015.

**Cause:**

The City lacked human resources to 1) draft and implement the accounting policies and manual and 2) review the policies regularly to ensure the polices and manuals are up to current laws and regulation and suit the City's needs.

**Effect:**

Without a comprehensive updated Accounting Manual, personnel responsible for the daily work and transactions may not have a clear understanding of their role and responsibilities or the accounting standards applicable to their function. In addition, the absence of updated standardized procedures has and will create inefficient and inconsistent processing of transactions. Absent clear guidance, delays in financial reporting may occur if staff is unaware of where to find the answers.

The outdated procurement policy creates increased burden to the procurement staff while the City is in need for human resources. Also, the outdated investment polices could lead to noncompliance with California Government Code by investing in the unallowable investment or in investments below the required credit ratings.

**City of Arvin**  
**Single Audit Report**  
**Schedule of Findings and Questioned Costs (Continued)**  
**For the Year Ended June 30, 2015**

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

**Finding 2015-005 Accounting Policies and Manuals (Continued)**

**Recommendation:**

We recommended that the City complete and update its accounting policies and manual for each significant transaction class. Management should ensure the accounting policies and manuals include at a minimum:

- Descriptions of functions each position performs
- Specific duties and responsibilities (desk procedures)
- Minimum required qualifications or standards
- City Council/Management approved policies relating to specific transactions
- Procedures for processing of specific financial activities
- Appropriate monitoring and review controls
- Update procurement and investment policies

**Views of Responsible Officials and Planned Corrective Actions:**

The Financial Policies Manual was created during the fiscal year 15-16 and have been approved recently by the City council in June 2016.

**City of Arvin**  
**Single Audit Report**  
**Schedule of Findings and Questioned Costs (Continued)**  
**For the Year Ended June 30, 2015**

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

**Finding 2015-006 City’s Finance Organization**

**Criteria:**

A solid internal control environment allows management to establish structures, reporting lines, and appropriate authorities and responsibilities to achieve financial reporting objectives. It also holds individual accountable for their internal control responsibilities.

**Condition:**

The City has operated for many years with limited accounting support staff and significant turnover in Finance Director position resulting in a lack of segregation of duties, and inadequate thorough review, analysis and reconciliation of financial transactions.

**Cause:**

The City’s Finance Department is short staffed and the City had not been able to recruit experienced and skilled staff to share the workload.

**Effect:**

The City did not have a well structured Finance Department and it caused significant delay in financial reporting process. It created significant burden to the Finance Director and remaining Finance staff, increased the risk for error and noncompliance, and caused delay in financial reporting (also refer to Finding 2015-01).

**Recommendation:**

We recommended that the City establish a well-defined Finance Department and prioritize filling its accountant vacancies. The organization restructuring of the Finance Department will only be successful if the positions it relies upon are filled.

**Views of Responsible Officials and Planned Corrective Actions:**

The City has recently reorganized and changed its structure. In the past the finance department was comprised of a finance director, an accountant and an accounting clerk. The finance department has replaced the accounting clerk position with a degreed accounting graduate. Management has determined that this will function at a better pace to keep up with demands of the finance department, which includes financial audits, bank reconciliations and monthly closings.

**City of Arvin**  
**Single Audit Report**  
**Schedule of Findings and Questioned Costs (Continued)**  
**For the Year Ended June 30, 2015**

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**Section III – Federal Awards Findings**

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

**Finding 2015-007 Accurate Preparation of the Schedule of Expenditures of Federal Awards**

**Programs:**

Community Development Block Grants / Entitlement Grants (CFDA Number 14-218, U.S. Department of Housing and Urban Development, 12.12.1 – 12.12.1)

Highway Planning and Construction (CFDA Number 20.205, U.S. Department of Transportation, STPL-5370(024) and STPL-5370(026)

**Criteria:**

Under OMB Circular A-133, Subpart C – Auditees, §\_\_\_.300 Auditee responsibilities, the auditee shall:

“(a) Identify, in its accounts, all Federal awards received and expended and the Federal programs under which they were received. Federal program and award identification shall include, as applicable, the CFDA title and number, award number and year, name of the Federal agency, and name of the pass-through entity.

(b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.

(c) Comply with laws, regulations, and the provisions of contracts or grant agreements related to each of its Federal programs.

(d) Prepare appropriate financial statements, including the schedule of expenditures of Federal awards in accordance with §\_\_\_.310.”

**Condition:**

During our reviewing of the Schedule of Expenditures of Federal Awards (“Schedule”) provided by the City, we noted the following:

The City did not report correct Federal expenditures based on actual expenditures for the Community Development Block Grants program in the Schedule provided.

The City did not identify CFDA number and grant award number for the police grant reported in the Schedule provided.

The City did not report correct Federal expenditures based on actual expenditures for the Highway Planning and Construction program in the Schedule provided. In addition, the City reported a state grant in the Schedule provided.

**City of Arvin**  
**Single Audit Report**  
**Schedule of Findings and Questioned Costs (Continued)**  
**For the Year Ended June 30, 2015**

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**Section III – Federal Awards Findings (Continued)**

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

**Finding 2015-007 Accurate Preparation of the Schedule of Expenditures of Federal Awards (Continued)**

**Cause:**

There was a lack of communication between departments to the Finance to correctly identify the funding sources and the status of the programs. The departments did not provide the grant agreements to Finance for verification.

**Effect:**

The federal expenditure amounts, funding agreements number and grantor information provided to federal audit clearinghouse may be inaccurate, leading to potential noncompliance with reporting requirements and incorrect identification of major programs.

**Questioned Cost:**

None

**Recommendation:**

We recommended the City establish and follow appropriate internal control procedures to ensure that all expenditures of federal awards, grant agreements, grantors for the fiscal year are accurately reported in the Schedule.

**Views of Responsible Officials and Planned Corrective Actions:**

The finance director has been requiring the City Engineer and the City Clerk to provide the proper documentation for all projects, which includes both state and federal awards, as these documents are being received. The problems identified in this report originated in projects that had been authorized but dormant for several years. Now, recently activated, these projects had missing information that the current finance director had to obtain from several sources. In addition to the above the finance director has created reports that detail the proper expenditures for the federal projects. During the audit examination the finance director created a report for federal awards that will be the basis of next year's report.

These reports now include all the necessary information to complete the next year's audit.

**City of Arvin**  
**Single Audit Report**  
**Schedule of Findings and Questioned Costs (Continued)**  
**For the Year Ended June 30, 2015**

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**Section III – Federal Awards Findings (Continued)**

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

**Finding 2015-008 – Internal Controls and Compliance Over Matching**

**Program:**

Highway Planning and Construction (CFDA Number 20.205, U.S. Department of Transportation, STPL-5370(024) and STPL-5370(026))

**Criteria:**

In accordance with the OMB A-133 June 2015 Compliance Supplement, under the matching monitoring requirement, it states that a supervisory review of matching activities should be performed to assess the accuracy and allowability of transactions.

**Condition:**

During our testing reimbursement requests, we noted that the City used the incorrect matching percentage on the construction engineering phase for the reimbursement requests and continuously receiving rejections on the reimbursement requests.

**Cause:**

The review process over reimbursement request is lacking to ensure the matching requirement is met.

**Effect:**

The incorrectly calculated matching requirement led to rejections on the reimbursement requests from the grantor. In addition, it might lead the City loose its funding sources.

**Questioned Cost:**

None

**Recommendation:**

We recommended that the City establish a well-defined grant management polices and procedures to ensure the City is in compliance with grant requirements.

**Views of Responsible Officials and Planned Corrective Actions:**

As indicated previously, the files on these grants have been lacking documentation. The financing statements were not in the files or were not always given to the finance department. The finance department assumes nothing has changed from prior billing reports, but there are many times that this is not the case. It is not unusual that funds are authorized for a particular project at 90% matching and then during the next billing cycle, the matching changes to 88.53%. That will require revisions by Cal Trans to send the City invoice to be revised. Also, the requirements for getting reimbursed by Cal Trans changes on a regular basis. Rules change or forms change and this leads to more revised reimbursement requests.

**City of Arvin**  
**Single Audit Report**  
**Schedule of Findings and Questioned Costs (Continued)**  
**For the Year Ended June 30, 2015**

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**Section III – Federal Awards Findings (Continued)**

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

**Finding 2015-009 – Internal Controls over Procurement**

**Program:**

Highway Planning and Construction (CFDA Number 20.205, U.S. Department of Transportation, STPL-5370(024) and STPL-5370(026))

**Criteria:**

In accordance with the OMB A-133 June 2016 Compliance Supplement, Part 6, Internal Control, under the control activities, it states that operating policies and procedures exist and are clearly written and communicated.

**Condition:**

During our testing over procurement, we noted that the City did not have a formal adopted procurement policy that incorporates the procurement requirements from federal guidelines.

**Cause:**

The City lacked human resources to 1) draft and implement the accounting policies and manual and 2) review the policies regularly to ensure the polices and manuals are up to current laws and regulation and suit the City's needs.

**Effect:**

Lack of formal adopted policies and procedures might lead the City not in compliance with the Federal requirements.

**Questioned Cost:**

None

**Recommendation:**

We recommended that the City establish a well-defined procurement policy and incorporate with grant management to ensure the City is in compliance with grant requirements.

**Views of Responsible Officials and Planned Corrective Actions:**

By having the Council approve the Financial Management Policies Manual, we have started the process of making certain that the City is in accordance with accounting rules for properly stating our financial position. In addition, financial management is refining these policies on a regular basis to make certain that the City has strong procurement policies in place, which means that we will need to assure that our policies are in compliance with our municipal code. We have been updating our municipal codes as needed, but further improvements still need to be made.

**City of Arvin**  
**Single Audit Report**  
**Schedule of Findings and Questioned Costs (Continued)**  
**For the Year Ended June 30, 2015**

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**Section III – Federal Awards Findings (Continued)**

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

No findings or questioned costs were noted on the City's major program for the year ended June 30, 2014.