

CITY OF DELANO
Delano, California

Single Audit Report on Federal Awards

Year ended June 30, 2019

CITY OF DELANO

Single Audit Report on Federal Awards

Year ended June 30, 2019

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Governmental Auditing Standards.....	1
Independent Auditor’s Report on Compliance for Each Major Federal Program; Report on Internal Control over Compliance; and Report on the Schedule of Expenditures of Federal Awards Required by Uniform Guidance.....	3
Schedule of Expenditures of Federal Awards.....	6
Notes to the Schedule of Expenditures of Federal Awards.....	7
Schedule of Audit Findings and Questioned Costs.....	8
Summary Schedule of Prior Year Audit Findings.....	11

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 AUDITOR'S REPORT

Honorable Mayor and City Council
City of Delano
Delano, 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 Delano, as of and for the year ended June 30, 2019, 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 December 20, 2019.

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.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified two deficiencies in internal control, described as 2019-001 and 2019-002 in the accompanying schedule of findings and questioned costs that we consider 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 Finding

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

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.



Irvine, California
December 20, 2019

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 Uniform Guidance

INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and City Council
City of Delano
Delano, California

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 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, 2019. 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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the City 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 the audit requirement of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City 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, 2019.

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 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 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 Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on 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 of Delano as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the City of Delano's basic financial statements. We issued our report thereon dated December 20, 2019 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 additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Davis Farr LLP

Irvine, California

February 14, 2020 except for the report on the Schedule of Expenditures of Federal Awards, for which the date is December 20, 2019

CITY OF DELANO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended June 30, 2019

<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>
<u>U.S. Department of Housing and Urban Development</u>			
CDBG Entitlement Grants Cluster:			
Community Development Block Grant Program	14.218	B-17-MC-06-0600	\$ 467,100
Total CDBG Entitlement Grants Cluster			<u>467,100</u>
Total U.S. Department of Housing and Urban Development			<u>467,100</u>
<u>U.S. Department of Transportation</u>			
Highway Planning and Construction Cluster:			
Passed through California Department of Transportation:			
Various Streets Pavement Resurfacing and Rehabilitation Project	20.205	STPL -5227(055)	662,832
Road Rehabilitation (Pond Rd between Garzoli Ave. and UPRR)	20.205	STPL -5227(056)	39,097
Road Rehabilitation, resurfacing and reconstruction	20.205	STPL -5227(057)	531,192
Shoulder Improvements of Cecil Ave.	20.205	CML -5227(058)	296,013
Total Highway Planning and Construction Cluster			<u>1,529,134</u>
Federal Transit Cluster:			
Passed through California Department of Transportation:			
Transit Buses 5339	20.526	CA2018072	136,000
Operating Assistance Federal Transit Administration - FTA 5307	20.507	CA201807201	819,109
Transit Security Cameras	20.525	CA2018073	8,151
Fuel Pumps - Replacement	20.525	CA2018073	30,782
Total Federal Transit Cluster			<u>994,042</u>
Total U.S. Department of Transportation			<u>2,523,176</u>
Total Expenditures of Federal Awards			<u>\$ 2,990,276</u>

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, 2019

(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. The City did not use the 10% de minimis indirect cost rate covered in section 200.414 of the Uniform Guidance.

(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, 2019, there were no payments made to subrecipients.

(d) Section 108 Loan

The City received Section 108 grant funds from the Secretary of Housing and Urban Development through the Community Development Block Grant Program (CFDA # 14.218). The purpose of the grant/loans is to help build a new Community Center.

	Unspent Loan Proceeds as of <u>June 30, 2019</u>	Outstanding Loan Balance <u>as of June 30, 2019</u>
<u>Grant Loan Program</u> Section 108 Loan	\$0	\$1,882,000

These loans are not considered to have significant continuing compliance requirements under Uniform Guidance, and, therefore, are only reported on the Schedule in the year in which funds are expended and drawn.

CITY OF DELANO

Schedule of Findings and Questioned Costs

Year ended June 30, 2019

Section I - Summary of Auditors' Results

Financial Statements

- 1. Type of auditors' report issued on whether the financial statements audited were prepared in accordance with GAAP: Unmodified

- 2. Internal control over financial reporting:
 - a. Material weakness(es) identified? No
 - b. Significant deficiency(ies) identified? 2019-001, 2019-002

- 3. Noncompliance material to the financial statements noted? No

Federal Awards

- 1. Internal control over major programs:
 - a. Material weakness(es) identified? No
 - b. Significant deficiency(ies) identified? None Reported

- 2. Type of auditors' report issued on compliance for major programs: Unmodified

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

- 4. Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
20.205	Highway Planning and Construction Cluster
20.526, 20.507, 20.525	Federal Transit Formula Grants Cluster

- 5. Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

- 6. Auditee qualified as a low-risk auditee? Yes

CITY OF DELANO

Schedule of Findings and Questioned Costs

Year ended June 30, 2019

Section II - Financial Statement Findings

2019-001 Accumulated Fund Deficits

Currently, the City has seven funds with accumulated fund deficits. Three of the largest deficits are the CRA Successor Agency Fund with a deficit of \$7,999,214, the Insurance Fund with a deficit of \$1,458,543 and the Modified Community Correctional Facility Fund with a deficit of \$1,385,198. The City may need to transfer resources from other funds to cover these deficits.

Recommendation

We recommend the City evaluate all funds with deficits and determine how the deficits will be balanced. Each year, the City should strive to perform this analysis prior to year-end and transfer resources from the General Fund or other allowable resources to make each fund whole. This will also help the City evaluate whether there are any unbilled grants or errors in accounting that led to the deficit.

Management Response

Management will continue to strive to ensure year-end process is accurately being completed prior to the start of the audit process; as sometimes in the normal course of operations in some cases cash shortages arise in certain funds but are repaid shortly after the end of the fiscal year. Deficits will be eliminated through the reduction in future expenses and/or the use of new funding sources.

2019-002 Journal Entries Detected During the Audit

As a result of audit procedures and the City's review of financial information for the fiscal year ended June 30, 2019, there were immaterial misstatements in interfund balances that resulted in adjusting journal entries. The auditing standards acknowledge that the auditor should not be part of the City's system of internal control because adjusting material transactions in the financial statements creates an independence threat and reduces auditor transparency. An important element of controls over financial reporting is for management to identify adjustments necessary for financial statements to be fairly stated.

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 Response

Management will continue to strive to ensure all required entries are entered prior to the commencement of the audit and work with engineering department to ensure finalization of capital projects are accounted for and recorded in proper period.

CITY OF DELANO

Schedule of Findings and Questioned Costs

Year ended June 30, 2019

Section III - Federal Award Findings and Questioned Costs

There are no federal award findings and questioned costs.

CITY OF DELANO

Schedule of Findings and Questioned Costs

Year ended June 30, 2019

Section IV – Summary of Prior Audit Findings and Current Status

2018-001 Accumulated Fund Deficits

This item has been repeated as finding 2019-001.

2018-002 Journal Entries Detected During the Audit

This item has been repeated as finding 2019-002.