

# **City of Calexico**

Calexico, California

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

*For the Year Ended June 30, 2017*





**City of Calexico  
Single Audit Reports  
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 *GOVERNMENT AUDITING STANDARDS***

***Independent Auditors' Report***

Honorable Mayor and Members of the City Council  
of the City of Calexico  
Calexico, 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 Calexico, California (the "City"), as of and for the year ended June 30, 2017, and the related notes to the basic financial statements which collectively comprise the City's basic financial statements and have issued our report thereon dated April 11, 2018.

**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 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.

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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs to be significant deficiencies as item number 2017-001 and 2017-002.

**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*.

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To the Honorable Mayor and Members of City Council  
of the City of Calexico  
Calexico, California  
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**The City’s Responses to Findings**

The City’s responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The City’s responses 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 City’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 City’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.

San Diego, California  
April 11, 2018



**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE AND ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**Independent Auditors' Report**

Honorable Mayor and Members of City Council  
of the City of Calexico  
Calexico, California

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

We have audited the City of Calexico, California (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 the 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; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (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.

Compliance with such requirements is necessary, in our opinion, for the City to comply with the requirements applicable to that program.

***Basis for Qualified Opinion on CFDA No. 14.239 Home Investments Partnership Program***

As described in the accompanying schedule of findings and questioned costs, the City did not comply with requirements regarding the following:

<b>CFDA No. 14.239 - Home Investment Partnerships Program</b>	
<b>Finding No.</b>	<b>Compliance Requirement</b>
2017-003	Program Income
2017-004	Reporting

Compliance with such requirements is necessary, in our opinion, for the City to comply with the requirements applicable to that program.

***Qualified Opinion on CFDA No. 14.239 Home Investments Partnership Program***

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph above, 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 the Home Investment Partnership Program for the year ended June 30, 2017.

***Unmodified Opinion on Each of the Other Major Federal Programs***

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 other major federal programs identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs for the year ended June 30, 2017.

***Other Matters***

The results of our auditing procedures disclosed other 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 questioned costs as items 2017-003 and 2017-004. 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 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.

To the Honorable Mayor and Members of City Council  
of the City of Calexico  
Calexico, California  
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*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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2017-003 and 2017-004 that we consider to be material weaknesses.

The City's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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

#### **Report on Schedule of Expenditures of Federal Awards Required by Uniform Guidance**

We have audited 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, which collectively comprise the City's basic financial statements, and have issued our report thereon dated April 11, 2018, which contained an unqualified opinion on those financial statements. Our audit was conducted for the purpose of forming our opinions on the financial statements that collectively comprise the City's financial statements. The accompanying Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, as required by the Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain other procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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.

*The PwC Group, LLP*

San Diego, California  
April 11, 2018

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

Federal Grantor/Passed through Grantor Program Title	CFDA Number	Grant Award Number	Federal Expenditures
<b>U.S. Department of Housing and Urban Development:</b>			
<b>HOME Investment Partnerships Program:</b>			
<i>Passed through the California Department of Housing and Community Development:</i>			
Home and Ownership Section	14.239	13-HOME-8612	\$ 450,000
Tenant Based Rental Assistance	14.239	13-HOME-9072	13,724
<b>Total HOME Investment Partnership Program</b>			<b>463,724</b>
<b>Total U.S. Department of Housing and Urban Development</b>			<b>463,724</b>
<b>U.S. Department of Transportation:</b>			
<b>Highway Planning and Construction Cluster:</b>			
<i>Passed Through State of California Department of Transportation:</i>			
New River Bike Path	20.205	HPUL-5168(015)	275,822
Seismic Bridge evaluation study	20.205	STPL-5168(022)	87,626
Cesar Chavez Blvd- West Port of Entry	20.205	HPUL-5168(017)	324,900
<b>Total Highway Planning and Construction Cluster</b>			<b>688,348</b>
<b>Total U.S. Department of Transportation</b>			<b>688,348</b>
<b>U.S. Department of Treasury:</b>			
<i>Direct Program:</i>			
Equitable Sharing Program	21.016		5,562
<b>Total U.S. Department of Treasury</b>			<b>5,562</b>
<b>U.S. Department of Homeland Security:</b>			
<b>Homeland Security Grant Program:</b>			
<i>Passed through the County of Imperial:</i>			
Operation Stonegarden	97.067	15-ELCELC-05-001	23,247
<b>Total Homeland Security Grant Program</b>			<b>23,247</b>
<b>Total U.S. Department of Homeland Security</b>			<b>23,247</b>
 <b>Total Expenditures of Federal Awards</b>			 <b>\$ 1,180,881</b>

**City of Calexico**  
**Notes to the Schedule of Expenditures of Federal Awards**  
**For the Year Ended June 30, 2017**

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**Note 1 – Reporting Entity**

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

**Note 2 – Basis of Accounting**

The various grant programs have been recorded within the general fund and special revenue funds of the City. The City utilizes the modified accrual method of accounting for the general fund and special revenue funds. The accompanying Schedule of Expenditures of Federal Awards (“Schedule”) is presented in accordance with the requirements of Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in the schedule may differ from amounts presented in, or used in, the preparation of the City’s basic financial statements.

**Note 3 – Schedule of Expenditures of Federal Awards**

The accompanying Schedule presents the activity of all federal financial assistance programs of the City. Federal financial assistance received directly from federal agencies as well as federal financial assistance passed through the State of California and County of Imperial is included in the Schedule. The Schedule was prepared from only the accounts of various grant programs and, therefore, does not present the financial position, change in fund balance, or results of operations of the City.

**Note 4 – Subrecipients**

During the fiscal year ended June 30, 2017, there were no amounts provided to subrecipients.

**Note 5 – Indirect Cost Rate**

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

**City of Calexico**  
**Schedule of Findings and Questioned Costs**  
**For the Year Ended June 30, 2017**

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**Section I – Summary of Auditors’ Result**

**Financial Statements**

Types of auditors’ report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? No
- Significant deficiency(ies) identified? 2017-001,  
2017-002

Noncompliance material to the financial statements noted? No

**Federal Awards**

Internal control over major programs:

- Material weakness(es) identified? 2017-003,  
2017-004
- Significant deficiency(ies) identified? None Reported

Type of auditor’s report issued on compliance for major programs: See Table Below

Any audit findings disclosed that are required to be reported in  
 Accordance with 2 CFR 200.516(a)? Yes

Identification of major programs:

Major Program	Federal CFDA #	Federal Expenditures	Opinion
HOME Investment Partnership Program	14.239	\$ 463,724	Qualified
Homeland Security Grant Program	97.067	23,247	Unmodified
<b>Total major program expenditures</b>		<b>\$ 486,971</b>	
<b>Total expenditures of federal awards</b>		<b>\$ 1,180,881</b>	
<b>Percent of total federal award expenditures</b>		<b>41.24%</b>	

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

Auditee qualified as low-risk auditee in accordance with 2 CFR 200.520? No

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

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**Section II – Financial Statement Findings**

**Finding 2017-001      Delay in Financial Reporting**

**Criteria:**

Management is responsible for providing timely and accurate financial information. Since the City has expended over \$750,000 of expenditures of federal awards, Title 2 *U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Award* (Uniform Guidance), states the City is required to submit the Data Collection Form and the reporting package to the Federal Audit Clearinghouse and the State Controller's Office, which include the Basic Financial Statements of the City, within the earlier of 30 days after receipt of auditor's report, or nine month after the end of the audit period.

**Condition and Context:**

The City has experienced delays in the preparation and issuance of the 2017 basic financial statements and its Single Audit required under Uniform Guidance.

**Cause:**

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

**Effect:**

Delays in processing transactions timely and closing accounting periods can create accounting errors that could go undetected and may lead the financial statements to be materially misstated and create further delays in the release of audited financial statements. In addition, The City is neither in compliance with Uniform Guidance nor is it meeting its current demands for external financial reporting.

**Identification as a Repeat Finding, If Applicable:**

Yes – Prior Year Finding 2016-001.

**Recommendation:**

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

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

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

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

**Finding 2017-001      Delay in Financial Reporting (Continued)**

**Management’s View and Corrective Action Plan:**

The City concurs with the auditor’s recommendation. This 2017 audit reflects incremental improvement in the timeliness of City financial reporting. The City fell behind with its annual audits during 2014 and 2015 after a long financial system conversion and a period of staff turnover. The June 30, 2016 and 2017 audits have both required approximately 9 to 10 months to complete after the fiscal year end. The City has hired new permanent and temporary Finance department staff and anticipates continued timeline improvement for the upcoming June 30 2018 audit. Plans for longer term Finance Department staffing solutions will be addressed in the context of the City’s ongoing budget challenges and the allocation of available budget resources.

**Finding: 2017-002      Ability to Retain Qualified Accounting and Management Personnel**

**Criteria:**

In order to have effective accounting systems and internal controls, the City should retain qualified accounting personnel who have the skill, knowledge and experience to initiate, record and process the various transactional flows of the City. Having qualified accounting personnel is a key element to running a successful Accounting Department.

**Condition and Context:**

During the fiscal year ended June 30, 2017, the City has lost significant accounting and management personnel within the City. The City’s accounting personnel and management decreased more than 50% compared to the same year ended June 30, 2015, and the City has not been able to fill qualified personnel to desire positions.

**Cause:**

The City was not able to hire enough qualified personnel during the fiscal year.

**Effect:**

Ineffective internal control to the financial statements can be caused by poor segregation of duties and lack of accounting personnel. The lack of the functional accounting department for the City can cause material weakness to the financial statements in the future.

**Identification as a Repeat Finding, If Applicable:**

N/A.

**Recommendation:**

We recommend that the City hire qualified personnel for the Accounting Department, and also take necessary actions to retain its personnel.

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

The City agrees that qualified accounting personnel are essential to maintaining effective internal controls and accurate financial statements. The City is actively recruiting to permanently fill vacant positions within the department.

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

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

**Finding: 2017-003      Program Income**

Department of Housing and Urban Development  
HOME Investment Partnership – CFDA 14.239  
Grant Number:            13-HOME-8612

**Criteria:**

Title 24 –COMMUNITY DEVELOPMENT GRANTS, Part 570 – COMMUNITY DEVELOPMENT BLOCK GRANTS, Subpart J – Grant Administration, Section 570.507 –Program income.

(a) *Recording program income.* The receipt and expenditure of program income as defined in § 570.500(a) shall be recorded as part of the financial transactions of the grant program.

U.S. OFFICE OF MANAGEMENT AND BUDGET CIRCULAR A-133—AUDITS OF STATES, LOCAL GOVERNMENTS, AND NON-PROFIT ORGANIZATIONS (Uniform Guidance), Subpart C— Auditees, Section .300—Auditee Responsibilities

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

**Condition:**

The City was unable to produce an accurate internal HOME notes receivable ledger and program income ledger during the audit. The City has for years relied on an outside contractor to maintain their notes receivable portfolio and were not able to produce evidence during the audit that they maintained and reconciled a receivable ledger of their HOME portfolio which effects the correct recording of program income.

**Context:**

The HOME reports were not reconciled to supporting records as there was no written documents to substantiate or validate the amounts/information reported in the notes receivable ledger and program income.

**Questioned Costs:**

Not determinable.

**Cause:**

Lack of internal controls over the recording and reconciliation of the HOME notes receivable ledger and program income.

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

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**Section III – Federal Awards Findings and Questioned Costs (Continued)**

**Finding: 2017-003      Program Income (Continued)**

**Effect:**

The City's failure to comply with stated rules and regulations over the recording and reconciliation of CDBG and HOME notes receivable and program income increases the risk that inaccurate or incomplete information will be reported to the grantor agency.

**Identification as a Repeat Finding, If Applicable:**

Yes – Prior Year Finding 2016-002.

**Recommendation:**

The City should implement internal controls over the preparation and maintenance of reports to ensure the reports are based on applicable accounting or performance records and they are reviewed for accuracy and completeness prior to submission.

**Views of Responsible Officials and Corrective Action Plan:**

The City concurs with this finding. The City receives monthly loan payment receipts from its third-party administrator and timely records these receipts as program income in its respective Federal, State, and local housing loan program funds in the City's general ledger. Subsequent to the June 30, 2017, City staff has completed a multi-year reconciliation of its loan portfolio and has identified the prior year transactions necessary to bring its Loan Receivable accounts current. The City anticipates clearing this finding during the June 30, 2018 audit.

**Finding: 2017-004      Reporting**

**Program:**

Department of Housing and Urban Development  
HOME Investment Partnership – CFDA 14.239  
Grant Number:            13-HOME-8612

**Criteria:**

U.S. OFFICE OF MANAGEMENT AND BUDGET CIRCULAR A-133—AUDITS OF STATES, LOCAL GOVERNMENTS, AND NON-PROFIT ORGANIZATIONS (Uniform Guidance), Subpart C— Auditees, Section .300—Auditee Responsibilities

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

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

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**Section III – Federal Awards Findings and Questioned Costs (Continued)**

**Finding: 2017-004 Reporting (Continued)**

**Criteria (Continued):**

Per California Code of Regulations; Title 25, Division 1. Housing and Community Development, Chapter 7. Department of Housing and Community Development Program; Subchapter 2. State Community Development Block Grant Program Article 4. Grant Administration. Subchapter 7110. Monitoring and Reporting of Program Performance. (a) Grantees shall monitor the performance of grant-supported activities to assure that time schedules are being met and the milestones in the work schedule are being accomplished. This review shall be made for each activity in the approved grant agreement. (b) Each grantee shall prepare annual and periodic performance reports. Except as provided for in subdivision (d) below, performance reports shall not be required more frequently than quarterly unless warranted by special circumstances.

Per California Code of Regulations; Title 25, Division 1. Housing and Community Development, Chapter 7. Department of Housing and Community Development Program; Subchapter 17. State HOME Investment Partnership Act Program Article 4. Program Operations; § 8216 - Reporting and Recordkeeping Item 40. (3) State recipients, Developers, CHDOs, or other borrowers shall submit to the Department an annual performance report. The annual performance report shall cover the period from July 1 to June 30 and shall be submitted on July 1 of each year and not later than July 31 of each year pursuant to Section 8214(a)(4)(C). The report shall include information and documentation which is necessary to meet record keeping and reporting requirements pursuant to 24 CFR Section 92.508(b).

Per the *HOME Standard Agreement Number 13-HOME-8612* “Section 24. Reporting: (A. Commencing with the monthly report for August 2013, due September 2013, and continuing through the acceptance of the Project Completion Report in IDIS and no later than thirty (30) days after the end of each calendar quarter, the HOME Recipient shall submit a quarterly performance report to the Department on forms provided by the Department.) (B. Commencing with the effective date of this Agreement and continuing through the acceptance of the Project Completion Report in IDIS and no later than the tenth business day of the following month, the HOME Recipient shall submit a “State HOME Project Monthly Status Report” to the Department on forms provided by the Department.)”

**Condition:**

The City did not submit the following reports required for compliance in order to determine that the City was in compliance with Uniform Guidance, State of California requirements, and grant requirements:

Home Investment Partnership Program (CFDA# 14.239):

- A. Quarterly State Performance Report
- B. State HOME Project Monthly Status Report
- C. Quarterly State Program Income Report

**Questioned Costs:**

No specific questioned costs were identified

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

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**Section III – Federal Awards Findings and Questioned Costs (Continued)**

**Finding: 2017-004 Reporting (Continued)**

**Context:**

HOME Reports: Of the four (4) required Quarterly State Performance reports, four (4) could not be located. Of the four (4) required Quarterly State Program Income Reports, two (2) could not be located. Of the twelve (12) required State HOME Project Monthly Status Reports, twelve (12) could not be located.

**Cause:**

Lack of internal controls over the preparation and submission of the required grant reports.

**Identification as a Repeat Finding, If Applicable:**

Yes – Prior Year Finding 2016-003.

**Effect:**

The City's failure to comply with stated rules and regulations over the required reports increases the risk that inaccurate or incomplete information will be reported to the grantor agency.

**Recommendation:**

The City should implement internal controls over the preparation and maintenance of reports to ensure the reports are based on applicable accounting or performance records and they are reviewed for accuracy and completeness prior to submission.

**Views of Responsible Officials and Corrective Action Plan:**

The City concurs with the auditor's findings. The City's Housing Department grant programs have been subject to staff turnover, inadequate records, incomplete reporting, and insufficient administrative supervision. Housing staff members are working to catch up and file required grantor reports on a timely basis.

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**PRIOR AUDIT FINDINGS STATUS**

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**City of Calexico**  
**Summary of Prior Audit Findings Status**  
**For the Year Ended June 30, 2017**

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**Section I – Financial Statement Findings**

**Finding 2016-001      Delay in Financial Reporting**

**Criteria:**

Management is responsible for providing timely and accurate financial information. Since the City has expended over \$750,000 of expenditures of federal awards, Title 2 *U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Award* (Uniform Guidance), states the City is required to submit the Data Collection Form and the reporting package to the Federal Audit Clearinghouse and the State Controller's Office, which include the Basic Financial Statements of the City, within the earlier of 30 days after receipt of auditor's report, or nine month after the end of the audit period.

**Condition:**

The City has experienced significant delays in the preparation and issuance of the 2016 basic financial statements and its Single Audit required under Uniform Guidance.

**Cause:**

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

**Effect:**

Delays in processing transactions timely and closing accounting periods can create accounting errors that could go undetected and may lead the financial statements to be materially misstated and create further delays in the release of audited financial statements. In addition, The City is neither in compliance with Uniform Guidance nor is it meeting its current demands for external financial reporting.

**Questioned Costs:**

None.

**Recommendation:**

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

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

**City of Calexico**  
**Summary of Prior Audit Findings (Continued)**  
**For the Year Ended June 30, 2017**

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

**Finding 2016-001      Delay in Financial Reporting (Continued)**

**Management’s View and Corrective Action Plan:**

The City concurs with the auditor’s recommendation. This 2016 audit reflects continued improvement in the timeliness of City financial reporting. The City fell behind with its annual audits during 2014 and 2015 after a long financial system conversion and a period of staff turnover. The June 30, 2014 audit was issued after 13 months in July 2015. The June 30, 2016 audit was issued after 17 months in November 2016. This June 30, 2017 audit schedule has been accelerated and is issued 6 months after the prior 2015 audit and 10 months after the June 30, 2017 year end. The City anticipates continued timeline improvement for the upcoming June 30 2017 audit. Plans for longer term Finance Department staffing solutions will be addressed in the context of the City’s ongoing budget challenges and the allocation of available resources.

**Status:**

Not corrected. See finding 2017-001

**City of Calexico**  
**Summary of Prior Audit Findings (Continued)**  
**For the Year Ended June 30, 2017**

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**Section II – Federal Awards Findings and Questioned Costs**

**Finding: 2016-002      Program Income**

Department of Housing and Urban Development  
Passed through California Department of Housing and Community Development  
Community Development Block Grants – CFDA 14.239  
Grant Number:            13-HOME-8612

**Criteria:**

Title 24 –COMMUNITY DEVELOPMENT GRANTS, Part 570 – COMMUNITY DEVELOPMENT BLOCK GRANTS, Subpart J – Grant Administration, Section 570.507 –Program income.

(a) *Recording program income.* The receipt and expenditure of program income as defined in § 570.500(a) shall be recorded as part of the financial transactions of the grant program.

U.S. OFFICE OF MANAGEMENT AND BUDGET CIRCULAR A-133—AUDITS OF STATES, LOCAL GOVERNMENTS, AND NON-PROFIT ORGANIZATIONS (Uniform Guidance), Subpart C— Auditees, Section .300—Auditee Responsibilities

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

**Condition:**

The City was unable to produce an accurate internal HOME notes receivable ledger and program income ledger during the audit. The City has for years relied on an outside contractor to maintain their notes receivable portfolio and were not able to produce evidence during the audit that they maintained and reconciled a receivable ledger of their HOME portfolio which effects the correct recording of program income.

**Identification as a Repeat Finding:**

Finding 2015-004 was reported in the immediate prior year.

**Questioned Costs:**

Not determinable.

**Context:**

The HOME reports were not reconciled to supporting records as there was no written documents to substantiate or validate the amounts/information reported in the notes receivable ledger and program income.

**Cause:**

Lack of internal controls over the recording and reconciliation of the HOME notes receivable ledger and program income.

**City of Calexico**  
**Summary of Prior Audit Findings (Continued)**  
**For the Year Ended June 30, 2017**

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**Section II – Federal Awards Findings and Questioned Costs (Continued)**

**Finding: 2016-002      Program Income (Continued)**

**Effect:**

The City's failure to comply with stated rules and regulations over the recording and reconciliation of CDBG and HOME notes receivable and program income increases the risk that inaccurate or incomplete information will be reported to the grantor agency.

**Recommendation:**

The City should implement internal controls over the preparation and maintenance of reports to ensure the reports are based on applicable accounting or performance records and they are reviewed for accuracy and completeness prior to submission.

**Views of Responsible Officials and Corrective Action Plan:**

The City concurs with this finding. The City receives monthly loan payment receipts from its third party administrator and timely records these receipts as program income in its respective Federal, State, and local housing loan program funds in the City's general ledger. The City believes the only issue with the program income recorded for these loan receipts is the larger, ongoing loan reconciliation project under a separate forensic audit that will update and correct the proper allocation of loans receivable between the City's various Federal, State, and local loan programs. While the City concurs that there may be pending reallocations between loan programs that will be proposed at the end of this forensics audit, the current program income received is properly recorded, in total, based upon available, existing loan allocations. The forensic audit is ongoing and under the supervision of State and Federal grantor representatives.

**Status:**

Not corrected. See finding 2017-003. Subsequent to the June 30, 2017, City staff has completed a multi-year reconciliation of its loan portfolio and has identified the prior year transactions necessary to bring its Loan Receivable accounts current. The City anticipates clearing this finding during the June 30, 2018 audit.

**Finding: 2016-003      Reporting**

**Program:**

Department of Housing and Urban Development  
Passed through California Department of Housing and Community Development  
HOME Investment Partnership – CFDA 14.239  
Grant Number:            13-HOME-8612

**Criteria:**

U.S. OFFICE OF MANAGEMENT AND BUDGET CIRCULAR A-133—AUDITS OF STATES, LOCAL GOVERNMENTS, AND NON-PROFIT ORGANIZATIONS (Uniform Guidance), Subpart C— Auditees, Section .300—Auditee Responsibilities

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

**City of Calexico**  
**Summary of Prior Audit Findings (Continued)**  
**For the Year Ended June 30, 2017**

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**Section II – Federal Awards Findings and Questioned Costs (Continued)**

**Finding: 2016-003 Reporting (Continued)**

**Criteria (Continued):**

Per California Code of Regulations; Title 25, Division 1. Housing and Community Development, Chapter 7. Department of Housing and Community Development Program; Subchapter 2. State Community Development Block Grant Program Article 4. Grant Administration. Subchapter 7110. Monitoring and Reporting of Program Performance. (a) Grantees shall monitor the performance of grant-supported activities to assure that time schedules are being met and the milestones in the work schedule are being accomplished. This review shall be made for each activity in the approved grant agreement. (b) Each grantee shall prepare annual and periodic performance reports. Except as provided for in subdivision (d) below, performance reports shall not be required more frequently than quarterly unless warranted by special circumstances.

Per California Code of Regulations; Title 25, Division 1. Housing and Community Development, Chapter 7. Department of Housing and Community Development Program; Subchapter 17. State HOME Investment Partnership Act Program Article 4. Program Operations; § 8216 - Reporting and Recordkeeping Item 40. (3) State recipients, Developers, CHDOs, or other borrowers shall submit to the Department an annual performance report. The annual performance report shall cover the period from July 1 to June 30 and shall be submitted on July 1 of each year and not later than July 31 of each year pursuant to Section 8214(a)(4)(C). The report shall include information and documentation which is necessary to meet record keeping and reporting requirements pursuant to 24 CFR Section 92.508(b).

Per the *HOME Standard Agreement Number 13-HOME-8612* “Section 24. Reporting: (A. Commencing with the monthly report for August 2013, due September 2013, and continuing through the acceptance of the Project Completion Report in IDIS and no later than thirty (30) days after the end of each calendar quarter, the HOME Recipient shall submit a quarterly performance report to the Department on forms provided by the Department.) (B. Commencing with the effective date of this Agreement and continuing through the acceptance of the Project Completion Report in IDIS and no later than the tenth business day of the following month, the HOME Recipient shall submit a “State HOME Project Monthly Status Report” to the Department on forms provided by the Department.)”

**Condition:**

The City did not submit the following reports required for compliance in order to determine that the City was in compliance with Uniform Guidance, State of California requirements, and grant requirements:

Home Investment Partnership Program (CFDA# 14.239):

- A. Quarterly State Performance Report
- B. State HOME Project Monthly Status Report
- C. Quarterly State Program Income Report

**Identification as a Repeat Finding:**

Finding 2015-005 was reported in the immediate prior year.

**Questioned Costs:**

No specific questioned costs were identified.

**City of Calexico**  
**Summary of Prior Audit Findings (Continued)**  
**For the Year Ended June 30, 2017**

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**Section II – Federal Award Findings and Questioned Costs (Continued)**

**Finding: 2016-003      Reporting (Continued)**

**Context:**

HOME Reports: Of the four (4) required Quarterly State Performance reports, four (4) could not be located. Of the four (4) required Quarterly State Program Income Reports, two (2) could not be located. Of the twelve (12) required State HOME Project Monthly Status Reports, twelve (12) could not be located.

**Cause:**

Lack of internal controls over the preparation and submission of the required grant reports.

**Effect:**

The City's failure to comply with stated rules and regulations over the required reports increases the risk that inaccurate or incomplete information will be reported to the grantor agency.

**Recommendation:**

The City should implement internal controls over the preparation and maintenance of reports to ensure the reports are based on applicable accounting or performance records and they are reviewed for accuracy and completeness prior to submission.

**Views of Responsible Officials and Corrective Action Plan:**

The City concurs with the auditor's findings. The City's Housing Department grant programs have been subject to staff turnover, inadequate records, incomplete reporting, and insufficient administrative supervision. Replacement staff members are preparing plans bring current required grantor reporting at the end of the current housing loan forensics audit currently in progress.

**Status:**

Not corrected. See finding 2017-004.

**Finding: 2015-006      Allowable Cost**

Department of Housing and Urban Development  
Community Development Block Grants – CFDA 14.218  
Grant Number:                      Program Income

**Criteria:**

U.S. OFFICE OF MANAGEMENT AND BUDGET CIRCULAR A-133—AUDITS OF STATES, LOCAL GOVERNMENTS, AND NON-PROFIT ORGANIZATIONS (OMB Circular A-133), Subpart C— Auditees, Section .300—Auditee Responsibilities

**City of Calexico**  
**Summary of Prior Audit Findings (Continued)**  
**For the Year Ended June 30, 2017**

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**Section II – Federal Award Findings and Questioned Costs (Continued)**

**Finding: 2015-006 Allowable Cost (Continued)**

**Criteria (Continued):**

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

Per Community Development Block Grant Program (CDBG) Program Income (PI) Reuse Plan with Jurisdictional Certifications (CDBG PI Reuse Agreement adopted by the Calexico City Council on March 19, 2013) “2. PI Waiver Activity The City of Calexico may utilize the Department’s PI Waiver process to commit PI to eligible activities that are not considered Revolving Loan Accounts (RLAs). The City will follow all PI Waiver procedural requirements as stated in the Program Income chapter of the Grant Management Manual (GMM). The City of Calexico will obtain prior Department approval before expending any PI funds on a Waiver project.”

**Condition:**

The City expended \$600,000 of program income on land acquisition and subsequent loan to Villa Primavera CIC LP relating to the Villa Primavera Housing project. Prior to expending the funds the City made a request for a program income waiver to expend the funds, but the request was denied by the State of California Department of Housing and Community Development because the city currently had two open program income waivers which the maximum number of allowable open waivers at any given time. In a letter dated September 2, 2015, the State of California Department of Housing and Community Development states, “The City’s choice to expended PI funds on the Villa Primavera project without the Department’s approval is a violation of the State’s CDBG Management policy and has resulted in an unresolvable finding.”

**Questioned Costs:**

\$600,000.

**Context:**

The City expended \$600,000 of program income on a denied program income waiver purchase.

**Cause:**

The City does not have proper internal controls in place over the review and approval of allowable costs.

**Effect:**

Without proper reviewing and approving of the payroll expenditures, unallowable costs may take place which would result in inaccurate and non-supported cash drawdowns.

**City of Calexico**  
**Summary of Prior Audit Findings (Continued)**  
**For the Year Ended June 30, 2017**

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**Section II – Federal Awards Findings and Questioned Costs (Continued)**

**Finding: 2015-006 Allowable Cost (Continued)**

**Recommendation:**

The City should develop procedures to ensure that the expenditures are reviewed, approved, and in compliance with the State's Management policy and the City of Calexico's CDBG PI Reuse Agreement adopted by the Calexico City Council on March 19, 2013.

**Views of Responsible Officials and Corrective Action Plan:**

The City concurs with auditor finding. At the conclusion of the current housing forensic audit currently in progress, city will submit a request to the Department of Housing and Community Development for consideration to waive this finding as per letter dated September 2, 2015 and a positive response is expected in the forthcoming fiscal year.

**Status:**

Not corrected. The City concurs with auditor finding. Subsequent to June 30, 2017, the City has identified other local housing funds to replace the denied \$600,000 draw on CDBG program income. The repayment to the CDBG fund will be recorded in the 2017-18 fiscal year.