

City of Calexico

Calexico, California

Single Audit and Independent Auditors' Reports

For the Year Ended June 30, 2019



City of Calexico

Table of Contents

	<u>Page</u>
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>.....	1
Independent Auditors' Report on Compliance for Each Major Federal Program, on Internal Control Over Compliance Required by the Uniform Guidance, and on Schedule of Expenditures of Federal Awards.....	3
Schedule of Expenditures of Federal Awards	5
Notes to the Schedule of Expenditures of Federal Awards	6
Schedule of Findings and Questioned Costs	7
Summary of Prior Audit Findings Status	12

This page intentionally left blank



**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

To the Honorable Mayor and Members of 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, 2019, 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 March 27, 2020.

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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's basic 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*.

4365 Executive Drive, Suite 710, San Diego, California 92121

Tel: 858-242-5100 • Fax: 858-242-5150

www.pungroup.com

To the Honorable Mayor and Members of City Council
of the City of Calexico
Calexico, California
Page 2

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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

The PwC Group, LLP

San Diego, California
March 27, 2020



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

Independent Auditors' Report

To the 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's (the "City") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2019. The City's major federal programs are identified in the summary of the 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 terms and conditions of federal awards applicable to its federal programs.

Auditors' 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.

Opinion on Each Major Federal Program

In our opinion, the City 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.

4365 Executive Drive, Suite 710, San Diego, California 92121

Tel: 858-242-5100 • Fax: 858-242-5150

www.pungroup.com

To the Honorable Mayor and Members of City Council
of the City of Calexico
Calexico, California
Page 2

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 City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City's internal control over compliance.

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

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

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

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City as of and for the year ended June 30, 2019, and have issued our report thereon dated March 27, 2020 which contained unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming our opinion on the City's Basic 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*, 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
March 27, 2020

City of Calexico
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2019

Federal Grantor/Passed through Grantor Program Title	CFDA Number	Grant Award Number	Federal Expenditures
U.S. Department of Housing and Urban Development:			
CDBG - Entitlement Grants Cluster:			
<i>Passed through the California Department of Housing and Community Development:</i>			
Home and Ownership Section	14.218	Program Income	\$ 9,219
Total CDBG - Entitlement Grants Cluster			<u>9,219</u>
HOME Investment Partnerships Program:			
<i>Passed through the California Department of Housing and Community Development:</i>			
HOME Investment Partnerships Program	14.239	Program Income	2,574
Total HOME Investment Partnership Program			<u>2,574</u>
Total U.S. Department of Housing and Urban Development			<u>11,793</u>
U.S. Department of Transportation:			
Highway Planning and Construction Cluster:			
<i>Passed Through State of California Department of Transportation:</i>			
New River Bike Path	20.205	HPUL-5168(015)	33,295
Cesar Chavez Blvd- West Port of Entry	20.205	HPUL-5168(017)	5,852,287
Total Highway Planning and Construction Cluster			<u>5,885,582</u>
<i>Direct Program:</i>			
Airport Improvement Program	20.106	3-06-0034-018-2018	90,740
Total U.S. Department of Transportation			<u>5,976,322</u>
Executive Office of the President:			
<i>Passed through the County of Imperial:</i>			
HIDTA	95.001	N/A	14,148
Total Executive Office of the President			<u>14,148</u>
U.S. Department of Homeland Security:			
Homeland Security Grant Program:			
<i>Passed through the County of Imperial:</i>			
Operation Stonegarden	97.067	15-ELCELC-05-001	3,877
Total Homeland Security Grant Program			<u>3,877</u>
Total U.S. Department of Homeland Security			<u>3,877</u>
Total Expenditures of Federal Awards			<u>\$ 6,006,140</u>

City of Calexico
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2019

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, 2019, 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, 2019

Section I – Summary of Auditor’s Results

Financial Statements

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

Internal control over financial reporting:

- Material weakness(es) identified? No
- Significant deficiency(ies) identified? None Reported

Noncompliance material to financial statements noted? No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? No
- Significant deficiency(ies) identified? None Reported

Type of auditor’s report issued on compliance for major programs Unmodified

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

Identification of major programs:

Major Program	Federal CFDA #	Federal Expenditures
Highway Planning and Construction Cluster	20.205	\$ 5,885,582
Total major program expenditures		\$ 5,885,582
Total expenditures of federal awards		\$ 6,006,140
Percent of total federal award expenditures		97.99%

Dollar threshold used to distinguish between type A and type B programs \$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, 2019

Section II – Financial Statement Findings

A. Current Year Findings – Financial Statement Audit

No findings were noted on the City’s financial statement audit for the year ended June 30, 2019.

B. Prior Year Findings – Financial Statement Audit

No findings were noted on the City’s financial statement audit for the year ended June 30, 2018.

Section III – Federal Award Findings

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

No findings or questioned costs were noted on the City’s major federal programs for the year ended June 30, 2019.

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

No findings or questioned costs were noted on the City’s major federal programs for the year ended June 30, 2018.

PRIOR AUDIT FINDINGS STATUS

This page intentionally left blank.

City of Calexico
Summary of Prior Audit Findings
For the Year Ended June 30, 2019

Section I – Financial Statement Findings

Finding 2018-001 Delay in Financial Reporting

Criteria:

Management is responsible for providing timely and accurate financial information. Since the City claims Transit Development Act (TDA) Funds, CCR § 6664 –*Fiscal and Compliance Audits of All Claimants*, states in accordance with Public Utilities Code Section 99245, a report of a fiscal and compliance audit made by an independent auditor shall be submitted by each claimant within 180 days after the end of the fiscal year, except that the responsible entity, as defined in Section 6663, may grant an extension of up to 90 days as it deems necessary.

Condition and Context:

The City has experienced delays in the preparation and issuance of the 2018 basic financial statements.

Cause:

The Finance Department did not have sufficient 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 TDA claimant audit requirements nor is it meeting its current demands for external financial reporting.

Identification as a Repeat Finding, If Applicable:

Yes – Prior Year Finding 2017-001.

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
Summary of Prior Audit Findings (Continued)
For the Year Ended June 30, 2019

Section I – Financial Statement Findings (Continued)

Finding 2018-001 Delay in Financial Reporting (Continued)

Management’s View:

The City concurs with the auditor’s recommendation. The City fell behind with its financial reporting in 2014 and 2015 during a lengthy financial system conversion and period of staff turnover. The 2016 and 2017 financial statements demonstrated incremental improvement, taking 9-10 months to complete. However, in 2018, new staff turnover has resulted in further significant delays in financial reporting. The City is pleased to have hired new permanent staff that are now in training to provide timely financial reporting to the City and its stakeholders.

Status:

Implemented.

Finding: 2018-002 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 year-end financial close process of the City. Having sufficient qualified accounting personnel is a key element to running a successful Accounting Department and issuing timely financial statements.

Condition and Context:

During the fiscal year ended June 30, 2018, the City’s accounting and management positions within the City were not fully staffed with qualified personnel. The City was still heavily reliant in 2018 on the use of accounting consultants to complete the year-end close process.

Cause:

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

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:

Yes – Prior Year Finding 2017-002.

Recommendation:

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

City of Calexico
Summary of Prior Audit Findings (Continued)
For the Year Ended June 30, 2019

Section I – Financial Statement Findings (Continued)

Finding: 2018-002 Ability to Retain Qualified Accounting and Management Personnel (Continued)

View of Responsible Officials:

The City agrees that qualified accounting personnel are essential to maintaining effective internal controls and accurate financial statements. The City is pleased this year to have recruited a permanent Finance Director and has recently filled an accountant position. Staff continues in training to develop their accounting and year-end close skills to provide the recommended internal control and preparation of accurate financial statements.

Status:

Implemented.

City of Calexico
Summary of Prior Audit Findings (Continued)
For the Year Ended June 30, 2019

Section II – Federal Award Findings

Finding: 2018-003 Reporting

Program:

Federal Catalog Number:	14.239
Federal Program Name:	HOME Investment Partnership
Federal Agency:	Department of Housing and Urban Development
Pass-Through Entity:	California Department of Housing and Community Development
Federal Award Number and Award Year	13-HOME-8612

Criteria:

U.S. OFFICE OF MANAGEMENT AND BUDGET CIRCULAR—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.

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.)”

City of Calexico
Summary of Prior Audit Findings Status (Continued)
For the Year Ended June 30, 2019

Section II – Federal Award Findings (Continued)

Finding: 2018-003 Reporting (Continued)

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.

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 2017-004.

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:

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.

City of Calexico
Summary of Prior Audit Findings Status (Continued)
For the Year Ended June 30, 2019

Section II – Federal Award Findings (Continued)

Finding: 2018-003 Reporting (Continued)

Status:

Not fully implemented. The finding is not determined to be relevant in the current year since the City's HOME program funding was immaterial for fiscal years 2017-18 and 2018-19.