

City of Calexico

Calexico, California

Single Audit and Independent Auditors' Reports

For the Year Ended June 30, 2015



City of Calexico
Single Audit Reports
For the Year Ended June 30, 2015

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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

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, 2015, 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 November 2, 2016.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses as items 2015-01 and 2015-02.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies as items 2015-03.

To the Honorable Mayor and Members of City Council
of the City of Calexico
Calexico, California
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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of 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 Schedule 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's Response to Findings

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "The Per Group, LLP". The signature is written in a cursive, flowing style.

San Diego, California
November 2, 2016



**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON
INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON THE SCHEDULE OF
EXPENDITURES OF FEDERAL AWARDS REQUIRED BY OMB CIRCULAR A-133**

Independent Auditors' Report

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 Circular A-133 Compliance Supplement* that could have direct and material effect on each of the City's major federal programs for the year ended June 30, 2015. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City'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.

Basis for Qualified Opinion on CFDA No. 14.218 Community Development Block Grants-Entitlement Grants

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

CFDA No. 14.218 - Community Development Block Grant/Entitlement Grants	
Finding No.	Compliance Requirement
2015-04	Program Income
2015-05	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. 14.218 Community Development Block Grants – Entitlement Grants

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 Community Development Block Grants – Entitlement Grants program for the year ended June 30, 2015.

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:

CFDA No. 14.239 - Home Investment Partnerships Program	
Finding No.	Compliance Requirement
2015-04	Program Income
2015-05	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 Neighborhood Stabilization Program for the year ended June 30, 2015.

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, 2015.

Other Matters

The results of our auditing procedures disclosed other instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2015-06, 2015-07, and 2015-08. 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 OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph 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. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses or significant deficiencies.

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. We identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2015-04, 2015-05, 2015-06, and 2015-07 that we consider to be material weaknesses.

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. We consider the deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2015-08 to be significant deficiencies.

The City's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not 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 OMB Circular A-133. Accordingly, the report is not suitable for any other purpose.

To the Honorable Mayor and Members of City Council
of the City of Calexico
Calexico, California
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Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

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, 2015, which collectively comprise the City's basic financial statements, and have issued our report thereon dated November 2, 2016, 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 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
February 27, 2017, except for the Report on Schedule of Expenditures of Federal Awards Required
by OMB Circular A-133, which is dated November 2, 2016

City of Calexico
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2015

Federal Grantor/Pass-Through Grantor Program Title	Federal CFDA Number	Agency or Pass-Through Number	Federal Expenditures
U.S. Department of Housing & Urban Development			
<i>Passed through the California Department of Housing and Community Development:</i>			
Community Development Block Grant	14.218		\$ 600,000
Home Investment Partnerships Program	14.239	13-HOME-8612	4,115,425
U.S. Department of Housing & Urban Development			<u>4,715,425</u>
U.S. Department of Justice:			
<i>Direct Program:</i>			
Equitable Sharing Program	16.922		556,339
<i>Passed through the County of Imperial:</i>			
Public Safety Partnership and Community Policing Grants	16.710	2009-RK-WX-0108	275,670
Total U.S. Department of Justice			<u>832,009</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)	321,095
Seismic Bridge evaluation study	20.205	STPL-5168(022)	7,357
Purchase Street Sweeper	20.205	CML-5168(023)	273,877
Cesar Chavez Blvd- West Port of Entry	20.205	HPUL-5168(017)	230,424
Cole Road Rehab	20.205	STPL-5168(027)	434,086
Total Highway Planning and Construction Cluster			<u>1,266,839</u>
<i>Direct Program:</i>			
Airport Improvement Program	20.106	3-06-0034-012	3,251,726
Total U.S. Department of Transportation			<u>4,518,565</u>
U.S. Department of Homeland Security:			
<i>Passed through the California Emergency Management Agency:</i>			
Disaster Grants - Public Assistance	97.036	FEMA-1911-DR-CA	1,087,934
<i>Passed through the County of Imperial:</i>			
Homeland Security Grant Program	97.067	2012 OPSG, 2013 OPSG	417,854
Total U.S. Department of Homeland Security			<u>1,505,788</u>
U.S. Executive Office of the President			
<i>Passed through the Imperial Valley Drug Coalition:</i>			
High Intensity Drug Trafficking Areas Program	95.001		28,356
Total U.S. Executive Office of the President			<u>28,356</u>
Total Expenditures of Federal Awards			<u>\$ 11,600,143</u>

See accompanying Notes to the Schedule of Expenditures of Federal Awards

City of Calexico
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2015

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 – Summary of Significant Accounting Policies

Basis of Accounting

Funds received under 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 Office of Management and Budget (“OMB”) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in the schedule may differ from amounts presented in, or used in, the preparation of City’s basic financial statements.

Schedule of Expenditures of Federal Awards

The accompanying Schedule of Expenditures of Federal Awards (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 the County of Imperial, is included in the Schedule. The Schedule was prepared only from the accounts of various grant programs and, therefore, does not present the financial position or results of operations of the City. Pass-through identifying numbers are presented where available.

City of Calexico
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2015

Section I – Summary of Auditors’ Result

Financial Statements

Types of auditors’ report issued:	Unmodified
Internal control over financial reporting:	
• Material weakness(es) identified?	2015-01, 2015-02
• Significant deficiency(ies) identified?	2015-03
Noncompliance material to the financial statements noted?	No

Federal Awards

Internal control over major programs:	
• Material weakness(es) identified?	2015-04, 2015-05 2015-06, 2015-07
• Significant deficiency(ies) identified?	2015-08
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 section 510(a) of OMB Circular A-133	Yes

Identification of major programs:

Major Program	Federal CFDA #	Federal Expenditures	Opinion
Community Development Block Grant	14.218	\$ 600,000	Modified
Home Investment Partnerships Program	14.239	4,115,425	Modified
Equitable Sharing Program	16.922	556,339	Unmodified
Airport Improvement Program	20.106	3,251,726	Unmodified
Highway Planning and Construction Cluster	20.205	1,266,839	Unmodified
Homeland Security Grant Program	97.067	417,854	Unmodified
Total major program expenditures		\$ 10,208,183	
Total expenditures of federal awards		\$ 11,600,143	
Percent of total federal award expenditures		88.00%	

Dollar threshold used to distinguish between type A and type B program \$348,004

Auditee qualified as low-risk auditee under section 530 of OMB Circular A-133? No

City of Calexico
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2015

Section II – Financial Statement Findings

Finding: 2015-01, Internal Control Over Financial Reporting

Criteria:

Effective internal control over financial reporting provides reasonable assurance for the completeness and accuracy of accounting records and proper year-end closing.

Condition:

We noted the City recorded a prior period adjustment on the Government-Wide Statement of Net Position for Governmental Activities and Business-Type Activities in the amounts of \$557,916 and \$1,304,409, respectively, to correct accruals, reclassification of funds, correct overstatement of receivables, and record admin fees, that were not previously recorded. The previously noted prior period adjustments exclude the adjustments that were related to the implementation of GASB 68 and GASB 71.

Cause:

During 2013-14 fiscal year, the City did not properly follow its policies and procedures for evaluating, reviewing, and properly recording financial transactions.

Context and Effect:

The Government-Wide Statement of Net Position Governmental Activities and Business-Type Activities were overstated as of June 30, 2014 by \$557,916 and \$1,304,409, respectively.

Recommendation:

The City should enhance its review processes over transactions arising from capital assets to ensure that they are thoroughly evaluated, reviewed and recorded in order to facilitate the accurate and complete year-end closing of the general ledger and the preparation of its basic financial statements.

Views of Responsible Officials and Planned Corrective Actions:

The City concurs with the auditor's finding regarding incomplete recording of financial transactions during the 2013-14 fiscal year. Extensive staff accounting reconstruction efforts during the 2014-15 fiscal year identified the referenced restatements of the June 30, 2014 balances. Since June 30, 2014, the City has implement significant accounting process improvements and is pleased that its 2014-15 financial audit already reflects these process improvements.

City of Calexico
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2015

Section II – Financial Statement Findings (Continued)

Finding: 2015-02, Internal Controls over Budget Monitoring Process

Criteria:

Management is responsible establishing effective internal controls over the budget process and ensuring that citywide expenditures are within levels authorized by the annual budget. As part of satisfying that responsibility, management should prepare accurate and timely year-to-date revenue and expenditure information, and year-end revenue and expenditure projections, which will provide for accurate monitoring of the City's compliance with the Annual Budget.

Condition:

During the City's 2014-15 fiscal year audit it was noted that the General Fund Measure H revenues were double counted in the 2014-15 adopted budget. This condition was not identified until after the end of the fiscal year, during the year-end close process.

Cause:

The City did not have procedures in place to review the revenues available for current year appropriations during the City's Annual Budget process. Further, during the fiscal year, the City did not have appropriate internal controls in place to accurately monitor the City's compliance with the Annual Budget to timely identify the revenue shortfall.

Effect:

This condition contributed to the City's spending in excess of revenues during the 2014-15 fiscal year that caused the fund balance of the General Fund to decrease from \$4,058,048 at June 30, 2014 to a deficit of (\$114,972) at June 30, 2015.

Recommendation:

The City should implement new policies and procedures to ensure the review of revenues available for current year appropriations during the City's Annual Budget process. The City should prepare accurate and timely year-to-date revenue and expenditure information, and year-end revenue and expenditure projections, which will provide for accurate monitoring of the City's compliance with the Annual Budget.

Views of Responsible Officials and Planned Corrective Actions:

The City concurs with the auditor's findings regarding the status of budgetary controls that were in place during the development of the 2014-15 annual budget and during the 2014-15 fiscal year. Lapses in the City's budgetary controls continued into the 2015-16 fiscal year. Since that time, the City has taken significant steps to improve its accounting and budgeting processes, including implementation of new accounting software; input of adopted budget into accounting software; distribution of year-to-date budget to actual reports for program staff review; and mid-year budget analysis and reporting to the City Council.

City of Calexico
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2015

Section II – Financial Statement Findings (Continued)

Finding: 2015-03, Accurate Preparation of the Schedules of Federal Awards

Criteria:

In accordance with the requirements of OMB Circular A-133, the City should report all Federal grant expenditures in the Schedule of Expenditures of Federal Awards (SEFA) accurately.

Condition:

The City provided a SEFA that contained incorrect expenditure amounts and state grants which required adjustments during the single audit process.

Cause:

The City did not have appropriate internal controls in place to properly determine the annual expenditure amounts for only the applicable federal grants to be included on their SEFA.

Effect:

The City did not accurately account for all federally funded grants throughout the fiscal year due to its current accounting system's limitations and lack of policies and procedures to accurately account for Federal grant expenditures.

Recommendation:

The City should implement new policies and procedures to ensure that the SEFA numbers are accurate and reviewed by appropriate levels of management prior to being provided to the auditors. The City should also reevaluate the capabilities of the current accounting system in order to ensure that expenditures for all Federal grants are reported accurately on the SEFA.

Views of Responsible Officials and Planned Corrective Actions:

The City concurs with this finding. City implemented a new general ledger system and new chart of accounts with specific emphasis on grant accountability and revenue sources, grant accounting funds were established to differentiate federal, state and local grant sources and to provide transparency and accountability over grant transactions and support in preparation of the annual Schedule of Expenditure of Federal Awards. Management established a monitoring process of all City Grants. Our Grant Coordinator assures that all SEFA expenditures are reconciled to all program grant claims that were reported to federal granting agencies.

City of Calexico
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2015

Section III – Federal Awards Findings and Questioned Costs

Finding: 2015-04, Program Income

Department of Housing and Urban Development
Community Development Block Grants – CFDA 14.218
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 (OMB Circular A-133), 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 CDBG and 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 CDBG and HOME portfolio which effects the correct recording of program income.

Questioned Costs:

Not determinable.

Context:

The CDBG and 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 CDBG and HOME the notes receivable ledger and program income.

City of Calexico
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2015

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

Finding: 2015-04, 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 forensics 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.

Finding: 2015-05, Reporting

Program:

Department of Housing and Urban Development
Community Development Block Grants – CFDA 14.218
Community Development Block Grants – 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 (OMB Circular A-133), 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, 2015

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

Finding: 2015-05, 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 OMB Circular A-133, State of California requirements, and grant requirements:

Community Development Block Grant (CFDA# 14.218):

- A. Annual Grantee Performance Report (GPR)
- B. Semi-annual Program Income Report
- C. Financial and Accomplishment Report (FAR)

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

City of Calexico
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2015

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

Finding: 2015-05, Reporting (Continued)

Questioned Costs:

No specific questioned costs were identified.

Context:

CDBG Reports: Of the two (2) required Semi-annual Program Income reports, one (1) was not submitted. Of the two (2) annual reports, the Annual Grantee Performance Report (GPR) and the Financial and Accomplishment Report (FAR), the two (2) annual reports were not submitted.

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.

City of Calexico
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2015

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

Finding: 2015-06, Allowable Cost

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

(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
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2015

Section III – Federal Award Findings and Questioned Costs (Continued)

Finding: 2015-06, 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.

Finding: 2015-07, Cash Management

Program:

Department of Housing and Urban Development
Home Investment Partnership (HOME) – CFDA No. 14.239
Grant Number: 13-HOME-8612

Criteria:

Per California Code of Regulations Title 25, Division 1, Chapter 7 Subchapter 17 § 8215. Project Set-Up and Disbursement of Funds. “(c) Funds drawn from the HOME fund shall be expended for eligible costs within 15 days. (1) Interest earned on HOME funds drawn from the federal disbursement and information system and remaining in the local account no more than 15 days shall be retained in the local account and used for eligible HOME costs. (2) Unused funds, including interest earned on funds beyond the 15 days, shall be returned to the Department to be returned to the federal disbursement and information system.

Condition:

It was noted that the City requested reimbursement for construction expenditures to include amounts for retainage that were not disbursed within the 15 calendar day requirement. The City requested reimbursement for the entire costs of construction to include retainage, but did not disburse the amounts for retainage until over 246 calendar days after the reimbursement request.

Questioned Costs:

\$369,693

Cause:

Reimbursement requests were requested from the State of California and the City did not have proper internal controls to payout the funds in the required timeframe.

City of Calexico
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2015

Section III – Federal Award Findings and Questioned Costs (Continued)

Finding: 2015-07, Cash Management (Continued)

Effect:

The City is not in compliance with the California Department of Housing and Community Development (HCD) and federal cash management requirements which could result in the City's noncompliance with interest earnings requirements, without being detected and/or could result in the City being denied future grant funding.

Recommendation:

We recommend the City ensure controls are in place to ensure that cash draws received are disbursed within 15 calendar days of the request of funds, as required by the grant.

Views of Responsible Officials and Corrective Action Plan:

The City concurs with the auditor's finding. The City's Housing Department grant programs have been subject to staff turnover and insufficient administrative oversight. Replacement staff members continue orientation on grant administration requirements to be ready to support future grant programs as they are awarded.

Program:

U.S. Department of Transportation
Airport Improvement Program (AIP) – CFDA 20.106
Grant Number: 3-06-0034-16-2014

Criteria:

CODE OF FEDERAL REGULATIONS, Title 49 – TRANSPORTATION, Part 18 – UNIFORM ADMINISTRATIVE REQUIREMENTS FOR GRANTS AND COOPERATIVE AGREEMENTS TO STATE AND LOCAL GOVERNMENTS, Subpart C – Post-Award Requirements:

18.41 Financial Report (a) General (4), Due date. When reports are required on a quarterly or semiannual basis, they will be due 30 days after the reporting period. When required on an annual basis, they will be due 90 days after the grant year. Final reports will be due 90 days after the expiration or termination of grant support.

18.58 (a) General. The Federal agency will close out the award when it determines that all applicable administrative actions and all required work of the grant has been completed.

18.50 (b) Reports. Within 90 days after the expiration or termination of the grant, the grantee must submit all financial, performance, and other reports required as a condition of the grant. Upon request by the grantee, Federal agencies may extend this time frame. These may include but are not limited to: (1) Final performance or progress report, (2) Financial Status Report (SF 269) or Outlay Report and Request for Reimbursement for Construction Programs (SF-271) (as applicable), (3) Final request for payment (SF-270) (if applicable), and (4) Invention disclosure (if applicable).

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
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2015

Section III – Federal Award Findings and Questioned Costs (Continued)

Finding: 2015-08, Reporting

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.

Condition:

For the Airport Improvement Program (AIP), the City did not submit the reports within the required deadline:

Report Type	Award Number	Period	Date Due	Date Submitted
SF-425 Financial	3-06-0034-16-2014	9/17/14 – 9/30/15	12/29/2015	2/25/2016
SF-271 Financial	3-06-0034-16-2014	9/17/14 – 9/30/15	12/29/2015	2/25/2016
Final Performance or Progress Report	3-06-0034-16-2014	9/17/14 – 9/30/15	12/29/2015	2/25/2016

Cause:

The City did not have internal controls in place to ensure that financial and performance reports are filed timely.

Effect:

The City is not in compliance with laws and regulations related to financial and performance reporting.

Questioned Costs:

N/A

Context:

Two (2) financial reports were tested and both were submitted after the deadline without extension. One (1) performance reports tested was submitted after the deadline without extension.

Recommendation:

We recommend that the City strengthen internal controls by implementing procedures to ensure the timely filing of financial and performance reports.

Views of Responsible Officials and Corrective Action Plan:

The City concurs with the auditor’s finding. All required Airport Improvement Project reports were submitted as of February 25, 2016.

PRIOR AUDIT FINDINGS STATUS

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City of Calexico
Prior Audit Findings Status
For the Year Ended June 30, 2015

Section I – Financial Statement Findings

Finding: 2014-01, Internal Control Over Financial Reporting

Criteria:

Effective internal control over financial reporting provides reasonable assurance for the completeness and accuracy of accounting records and proper year-end closing.

Condition:

We noted the City recorded a prior period adjustment on the Governmental Activities and Business-Type Activities Statement of Net Position in the amounts of \$1,053,949 and \$307,196, respectively, to correct entries recorded in the prior periods to revenue and expense account that offset cash.

Cause:

The City did not properly follow its policies and procedures for evaluating, reviewing, and properly recording financial transactions arising from revenues and expenses that offset the cash balance.

Context and Effect:

The Governmental Activities and Business-Type Activities cash balances were overstated by \$1,053,949 and \$307,196, respectively.

Recommendation:

The City should enhance its review processes over transactions arising from revenues and expenses that offset the cash balance to ensure the accurate and complete year-end closing of the general ledger and the preparation of its basic financial statements.

Views of Responsible Officials and Planned Corrective Actions:

The City concurs with this finding and auditor recommendation. Accurate financial reporting is an essential first step in the financial planning process. This year-end assessment of the City's financial position and the annual cost of operations is necessary to develop strategies to maintain fiscal health and to inform the community on the resources available to provide current and futures services. Staff turnover, vacancies, a change in banks, and delays in full implementation of a new general ledger system continue to create a significant backlog in accurate and timely interim and year-end financial reporting.

Corrective Action Plan: Finance department personnel have already taken substantive steps to begin to rebuild financial controls over the general ledger and the recording of the City's cash and other financial transactions. Staff members have been reassigned from other departments to increase department capacity. Temporary resources are also assisting with department backlog. Detailed bank reconciliations for the City's 20+ bank accounts are in progress, although still over 12 months in arrears. Analysis of 2014-15 year-end results has recently commenced. Finance anticipates building a month-end and year-end checklist as a permanent administrative tool to ensure that the city is able to produce accurate interim and year-end financial reports and budget monitoring tools for use by program departments, City Management, and City Council.

Status:

Not corrected. See Finding 2015-01.

City of Calexico
Prior Audit Findings Status (Continued)
For the Year Ended June 30, 2015

Section I – Financial Statement Findings (Continued)

Finding: 2014-02, Accounting Close and Accuracy in Financial Reporting

Criteria:

Management is responsible for the accuracy of the financial statements, including disclosures. As part of satisfying that responsibility, staff should possess the skills and knowledge necessary to complete the year-end close and diligently employ that knowledge and skill to produce reliable and accurate financial information.

Condition:

The City did not complete year-end closing procedures before presenting the trial balance to auditors, resulting in journal entries being presented to correct or to reclassify balances in financial statements in order to conform with accounting principles generally accepted in the United States.

Adjustments include the followings:

1. write-off of deferred costs in accordance with GASB 65,
2. record lease and debt payments,
3. record accruals for interest payable,
4. record lease and debt payments,
5. reclassification of salaries and benefits improperly recorded,
6. record liability for workers' compensation,
7. balance internal transfers,
8. reconciling items to cash accounts,
9. reclassify revenue improperly recorded as deferred revenue

Cause:

During the audit process, the Finance department was not sufficiently staffed with individuals possessing the skills and knowledge necessary to complete the year-end close and diligently employ that knowledge and skill to produce reliable and accurate financial information. In addition, the City uses financial software that is outdated and has limited functionality.

Context and 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.

Recommendation:

The City has the responsibility to present its financial statements in accordance with accounting principles generally accepted in the United States of America. Fully staffed, Finance should ensure year-end closing procedures are performed proficiently. This includes proper review of activity of transactions maintained in subsidiary ledgers not integrated with the City's accounting system, proper cutoff review for account balances at a fund and overall government-wide level, and revenues and expenditures/expenses. Finance Staff should perform revenue, expenditure, and budget analytics prior to year-end.

City of Calexico
Prior Audit Findings Status (Continued)
For the Year Ended June 30, 2015

Section I – Financial Statement Findings (Continued)

Finding: 2014-02, Accounting Close and Accuracy in Financial Reporting (Continued)

Views of Responsible Officials and Planned Corrective Actions:

The City concurs with this finding and auditor recommendation. Accurate financial reporting is an essential first step in the financial planning process. This year-end assessment of the City's financial position and the annual cost of operations is necessary to develop strategies to maintain fiscal health and to inform the community on the resources available to provide current and futures services. Staff turnover, vacancies, a change in banks, and delays in full implementation of a new general ledger system continue to create a significant backlog in accurate and timely interim and year-end financial reporting.

Corrective Action Plan: Finance department personnel have already taken substantive steps to begin to rebuild financial controls over the general ledger and the recording of the City's cash and other financial transactions. Staff members have been reassigned from other departments to increase department capacity. Temporary resources are also assisting with department backlog. Detailed bank reconciliations for the City's 20+ bank accounts are in progress, although still over 12 months in arrears. Analysis of 2014-15 year-end results has recently commenced. Finance anticipates building a month-end and year-end checklist as a permanent administrative tool to ensure that the city is able to produce accurate interim and year-end financial reports and budget monitoring tools for use by program departments, City Management, and City Council.

Status:

Corrected.

Finding: 2014-03, Cash Account Reconciliations

Criteria:

Cash account reconciliations should be completed accurately and timely and adjustments recorded as appropriate.

Condition:

During our testing of the City's cash and investments, we noted that the reconciliation of the City's main checking account was not being performed on a monthly basis, resulting in unexplained and unidentified.

Cause:

Based on our observations it appears that due to the lack of timely monitoring and oversight, bank reconciliations were not being timely reviewed to ensure their completeness and accuracy and to identify and determine the necessary follow-up of reconciling amounts and unexplained differences.

Context and Effect:

As of June 30, 2014, the Governmental Activities and Business-Type Activities cash balances were overstated by \$1,053,949 and \$307,196, respectively.

City of Calexico
Prior Audit Findings Status (Continued)
For the Year Ended June 30, 2015

Section I – Financial Statement Findings (Continued)

Finding: 2014-03, Cash Account Reconciliations (Continued)

Recommendation:

The Finance Department should improve upon the timeliness of performing bank reconciliations and strengthen the oversight and monitoring procedures, ensuring that complete and accurate reconciliations are being performed and there is timely follow-up to resolve any reconciling amounts and unexplained differences. Furthermore, all reconciling amounts should be clearly documented and supported.

Views of Responsible Officials and Planned Corrective Actions:

The City concurs with this finding and auditor recommendation. Accurate financial reporting is an essential first step in the financial planning process. This year-end assessment of the City's financial position and the annual cost of operations is necessary to develop strategies to maintain fiscal health and to inform the community on the resources available to provide current and futures services. Staff turnover, vacancies, a change in banks, and delays in full implementation of a new general ledger system continue to create a significant backlog in accurate and timely interim and year-end financial reporting.

Corrective Action Plan: Finance department personnel have already taken substantive steps to begin to rebuild financial controls over the general ledger and the recording of the City's cash and other financial transactions. Staff members have been reassigned from other departments to increase department capacity. Temporary resources are also assisting with department backlog. Detailed bank reconciliations for the City's 20+ bank accounts are in progress, although still over 12 months in arrears. Analysis of 2014-15 year-end results has recently commenced. Finance anticipates building a month-end and year-end checklist as a permanent administrative tool to ensure that the city is able to produce accurate interim and year-end financial reports and budget monitoring tools for use by program departments, City Management, and City Council.

Status:

Corrected.

Finding: 2014-04, Journal Entry Review

Criteria:

Good internal controls provide for checks and balances ensure that appropriate reviews are in place to ensure accuracy and limit the risk of error or fraud. Adjusting journal entries represent a key transaction cycle affecting virtually every account balance. Journal entries prepared by one employee should be reviewed by another employee to ensure controls are in place to minimize the risk of misstatement.

Condition:

Journal entries are not consistently reviewed by a second employee. e selected twenty-five journal entries from July 2013 through August 2014 to test the accuracy of the amounts posted, the adequacy of supporting documentation and the reliability of control procedures. While we noted amounts posted were accurate and supporting documentation adequate, five of our selections did not show evidence of review.

City of Calexico
Prior Audit Findings Status (Continued)
For the Year Ended June 30, 2015

Section I – Financial Statement Findings (Continued)

Finding: 2014-04, Journal Entry Review (Continued)

Criteria:

Good internal controls provide for checks and balances ensure that appropriate reviews are in place to ensure accuracy and limit the risk of error or fraud. Adjusting journal entries represent a key transaction cycle affecting virtually every account balance. Journal entries prepared by one employee should be reviewed by another employee to ensure controls are in place to minimize the risk of misstatement.

Condition:

Journal entries are not consistently reviewed by a second employee. We selected twenty-five journal entries from July 2013 through August 2014 to test the accuracy of the amounts posted, the adequacy of supporting documentation and the reliability of control procedures. While we noted amounts posted were accurate and supporting documentation adequate, five of our selections did not show evidence of review.

Effect:

Without an adequate review process in place, there is a higher risk of material error or misstatements.

Cause:

Lax enforcement of journal entry reviews.

Recommendation:

Journal entries should be reviewed for accuracy and that review should be evidenced by initialing the journal entry and initials documenting the review took place.

Views of Responsible Officials and Planned Corrective Actions:

The City concurs with this finding and auditor recommendation. Staff is fully committed to building substantive documentation for all general ledger adjustments. The Corrective Action Plan is that all journal entries are subject to a documented secondary review by department management to ensure sufficiency of documentation and account coding.

Status:

Corrected.

City of Calexico
Summary Schedule of Prior Audit Findings (Continued)
For the Year Ended June 30, 2015

Section I – Financial Statement Findings (Continued)

Finding 2014-05, Accurate Preparation of the Schedule of Expenditures of Federal Awards

Criteria:

In accordance with the requirements of OMB Circular A-133, the City should report all Federal grant expenditures in the Schedule of Expenditures of Federal Awards (SEFA) accurately.

Condition:

During the City's 2014 audit, management made the auditors aware that they had revised and resubmitted their 2013 *Equitable Sharing Agreement and Annual Certification* report to the U.S. Department of Justice. The resubmittal effectively changed the City's federal share of equitable sharing funds expended in 2013 from \$228,093 to \$852,951. This significant increase from the prior SEFA amount required a reassessment of major programs for the 2013 Single Audit. Through reassessment of major programs it was determined that the Equitable Sharing Program (16.922) could not be assessed as a low-risk Type-A program and needed to be audited as a major program for 2013. Simultaneously, while assessing the City's 2014 major program determination upon receipt of the 2014 SEFA, the SAFER program (97.083) was determined to be a 2014 major program based on preliminary SEFA expenditures. During testing of the SAFER program as a 2014 major program, auditors determined that \$160,331 of SAFER expenditures listed on the 2014 SEFA should have been included on the 2013 SEFA, which would have made it a major program in 2013. This required a reissuance of the 2013 audit..

Cause:

The City did not have appropriate internal controls in place to properly determine annual expenditure amounts to be included on their SEFA.

Effect:

The City did not accurately account for all federally funded grants throughout the fiscal year due to its current accounting system's limitations and policies and procedures to accurately account for Federal grant expenditures. Therefore, the City is not in compliance with the requirements of OMB Circular A-133 to prepare an accurate SEFA.

Recommendation:

The City should implement new policies and procedures to ensure that the SEFA numbers are accurate and reviewed by appropriate levels of management prior to being provided to the auditors. The City should also reevaluate the capabilities of the current accounting system in order to ensure that expenditures for all Federal grants are reported accurately on the SEFA.

Views of Responsible Officials and Planned Corrective Actions:

The City concurs with this finding and auditor recommendation. The Corrective Action Plan is that during FY 2014-15, the City has implemented a new general ledger system and chart of accounts with specific emphasis on grant accountability and revenue sources. Grant receipt and disbursement transactions are administered through dedicated grant accounting funds which provide transparency and accountability over grant transactions. Dedicated grant revenue codes have been established to differentiate federal, state, and local grant sources. These dedicated funds and accounts will facilitate accurate finance department preparation of the annual Schedule of Expenditure of Federal Awards. To further improve accuracy, prior to audit, SEFA expenditures will be reconciled to program grant claims to ensure consistency with values reported directly to federal granting agencies.

City of Calexico
Summary Schedule of Prior Audit Findings (Continued)
For the Year Ended June 30, 2015

Section I – Financial Statement Findings (Continued)

Finding 2014-05, Accurate Preparation of the Schedule of Expenditures of Federal Awards (Continued)

Status:

Not Corrected. See Finding 2015-03

Finding 2014-06, Internal Controls over Budget Monitoring Process

Criteria:

Management is responsible establishing effective internal controls over the budget process and ensuring that citywide expenditures are within levels authorized by the annual budget. As part of satisfying that responsibility, management should prepare accurate and timely year-to-date revenue and expenditure information, as well as well developed year-end revenue and expenditure projections, will allow better monitoring of the City's compliance with the Annual Budget.

Condition:

During the City's 2014 audit it was noted that the General Fund expenditures for general government were over budget by \$2,932,475.

Cause:

The City did not have appropriate internal controls in place to properly monitoring of the City's compliance with the Annual Budget.

Effect:

The City did not properly monitor departmental expenditures to verify the expenditures were in compliance with the City's Annual Budget.

Recommendation:

The City should implement new policies and procedures to ensure the proper monitoring of departmental expenditures. The City should prepare accurate and timely year-to-date revenue and expenditure information, as well as well developed year-end revenue and expenditure projections, will allow better monitoring of the City's compliance with the Annual Budget.

Views of Responsible Officials and Planned Corrective Actions:

The City concurs with this finding and auditor recommendation. Budget monitoring during the fiscal year is essential to monitoring the status of the City's financial resources and progress in implementing programs and projects approved for the fiscal year. The Corrective Action Plan to produce timely and accurate budget monitoring reports includes the following steps, each of which is in progress:

1. Complete the general ledger software conversion to consolidate all financial reporting in the City's new general ledger system
2. Continue work to catch up bank and other account reconciliations to provide quality control over the recorded accounting balances used to monitor the budget
3. Upload budget appropriations into the general ledger

City of Calexico
Summary Schedule of Prior Audit Findings (Continued)
For the Year Ended June 30, 2015

Section I – Financial Statement Findings (Continued)

Finding 2014-06, Internal Controls over Budget Monitoring Process (Continued)

Views of Responsible Officials and Planned Corrective Actions (Continued):

4. Use the general ledger system reporting features to produce monthly budget-to-actual reports for use in monitoring the budget to identify risks and opportunities
5. Distribute and discuss interim budget-to-actual status with program departments and City Council
6. Propose budget amendments to adjust for new or changing revenue and expenditure projections to maintain a viable annual financial plan that continues to reflect available resources and City Council priorities.

Status:

Not Corrected. See finding 2015-02.

Section II – Federal Awards Findings and Questioned Costs

There were no prior year Federal Award Findings and Questioned Costs reported.