

City of Arvin

Arvin, California

Single Audit Report

For the Year Ended June 30, 2017

City of Arvin
Single Audit Report
For the Year Ended June 30, 2017

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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 the 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, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated July 31, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting ("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 did identify 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 as items 2017-001, 2017-002, and 2017-003 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 deficiencies described in the accompanying Schedule of Findings and Questioned Costs as item 2017-004 to be significant deficiencies.

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To the Honorable Mayor and the Members of City Council
of the City of Arvin
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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
July 31, 2018



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 the 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 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2017. The City's major federal programs are identified in the summary of 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 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; 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, 2017.

Other Matters

The results of our audit procedures disclosed instances of noncompliance, which are required to be reported in accordance with Uniform Guidance and which are described in the accompanying Schedule of Findings and Questions Costs as items 2017-007 and 2017-008. 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 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 or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weakness. However, we did identify certain deficiencies in internal control over compliance, described in the accompany Schedule of Findings and Questioned Costs as items 2017-005 to 2017-008, 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 subject 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.

To the Honorable Mayor and the 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 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, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated July 31, 2018, 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 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
July 31, 2018

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

Federal Grantor/Pass-Through Grantor Program Title	CFDA Number	Grant Award Number	Federal Expenditures
U.S. Department of Housing and Urban Development			
<i>Passes through County of Kern, California</i>			
CDBG - Entitlement Grants Cluster			
Community Development Block Grants/Entitlement Grants	14.218	12.13.1	\$ 92,915
Community Development Block Grants/Entitlement Grants	14.218	12.14.1	401,981
Total CDBG - Entitlement Grants Cluster			<u>494,896</u>
Total U.S. Department of Housing and Urban Development			<u>494,896</u>
U.S. Department of Justice			
<i>Direct Program</i>			
Public Safety Partnership and Community Policing Grants	16.710	2013UMWX0017	27,303
Total U.S. Department of Justice			<u>27,303</u>
U.S. Department of Transportation			
<i>Passed through California State Department of Transportation</i>			
Highway Planning and Construction Cluster			
Highway Planning and Construction	20.205	STPL-5370(024)	20,112
Highway Planning and Construction	20.205	HSIPLN-5370(025)	26,650
Highway Planning and Construction	20.205	STPL-5370(026)	584,680
Highway Planning and Construction	20.205	STPL-5370(028)	19,666
Total Highway Planning and Construction Cluster			<u>651,108</u>
Total U.S. Department of Transportation			<u>651,108</u>
Total Expenditures of Federal Awards			<u>\$ 1,173,307</u>

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, 2017

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 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 (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the “Uniform Guidance”). 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 State of California Department of transportation and the County of Kern, California are also 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.

Indirect Cost Rate

The City did not elect to use the 10% de minimis indirect cost rate.

City of Arvin
Single Audit Report
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2017

Section I – Summary of Auditor’s Results

Financial Statements

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

Internal control over financial reporting:

- Material weakness(es) identified? **2017-001 to 2017-003**
- Significant deficiency(ies) identified? **2017-004**

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

Federal Awards

Internal control over major federal programs:

- Material weakness(es) identified? **No**
- Significant deficiency(ies) identified? **2017-005 to 2017-008**

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 with 2 CFR 200.516(a)? **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 Cluster	\$ 651,108
	Total Expenditures of All Major Federal Programs	\$ 651,108
	Total Expenditures of Federal Awards	\$ 1,173,307
	Percentage of Total Expenditures of Federal Awards	55.49%

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

Auditee qualified as a low-risk auditee under 2 CFR 500.520? **No**

City of Arvin
Single Audit Report
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2017

Section II – Financial Statement Findings

A. Current Year Findings

Finding 2017-001 City’s Finance Organization

Criteria:

Control environment sets the tone of an organization, influencing the control consciousness of its people. It is the foundation on which an effective system of internal control is built and operated in an organization that strives to:

1. Achieve its strategic objectives,
2. Provide reliable financial reporting to internal and external stakeholders,
3. Operate its business efficiently and effectively,
4. Comply with all applicable laws and regulations, and
5. Safeguard its assets.

Control environment factors include the integrity, ethical values, and competence of the City’s personnel, management’s philosophy and operating style, the way management assigns authority and responsibility, and organizes and develops its people, and the attention and direction provided by the City Council.

Condition:

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

Cause:

The City’s Finance Department was short staffed. The City also experienced in turnover in key management positions. Although the open positions were filled, the Finance Department had to catch up with backlogs and deal with the day to day activities.

Effect:

The turnover created a significant burden to the Finance Director and remaining Finance staff, increased the risk for errors and noncompliance, and resulted in delays in the financial statement closing process. Also, see finding 2017-002 and 2017-003.

Recommendation:

We recommended the City establish a well-defined Finance Department and recruit experienced/competent accounting personnel. We also recommended the City evaluate the breadth of the Finance Department workload and take steps to fill necessary positions and define or redefine the roles and responsibilities of each position in order to strengthen its internal control over financial reporting and compliance.

Views of Responsible Officials:

City management concurs with this recommendation.

City of Arvin
Single Audit Report
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2017

Section II – Financial Statement Findings (Continued)

A. Current Year Findings (Continued)

Finding 2017-002 Cash Shortfalls

Criteria:

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

Condition:

The City has been paying many of the grant related expenditures through the General Fund which resulted in material cash deficit in the General Fund. Many of the funds had material cash shortfalls and required short-term borrowing from the General Fund, and restricted funds, such as the Traffic Impact Fees Special Revenue Fund and Sanitation Enterprise Fund. Below is the list of the funds with material cash shortfalls as of June 30, 2017:

- General Fund \$2,171,693
- State Gas Tax Special Revenue Fund: \$383,271
- Transportation Development Act (Non-Transit) Special Revenue Fund \$531,015
- Prop 84 Park Special Revenue Fund \$148,975
- Transportation Development Proprietary Fund \$1,069,897
- Traffic HSIP Derby Signal Light Special Revenue Fund \$26,087
- CDBG Special Revenue Fund \$210,456
- State Gas Tax Special Revenue Fund \$8,057

We also noted that some of the Special Revenue Funds transferred material unbudgeted amounts to subsidize the General Fund cash flow as follow:

- Capital Project Jewett Square Development Capital Project Fund transferred \$219,000 to General Fund
- Traffic Impact Fees Special Revenue Fund transferred \$132,000 to General Fund

Although a mid-year budget review was conducted, continuing monitoring of the budget did not prevent or detect expenditures exceeding final appropriations in various funds. Refer to Note 10B of the City's Basic Financial Statements for details.

Cause:

The City's risk assessment process is inadequate 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:

The City's General Fund, Traffic Impact Fees Special Revenue Fund and Sanitation Enterprise Fund were used to subsidize the cash needs of other funds.

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

Section II – Financial Statement Findings (Continued)

A. Current Year Findings (Continued)

Finding 2017-002 Cash Shortfalls (Continued)

Recommendation:

We recommended the City develop policy and procedures to bill the grantor agencies on a regular basis instead of at the end of the project. It is also important to project and analyze the cash needs for each fund more frequently and precisely. We also recommended the City properly separate grant related expenditures from the General Fund expenditures.

We also recommended the City work closely with the departments to ensure expenditures are within the budgets to avoid further burden the General Fund.

Views of Responsible Officials:

City management concurs with this recommendation.

City of Arvin
Single Audit Report
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2017

Section II – Financial Statement Findings (Continued)

A. Current Year Findings (Continued)

Finding 2017-003 Internal Control Over Financial Reporting/Accounting Close and Accuracy in Financial Reporting

Criteria:

Management is responsible for designing, implementing, and maintaining appropriate internal control over financial reporting and compliance. Effective internal control over financial reporting provides reasonable assurance for the completeness and accuracy of accounting records and proper year-end closing. Internal control is defined as a process implemented and monitored by the City Council, management, and other personnel that provides reasonable assurance that the objectives of the City will be achieved. Internal control is not one event, but a series of events that occur throughout an entity's operations. The City's internal control system should be designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- Reliability of financial reporting for internal and external use;
- Effectiveness and efficiency of operations; and
- Compliance with applicable laws and regulations.

Management is responsible for properly account for the existence/occurrence, completeness, rights or obligations, valuation or allocation, accuracy or classification, and cut-off of the account balances and classes of transactions of the accounting records.

Condition:

During the audit, 37 audit journal entries were recorded to correct the trial balance provided by the City. In addition, we also noted that many of the invoices were not properly accrued in the correct fiscal year during our audit and grant expenditures were not accurately reported in the Schedule of Expenditures of Federal Awards. Also see finding 2017-005.

Cause:

The City experienced turnover of the Finance Director and lacked experienced accounting staff in the Finance Department. The City also did not have internal controls over the financial statement closing process to reduce errors recorded in the City's general ledger. In addition, the City did not a formal policy over recording accounts payable and expenditures.

Effect:

Delays in processing transactions timely and closing accounting periods can create accounting errors from being prevented or detected and may lead the financial statements to be materially misstated and create further delays in the release of audited financial statements.

Lack of procedures over recording accounts payable and expenditures resulted in understatements of accounts payable and expenditures in the amount of \$609,989

City of Arvin
Single Audit Report
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2017

Section II – Financial Statement Findings (Continued)

A. Current Year Findings (Continued)

Finding 2017-003 Internal Control Over Financial Reporting/Accounting Close and Accuracy in Financial Reporting (Continued)

Recommendation:

We recommended that the City establish effective procedures that reduce the risk of accounting errors. These procedures would include timely review and approval by management of account reconciliations, sub-ledger transactions, existence/occurrence, completeness, rights or obligations, valuation or allocation, accuracy or classification, and cut-off of accounts at fund and overall government-wide level. Revenue and expenditures/expenses should be compared to the prior year or prior year trends and to the budget. We also recommended the City establish a systemic reviewing process over its manual journal entry process to ensure each journal entry is attached with adequate descriptions and supporting documentations.

Views of Responsible Officials:

City management concurs with this recommendation.

City of Arvin
Single Audit Report
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2017

Section II – Financial Statement Findings (Continued)

A. Current Year Findings (Continued)

Finding 2017-004 Internal Control over Capital Assets

Criteria:

Management is responsible for establishing sound internal controls over capital assets.

Condition:

During our audit, we noted that the City did not perform a full inventory count over its capital assets. We also noted that the City did not capitalize some of the capital assets and the capital leased assets.

The City uses manual process to keep track of capital assets related expenditures in the Excel files. In addition, the capital assets sub-ledger was not integrated with the City's general ledger.

Cause:

The City did not have a formal policy in place to perform the inventory count periodically. In addition, the City did not have a formal review process over the completeness and accuracy of the accounting records over the City's capital expenditures. Due to the capital expenditures being reported throughout the funds, the reconciliation process became very cumbersome. Also, the City's accounting system does not have the capacity to keep track of capital assets individually.

Effect:

Without a full inventory count over the City's capital assets, the management might not be able to represent the completeness and valuation or allocation of capital assets. Lack of integration of the capital assets with the general ledger system increases the chances of errors.

Recommendation:

We recommend the City adopt a capital assets policy and also perform capital outlay analysis on an annual basis to determine whether the capital related expenditures should be expensed or capitalized. We also recommend the City review historical records of capital assets purchased by the City in order to determine their proper classification. Furthermore, the City should perform an inventory of the capital assets on periodic basis to ensure all the capital related purchases were properly reported.

Views of Responsible Officials:

City management concurs with this recommendation.

City of Arvin
Single Audit Report
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2017

Section II – Financial Statement Findings (Continued)

A. Prior Year Findings

Finding 2016-001 City’s Finance Organization

Condition:

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

Recommendation:

We recommended the City establish a well-defined Finance Department and recruit experienced/competent accounting personnel. We also recommended the City evaluate the breadth of the Finance Department workload and take steps to fill necessary positions and define or redefine the roles and responsibilities of each position in order to strengthen its internal control over financial reporting and compliance.

Status:

See current year finding 2017-001.

Finding 2016-002 Internal Control Over Financial Reporting/Accounting Close and Accuracy in Financial Reporting

Condition:

Since the commencement of 2016 the audit, fifty-eight journal entries were provided to correct the trial balance provided by the City. Many of the entries provided were to correct entries previously posted. In addition, many of the journal entries posted did not have adequate description or supporting documentations.

We also noted that many of the invoices were not properly recorded in the correct fiscal year during our audit.

Recommendation:

We recommended that the City establish effective year end closing procedures that reduce the risk that there are 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 a fund and overall government-wide level, and revenue and expenditures/expense review. Revenue and expenditures/expenses should be compared to the prior year or prior year trends and to the budget. We also recommended the City establish a systemic reviewing process over its manual journal entry process to ensure each journal entry is attached with adequate descriptions and supporting documentations.

Status:

See current year finding 2017-003.

City of Arvin
Single Audit Report
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2017

Section II – Financial Statement Findings (Continued)

B. Prior Year Findings (Continued)

Finding 2016-003 Reconciliation of Interfund Transactions

Condition:

Management has not adopted a methodology for reviewing and reconciling interfund transactions. The manual journal entry form had incorrect default set up to report interfund transactions.

Recommendation:

We recommended that the City establish and implement policies to ensure proper use of interfund accounts, In addition, the reconciliation should be performed timely to ensure the interfund accounts are balanced.

Status:

Finding was resolved during June 30, 2017.

Finding 2016-004 Deficit Cash Balances

Condition:

We noted that the City improperly deposited and reported restricted cash with the General Fund. Also, the General Fund used restricted fund to pay for expenditures incurred. In addition, the City had been paying many of the grant related expenditures through the General Fund which resulted in material cash deficit under the General Fund. Many of the funds had material cash shortfalls and required to short-term borrowing from the General Fund or Traffic Impact Fees Special Revenue Fund. Below is the list of the funds with material cash shortfalls as of June 30, 2016:

- General Fund \$487,846
- Transportation Development Proprietary Fund \$438,612
- Prop 84 Park Special Revenue Fund \$113,959
- Safe Route to School Fund \$395,277

During our audit, we also noted significant delaying in requesting reimbursements for grant revenues. The General Fund was used to pay for other funds and resulted in cash deficit under the General Fund. In addition, the City did not maintain reconciliation of program expenditures and reimbursement requests, which further caused the delay.

Recommendation:

We recommended the City to develop policy and procedures to bill the grantor agencies on a regular basis instead of at the end of the project. It is also important to project cash needs for each fund more frequently and precisely. We also recommended the City to properly separate grant related expenditures from the General Fund expenditures.

Furthermore, we also recommended the City timely submit reimbursement requests to grantor in order to obtain grant funding to pay for associated expenditures.

Status:

See current year finding 2017-002.

City of Arvin
Single Audit Report
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2017

Section II – Financial Statement Findings (Continued)

B. Prior Year Findings (Continued)

2016-005 Budget Process

Condition:

Although a mid-year budget review was conducted, there was no sufficient budget adjustments for many funds. The City had to request City Council's approval subsequently for additional appropriations.

Recommendation:

We recommended the City go through cost analysis for each project and to secure the funding during the design and planning phase of each project.

Status:

Finding was resolved during June 30, 2017.

Finding 2006-006 Capital Assets

Condition:

The City uses manual process to keep track of capital assets related expenditures in the Excel files. In addition, the capital assets sub-ledger was not integrated with the City's general ledger.

Recommendation:

We recommended the City reconcile the City's general ledger to project worksheets on a quarterly basis to ensure all capital related expenditures in the City's general ledger are reconciled to the project worksheets. We also recommended the City record capital expenditures in the appropriate funds instead of across various fund for the same project.

Status:

See current year finding 2017-004.

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

Section III – Federal Awards Findings

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

Finding 2017-005 Accurate Preparation of the Schedule of Expenditures of Federal Awards

Information on the Federal Programs:

Community Development Block Grants / Entitlement Grants (CFDA Number 14.218, U.S. Department of Housing and Urban Development, 12.13.1 and 12.14.2)

Public Safety Partnership and Community Policing Grants (CFDA Number 16.710, U.S. Department of Justice, 2013UMWX0017)

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

Criteria:

According to 2 CFR 200.302 (a), “The state’s and the other non-Federal entity’s financial management systems, including records documenting compliance with Federal statutes, regulations, and the terms and conditions of the Federal award, must be sufficient to permit the preparation of reports required by general and program-specific terms and conditions; and the tracing of funds to a level of expenditures adequate to establish that such funds have been used according to the Federal statutes, regulations, and the terms and conditions of the Federal award.”

According to 2 CFR 200.302 (b), “The financial management system of each non-Federal entity must provide for the following:

- (2) Accurate, current, and complete disclosure of the financial results of each Federal award or program in accordance with the reporting requirements set forth in § 200.327 Financial reporting and 200.328 Monitoring and reporting program performance.
- (3) Records that identify adequately the source and application of funds for federally-funded activities. These records must contain information pertaining to Federal awards, authorizations, obligations, unobligated balances, assets, expenditures, income and interest and be supported by source documentation.”

Condition:

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

The City reported nonfederal related expenditures for the Community Development Block Grants program in the Schedule provided which resulted in the Schedule was overstated by \$233,570.

The City did not include one of the award programs in the Schedule provided for the Community Development Block Grants program.

The City did not consider the matching requirement for Public Safety Partnership and Community Policing Grants which resulted in the overstatement of \$30,824.

City of Arvin
Single Audit Report
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2017

Section III – Federal Awards Findings (Continued)

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

Finding 2017-005 Accurate Preparation of the Schedule of Expenditures of Federal Awards (Continued)

Condition (Continued):

The City did not report correct Federal expenditures based on actual expenditures for the Highway Planning and Construction program in the Schedule provided which resulted in understatement of \$9,623 in the Schedule.

Questioned Cost:

None

Context:

See Condition above for context of the finding.

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.

Cause:

There was a lack of communication between departments to the Finance to correctly identify the funding sources and the status of the programs.

Identification as a Repeat Finding, If Applicable:

Not applicable

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:

City management concurs with this recommendation.

City of Arvin
Single Audit Report
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2017

Section III – Federal Awards Findings (Continued)

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

**Finding 2017-006 – Procurement and Suspension, and Debarment – Internal Control over Verification
Against the System for Award Management (“SAM”)**

Information on the Federal Programs:

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

Criteria:

Suspension and Debarment, Non-Federal entities are prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred. “Covered transactions” include those procurement contracts for goods and services awarded under a nonprocurement transaction (e.g., grant or cooperative agreement) that are expected to equal or exceed \$25,000 or meet certain other criteria as specified in 2 CFR section 180.220. All nonprocurement transactions entered into by a recipient (i.e., subawards to subrecipients), irrespective of award amount, are considered covered transactions, unless they are exempt as provided in 2 CFR section 180.215.

When a non-Federal entity enters into a covered transaction with an entity at a lower tier, the non-Federal entity must verify that the entity, as defined in 2 CFR section 180.995 and agency adopting regulations, is not suspended or debarred or otherwise excluded from participating in the transaction. This verification may be accomplished by (1) checking the System for Award Management (SAM) Exclusions maintained by the General Services Administration (GSA) and available at <https://www.sam.gov/portal/public/SAM/> (Note: The OMB guidance at 2 CFR part 180 and agency implementing regulations still refer to the SAM Exclusions as the Excluded Parties List System (EPLS)), (2) collecting a certification from the entity, or (3) adding a clause or condition to the covered transaction with that entity (2 CFR section 180.300).

Condition:

During our audit, we noted that the City did not have documentation on verifying the vendors against the SAM to ensure that they were not suspended or debarred from federally—funded purchases.

Questioned Cost:

None

Context:

See condition above for context for the finding.

Effect:

Without verifying whether vendors are suspended or debarred from working on federally-funded projects, the City could be contracting with vendors that are prohibited from working on federally-funded projects.

Cause:

The City does not have a formal policy to require departments to perform suspension or debarment over vendors that the City makes contracts with federally-funded projects.

City of Arvin
Single Audit Report
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2017

Section III – Federal Awards Findings (Continued)

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

**Finding 2017-006 – Procurement and Suspension, and Debarment – Internal Control over Verification
Against the System for Award Management (“SAM”) (Continued)**

Identification as a Repeat Finding, If Applicable:

Not applicable

Recommendation:

We recommended the City establish proper internal control procedures to monitor compliance requirements to ensure vendors are not suspended or debarred from federally-funded purchases.

Views of Responsible Officials:

City management concurs with this recommendation.

City of Arvin
Single Audit Report
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2017

Section III – Federal Awards Findings (Continued)

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

Finding 2017-007 – Internal Controls and Compliance over Reporting

Information on the Federal Program:

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

Criteria:

Pursuant the Program Supplement to N016 Rev. 1 to Administering Agency-State Agreement for Federal-Aid Projects No. 06-5370R Project Number: STPL-5370(026), “Administering Agency agrees to submit the final report documents that collectively constitutes a “Report of Expenditures” within one hundred eighty (180) days of project completion.

Condition:

During our testing on reporting, we noted that the City did not submit the final invoice/report of expenditures within one hundred eighty (180) days after the project completion. The project was completed on January 1, 2017 and the final invoice/report of expenditures was submitted on October 11, 2017.

Questioned Cost:

None

Context:

See condition above for context of the finding.

Effect:

Delay in submitting the final invoice/report of expenditures resulted in noncompliance with grant requirement and might also result in cash flow issues for the City.

Cause:

The City does not have formal policies and procedures in place to ensure the final invoice/report of expenditures is submitted timely.

Identification as a Repeat Finding, If Applicable:

Not applicable

Recommendation:

We recommended the City establish a comprehensive policies and procedures to specify the deadlines for the required reporting for the City staff to follow.

Views of Responsible Officials:

City management concurs with this recommendation.

City of Arvin
Single Audit Report
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2017

Section III – Federal Awards Findings (Continued)

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

Finding 2017-008 – Special Tests and Provision - Internal Controls and Compliance over Quality Assurance Program

Information on the Federal Program:

Highway Planning and Construction (CFDA Number 20.205, U.S. Department of Transportation, STPL-5370(024), HSIPLN-5370(025), STPL-5370(026), and STPL-5370(028))

Criteria:

Pursuant to the Uniform Guidance April 2017 Compliance Supplement, Highway Planning and Construction Cluster, Quality Assurance Program:

A State DOT or LPA must have a quality assurance (QA) program, approved by FHWA, for construction projects on the NHS to ensure that materials and workmanship conform to approved plans and specifications. Verification sampling must be performed by qualified testing personnel employed by the State DOT, or by its designated agent, excluding the contractor (23 CFR sections 637.201, 637.205, and 637.207).

Pursuant to the City's QA program, the program should be updated every five years or more frequent if there are changes of the testing frequencies or to the tests themselves.

Condition:

During our audit, we noted that is no proof of approvals on the City's QA programs by FHWA or State DOT. In addition, the QA program was not updated timely. From March 2017 till October 2017, the City did not have a valid QA program. Furthermore, the updated QA program on October 2017 was not signed by the approved personnel.

Questioned Cost:

None

Context:

See condition above for context of the finding.

Effect:

The City was not in compliance with the compliance requirements related to the QA program.

Cause:

The City did not have sufficient monitoring control over the QA program's five year requirement and approval process.

Identification as a Repeat Finding, If Applicable:

Not applicable

City of Arvin
Single Audit Report
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2017

Section III – Federal Awards Findings (Continued)

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

Finding 2017-008 – Special Tests and Provision - Internal Controls and Compliance over Quality Assurance Program (Continued)

Recommendation:

We recommended the City establish a comprehensive policies and procedures to meet the compliance requirements.

Views of Responsible Officials:

City management concurs with this recommendation.

City of Arvin
Single Audit Report
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2017

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, 2016.