

**CITY OF DELANO  
Delano, California**

**Single Audit Report on Federal Awards**

Year ended June 30, 2015

**CITY OF DELANO**

Single Audit Report on Federal Awards

Year ended June 30, 2015

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Honorable Mayor and City Council  
City of Delano  
Delano, California

**Report on Internal Control Over Financial Reporting and on Compliance and Other  
Matters Based on an Audit of Financial Statements Performed in Accordance with  
*Government Auditing Standards***

**Independent Auditors' Report**

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 Delano, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City of Delano's basic financial statements, and have issued our report thereon dated February 12, 2016.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the City of Delano'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 of Delano's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Delano'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 audit findings and questioned costs, we identified a certain deficiency in internal control that we consider to be a material weakness.

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 item 2015-001 described in the accompanying schedule of audit findings and questioned costs to be a material weakness.

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 item 2015-002 described in the accompanying schedule of audit findings and questioned costs to be a significant deficiency.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City of Delano'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.

### **City of Delano's Response to Findings**

The City of Delano's responses to the findings identified in our audit is described in the accompanying schedule of audit findings and questioned costs. The City of Delano's response were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

### **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 blue ink that reads "Davis Fan UP". The signature is written in a cursive, flowing style.

Irvine, California  
February 12, 2016

Honorable Mayor and City Council  
City of Delano  
Delano, California

**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**

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

We have audited the City of Delano's 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 of Delano's major federal programs for the year ended June 30, 2015. The City of Delano's major federal programs are identified in the summary of auditors' 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.

***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for each of the City of Delano'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 of Delano'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 of Delano's compliance.

### ***Opinion on Each Major Federal Program***

In our opinion, the City of Delano complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

### **Report on Internal Control Over Compliance**

Management of the City of Delano 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 of Delano'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 of Delano's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

### **Report on 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 of Delano as of and for the year ended June 30, 2015, and the related notes to the financial statements,

Honorable Mayor and City Council  
City of Delano, California  
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which collectively comprise the City of Delano's basic financial statements. We issued our report thereon dated February 12, 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 additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of 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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Irvine, California  
February 12, 2016

**CITY OF DELANO**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
For the year ended June 30, 2015

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Federal Expenditures</u>
<b><u>U.S. Department of Housing and Urban Development</u></b>			
CDBG Entitlement Grants Cluster:			
Community Development Block Grant Program	14.218	N/A	\$ 762,596
<b>Total U.S. Department of Housing and Urban Development</b>			<b><u>762,596</u></b>
<b><u>Environmental Protection Agency Office of Water</u></b>			
Passed through California Department of Public Health:			
Safe Drinking Water SRF Program	66.468	SRF2010CX105	1,614,207
<b>Total Environmental Protection Agency Office of Water</b>			<b><u>1,614,207</u></b>
<b><u>U.S. Department of Transportation</u></b>			
Highway Planning and Construction Cluster:			
Passed through California Department of Transportation:			
Various Streets Rehabilitation, Resurfacing & Shoulder Improvement Project	20.205	STPCML-5227(045)	1,064,920
Various Streets Rehabilitation, Resurfacing & Shoulder Improvement Project	20.205	STPCML-5227(046)	1,264,035
Safe Routes To School Project. To upgrade and improve the streets along school routes to increase safety.	20.205	SRTSL-5227(042)	271,660
<b>Total U.S. Department of Transportation</b>			<b><u>2,600,615</u></b>
<b><u>U.S. Department of Justice</u></b>			
Justice Assistance Grant Program Cluster:			
Edward Byrne Memorial Justice Assistance Grant Program Equipment Grant 2013	16.803	N/A	624
Office of Community Oriented Policing Services (COPS) 2012 CHRP	16.710	N/A	213,489
Office of Community Oriented Policing Services (COPS) 2013 CHRP	16.710	N/A	200,593
<b>Total U. S. Department of Justice</b>			<b><u>414,706</u></b>
<b>Total Expenditures of Federal Awards</b>			<b><u>\$ 5,392,124</u></b>

See notes to schedule of expenditures of federal awards

## CITY OF DELANO

### Notes to the Schedule of Expenditures of Federal Awards

Year ended June 30, 2015

(1) Summary of Significant Accounting Policies Applicable to the Schedule of Expenditures of Federal Awards

(a) Scope of Presentation

The accompanying schedule presents only the expenditures incurred (and related awards received) by the City of Delano, California ("City") that are reimbursable under federal programs of federal agencies providing financial assistance. For purposes of this schedule, financial assistance includes federal financial assistance received directly from a federal agency and federal funds received indirectly by the City from non-federal entities. Only the portion of program expenditures reimbursable with such federal funds is reported in the accompanying schedule. Program expenditures in excess of the maximum federal reimbursement authorized and the portion of program expenditures that were funded with other state, local or other non-federal funds are excluded from the accompanying schedule.

(b) Basis of Accounting

The expenditures included in the accompanying schedule were reported on the modified accrual basis of accounting. Under the modified accrual basis of accounting, expenditures are recognized when the City becomes obligated for payment as a result of the receipt of the related goods and services. Expenditures reported include any property or equipment acquisitions incurred under the federal or selected state program, as required by these agencies.

(c) Subrecipients

During the fiscal year ended June 30, 2015, there were no payments made to subrecipients.

(d) State revolving loan funds

The City received Federal Cross-cut revolving grant funds from the State in the form of loans, from the U.S. Environmental Protection Agency, Office of Water, passed through the California State Water Resources, Control Board and the California Department of Public Health, under Capitalization Grants for Clean Water State Revolving Funds (CFDA # 66.458) and Capitalization Grants for Safe Drinking Water State Revolving Funds (CFDA # 66.468). The purpose of the grant/loans is to assist in financing the construction of projects that will enable the City to comply with statutory clean and safe drinking standards. The City can receive funds under two grant/loans. The terms of the grant/loans and the outstanding balances as June 30, 2015, are as follows:

**CITY OF DELANO**

Notes to the Schedule of Expenditures of Federal Awards

Year ended June 30, 2015

(1) Summary of Significant Accounting Policies Applicable to the Schedule of Expenditures of Federal Awards, (Continued)

Agreement Number	Pass-through Entity	Total Project Amount	Interest Rate and Term	Outstanding Loan Balances as of June 30, 2015
SRF2010CX105	State of CA Department of Public Health	\$ 23,709,156	0.0% / 20 years	\$ 19,758,843
08836-550-0	CA State Water Resource Control Board	\$ 31,804,431	1.0% / 20 years	<u>25,463,481</u>
Total				<u>\$ 45,222,324</u>

These loans are not considered to have continuing compliance requirements under OMB Circular A-133, and, therefore, are only reported on the Schedule in the year in which funds are expended and drawn. The City expended \$1,614,207 under the grant/loans during fiscal year 2015 and has reported this amount on the Schedule for CFDA #66.468 Passed-through from the State of CA Department of Public Health.

## CITY OF DELANO

### Schedule of Findings and Questioned Costs

Year ended June 30, 2015

#### (A) Summary of Auditors' Results

1. An unmodified report was issued by the auditors on the financial statements of the auditee.
2. One material weakness and one significant deficiency in internal control over financial reporting based upon our audit of the financial statements of the auditee were reported.
3. No instances of non-compliance were required to be reported in accordance with Governmental Auditing Standards.
4. No significant deficiencies or material weaknesses in internal control over major programs of the auditee were reported.
5. An unmodified report was issued by the auditors on compliance for major programs.
6. The audit disclosed no audit findings required by the auditors to be reported under paragraph .510(a) of OMB Circular A-133.
7. The major programs of the auditee were the Department of Transportation – Highway Planning and Construction Cluster - CFDA No. 20.205, and the Department of Justice – Office of Community Oriented Policing Services – CFDA No. 16.710.
8. The dollar threshold used to distinguish Type A and Type B programs was \$300,000.
9. The auditee did not meet the criteria to be classified as a low risk auditee for the year ended June 30, 2015 for purposes of major program determination.

#### (B) Findings Related to the Financial Statements which are Required to be Reported in Accordance with GAGAS

##### 2015-001 Adjustments Detected by Audit Process

Auditing standards require auditors to include as an internal control weakness material audit adjustments detected during the audit. For the year ended June 30, 2015, material adjustments detected by the audit process were as follows:

- An entry to properly record the premiums and deferred refunding charges related to the 2015A and 2015B Successor Agency Tax Allocation Refunding Bonds totaling \$1,293,483.
- An entry to record a receivable and unavailable revenue in related to TDA funds received outside of the City's availability period totaling \$1,037,276.

## CITY OF DELANO

### Schedule of Findings and Questioned Costs

Year ended June 30, 2015

(B) Findings Related to the Financial Statements which are Required to be Reported in Accordance with GAGAS, (Continued)

Recommendation

An important element of controls over financial reporting is for management to identify adjustments necessary for financial statements to be fairly stated. Whenever possible, adjustments should be reflected in the accounting records prior to the start of the audit. When this is not possible, management should identify and communicate to the auditors the potential areas of adjustment that may need to be addressed during the audit process. This will help to reduce the risk of material misstatement.

Management's Comments Regarding Corrective Actions Planned or Taken

The Finance Department will continue to work harder at identifying adjustments necessary for financial statements to be fairly stated. Whenever possible, we will ensure that adjustments are reflected in the accounting records prior to the start of the audit. When this is not possible, management will identify and communicate to the auditors the potential areas of adjustment that may need to be addressed during the audit process. In addition, management will review year-end policies and procedures to ensure the year-end closing process is accurately being completed prior to the start of the audit process.

2015-002 Controls Surrounding the Pension Plan

During our review City of Delano Employee Pension Plan ("the Plan") the following items were noted:

- On a monthly basis, the third-party plan administrator provides a list of payments to be made to pensioners. The City wires to the administrator the total amount and then the administrator makes the payments to the individual pensioners. Subsequent check support is not provided to the City by the administrator after the payments have been made, to verify the payments were made and cleared.
- There is no formal investment policy for the Plan's investments.
- Online transfers can be made out of the Plan's General Savings account without a second approval. After this issue was brought to management's attention the bank modified the controls to now require a second approval.

Recommendation

In order to ensure that the appropriate payments are being made to the pensioners, the City should request a copy of all checks distributed by the plan administrator and reconcile them to the list previously provided.

**CITY OF DELANO**

Schedule of Findings and Questioned Costs

Year ended June 30, 2015

(B) Findings Related to the Financial Statements which are Required to be Reported in Accordance with GAGAS, (Continued)

Due to the significance of the investments held by the Plan, we recommend that the Pension Committee consider creating a formal investment policy to provide direction for the Plan's investments. By not having a formal investment policy, it is possible that the expected returns of the investments may not align with the overall goals of the Plan.

Transfers out of the Plan's checking account should require secondary approval from a member of management. Also, there should be restrictions on the accounts where money can be transferred.

Management's Comments Regarding Corrective Actions Planned or Taken

The Finance Department will request support from the third-party plan administrator and reconcile on a monthly basis the payments being made to the pensioners have cleared and follow up on potential idle funds that may be held by the third-party plan administrator. In addition, the finance department is looking into possibly incorporating a positive pay functionality within their bank account to transmit payment information to the bank so it can match the checks issued with those presented to the bank for payment. If any check is considered to be potentially fraudulent then it will be flagged for the department to examine it.

The Pension Committee adopted a formal investment policy for the Plan's investments on December 8, 2015.

Mobile banking dual controls have been placed on the account. Trustees for the Plan are the only ones who have access to the account to make necessary transfers if needed. Trustees currently do not use the mobile banking feature they are still walking into the branch and requesting the necessary transfer on a monthly basis to the third-party plan administrator as provided.

(C) Findings and Questioned Costs for Federal Awards as Defined in Paragraph .510(a) at OMB Circular A-133

There are no auditors' findings to be reported in accordance with paragraph .510(a) of OMB Circular A-133.

**CITY OF DELANO**

Summary Schedule of Prior Audit Findings

Year ended June 30, 2015

(A) Summary of Prior Audit Findings and Current Status

2014-001 Adjustments Detected by Audit Process

This item has been repeated as 2015-001.