

City of Calexico

Calexico, California

Single Audit and Independent Auditors' Reports

For the Year Ended June 30, 2014



PUN & McGEADY

**City of Calexico
Single Audit Report
For the Year Ended June 30, 2014**

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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, 2014, 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 June 17, 2015.

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 2014-01, 2014-02 and 2014-03.

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 2014-4, 2014-05 and 2014-06.

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 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*.

The 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.

RUN & Mc Geady LLP

San Diego, California
June 17, 2015



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REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM, ON INTERNAL CONTROL OVER COMPLIANCE, AND 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 a direct and material effect on each of the City's major federal programs for the year ended June 30, 2014. 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.

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, 2014.

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.

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.

Schedule of Expenditures of Federal Awards

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, 2014, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 17, 2015, 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.

To the Honorable Mayor and Members of City Council
of the City of Calexico
Calexico, California
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Purpose of this Report

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

Paul J. McGeady LLP

San Diego, California
November 17, 2015 except for Report on the Schedule of Expenditures of Federal Awards as to which
the date is May 16, 2016

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City of Calexico
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2014

Federal Grantor/Pass-Through Grantor Program Title	Federal CFDA Number	Agency or Pass-Through Number	Federal Expenditures
U.S. Department of Justice:			
<i>Passed through the State of California Border Alliance Group:</i>			
Equitable Sharing Program	16.922		\$ 223,952
Total U.S. Department of Justice			<u>223,952</u>
U.S. Department of Transportation			
Highway Planning and Construction Cluster:			
<i>Passed Through State of California Department of Transportation:</i>			
Highway Planning and Construction	20.205	STPL-5168(022)	191
Highway Planning and Construction	20.205	STPL-5168(027)	636
Highway Planning and Construction	20.205	HPUL-5168(015)	<u>188,410</u>
		Subtotal 20.205	<u>189,237</u>
		Total Highway Planning and Construction Cluster	<u>189,237</u>
<i>Direct Program:</i>			
Airport Improvement Program	20.106	3-06-0034-015-2013	<u>154,993</u>
Total U.S. Department of Transportation			<u>344,230</u>
U.S. Department of Housing & Urban Development			
<i>Passed through the California Department of Housing and Community Development:</i>			
Home Investment Partnership Program	14.239	10-HOME-6476	4,691
Home Investment Partnership Program	14.239	13-HOME-8612	<u>3,433</u>
U.S. Department of Housing & Urban Development			<u>8,124</u>
U.S. Department of Homeland Security:			
<i>Passed through the County of Imperial:</i>			
Disaster Grants - Public Assistance	97.036	FEMA-1911-DR-CA	3,681,229
<i>Passed through the California Emergency Management Agency:</i>			
Homeland Security Grant Program	97.067	EMW-2012-SS-00123	123,889
<i>Passed through the California Emergency Management Agency:</i>			
Assistance to Firefighters Grant	97.044		391
Assistance to Firefighters Grant	97.044	EMW-2011-FO-06543	<u>8,957</u>
		Subtotal 97.044	<u>9,348</u>
Staffing for Adequate Fire and Emergency Response (SAFER)	97.083	EMW-2010-FN-00598	<u>91,344</u>
Total U.S. Department of Homeland Security			<u>3,905,810</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		<u>12,527</u>
Total U.S. Executive Office of the President			<u>12,527</u>
Total Expenditures of Federal Awards			<u>\$ 4,494,643</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, 2014

Note 1 – Reporting Entity

The financial reporting entity, as defined by the Governmental Accounting Standard Board (“GASB”), consists of the primary government, which is the City of Calexico, California (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

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.

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 the 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 – Reissuance of the Single Audit Report

On April 21, 2016, we were informed by the State Water Resources Control Board that the expenditure amount reported as being passed through from the State Water Resources Control Board should not be reported in the SEFA.

Schedule of Expenditures of Federal Awards, as previously reported	\$ 4,531,575
Expenditure adjustments:	
Investments for Public Works and Economic Development Facilities	(36,932)
Total expenditure adjustments	<u>(36,932)</u>
Schedule of Expenditures of Federal Awards, as restated	<u>\$ 4,494,643</u>

Note 5 – HUD Audit Report relating to Non-Major Program

The City received a letter dated December 9, 2014 regarding Non-Compliance with Documentation Requirements for Monitoring of CDBG Program Income Activities. The results of the audit included the determination that the City has been deemed as non-compliant with the documentation requirements and as such the City may not expend any CDBG funds, grant or Program Income, including the administration funds, until the City has received written notification that all monitoring findings have been cleared and the restriction has been removed. The report included findings for Grant and Program Income Financial Record Keeping, Part 5 Eligibility Analysis, Rent Reasonableness, Calculation of Rent Share, Written Agreements and Procurement.

City of Calexico
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2014

Section I – Summary of Auditor’s Results

Financial Statements

Types of auditors’ report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? 2014-01, 2014-02, 2014-03
- Significant deficiency(ies) identified? 2014-04, 2014-05, 2014-06

Noncompliance material to the financial statements noted? No

Federal Awards

Internal control over major programs:

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

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 section 510(a) of OMB Circular A-133? No

Identification of major programs:

Major Program	Federal CFDA #	Federal Expenditures
Disaster Grants - Public Assistance	97.036	\$ 3,681,229
Total major program expenditures		\$ 3,681,229
Total expenditures of federal awards		\$ 4,494,643
Percent of total federal award expenditures		81.90%

Dollar threshold used to distinguish between type A and type B programs: \$300,000

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, 2014

Section II – 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.

City of Calexico
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2014

Section II – Financial Statement Findings (Continued)

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

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.

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.

City of Calexico
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2014

Section II – Financial Statement Findings (Continued)

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

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

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.

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.

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.

City of Calexico
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2014

Section II – Financial Statement Findings (Continued)

Finding: 2014-03, Cash Account Reconciliations

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

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.

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. 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.

City of Calexico
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2014

Section II – 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
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2014

Section II – Financial Statement Findings (Continued)

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
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.

City of Calexico
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2014

Section III – Federal Awards Findings and Questioned Costs

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

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

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

Finding: 2013-05, Sub-recipient Monitoring

Information on the Federal Program:

Home Investment Partnership Program (CFDA Number 14.239, U.S. Department of Housing and Urban Development, Pass-Through Number: 10-HOME-6476)

Criteria:

The recipient is to conduct reviews and audits of its sub-recipients as may be necessary or appropriate to determine whether the sub-recipient has committed and expended the HOME funds, as required by 24 CFR section 92.500, and has met HOME Program requirements particularly as they relate to eligible activities, income targeting, affordability, and matching contribution requirement (24 CFR section 92.201(b))

Condition:

During our review of direct and material compliance requirements, it was noted that the City could not provide evidence that it performed sub-recipient monitoring of the program for compliance.

Cause:

The City has not established appropriate policies and procedures to provide reasonable assurance that sub-recipients of federal awards passed through the City are in compliance with applicable laws, regulations and other administrative requirements of the Home Investment Partnership Program.

Effect:

Compliance monitoring has as its objective to determine if program activities comply with applicable laws, regulations and other administrative requirements upon which the release of funds is conditioned. Without monitoring, the City cannot provide reasonable assurance that the sub-recipient is in compliance with applicable laws, regulations and other administrative requirements of the Home Investment Partnership Program.

Recommendation:

It is recommended the City establish monitoring procedures to ensure compliance with Federal requirements with the Home Investment Partnership Program. This should include procedures to:

- Inform sub-recipients of the Federal award information and compliance requirements, including any additional requirements imposed by the state of California and/or the City of Calexico.
- Monitor sub-recipient activities throughout the program period via reporting and regular contact.
- Obtain and review sub-recipient reports and ensure appropriate and timely corrective action has been taken in response to any findings.

Current Status:

Correction in Progress.

City of Calexico
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2014

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

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

Finding 2013-06 Cash Management

Information on the Federal Program:

Equitable Sharing Program (CFDA Number 16.922, U.S. Department of Justice)

Criteria:

Per 2 CFR § 215.22 Payment. (b) Recipients are to be paid in advance, provided they maintain or demonstrate the willingness to maintain: (1) Written procedures that minimize the time elapsing between the transfer of funds and disbursement by the recipient, and (2) Financial management systems that meet the standards for fund control and accountability as established in §215.21. Cash advances to a recipient organization shall be limited to the minimum amounts needed and be timed to be in accordance with the actual, immediate cash requirements of the recipient organization in carrying out the purpose of the approved program or project. The timing and amount of cash advances shall be as close as is administratively feasible to the actual disbursements by the recipient organization for direct program or project costs and the proportionate share of any allowable indirect costs.

Condition:

An internal investigation of the police department by the city found a \$104,000 check payable to the City of Calexico Police Department in the drawer of a former Police Chief. A letter accompanying the check noted the City of Calexico Police Department had requested the Grantor send a check for \$100,000 directly to the police department which is not in compliance with the internal controls over cash management for the Equitable Sharing Program grant. Since the check was not deposited into the account in a timely manner the city was not in compliance with the cash management requirements set forth by the Federal Government.

Cause:

Due to the lack of internal control over compliance, advances of Equitable Sharing Program funds were not deposited in a timely manner and were not in compliance with federal cash management requirements.

Effect:

Advances of Equitable Sharing Program funds were not deposited in a timely manner and were not in compliance with federal cash management requirements.

Questioned Costs:

Not applicable

Recommendation:

The City should require all checks be made out to the City of Calexico and addressed to City Hall to be processed through the City's cash receipts internal controls.

Current Status:

Implemented

City of Calexico
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2014

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

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

Finding: 2013-07, Allowable Costs/Cost Principles (Non-Payroll)

Information on the Federal Program:

Equitable Sharing Program (CFDA Number 16.922, U.S. Department of Justice)

Criteria:

TITLE 2—GRANTS AND AGREEMENTS, PART 225—*COST PRINCIPLES OF STATE, LOCAL, AND INDIAN TRIBAL GOVERNMENT* (OMB Circular A-87), Attachment A—General Principles for Determining Allowable Costs, Part C—Basic Guidelines

- (1) Factors affecting allowability of costs. To be allowable under Federal awards, costs must meet the following general criteria:
- (d) Conform to any limitations or exclusions set forth in these principles, Federal laws, terms and conditions of the Federal award, or other governing regulations as to types or amounts of cost items.
 - (j) Be adequately documented.

Condition:

During our testing of expenditures of federal awards, we noted 2 out of 20 samples were not adequately documented. For two transactions involving drug buy money that totaled \$3,800, there is no documentation for how the money was used. An internal investigation of the police department by the city found \$3,200 in undocumented cash in the safe of the former Police Chief. It could not be determined if the funds found in the safe related to money advanced to officers for the purpose of performing drug buys as part of the equitable sharing program.

Cause:

Due to the lack of internal control, expenditures were made with Equitable Sharing Program funds that were not documented adequately which doesn't allow us to determine the allowability of the expenditures.

Effect:

Auditors were unable to determine the allowability of Equitable Sharing Program expenditures, therefore placing them as questioned costs.

Questioned Costs:

\$3,800

Recommendation:

Management should ensure policies and procedures are in place to ensure that expenditures are adequately documented.

Current Status:

Implemented

City of Calexico
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2014

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

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

Finding: 2013-08, Allowable Costs/Cost Principles (Payroll)

Information on the Federal Program:

Equitable Sharing Program (CFDA Number 16.922, U.S. Department of Justice)

Criteria:

TITLE 2—GRANTS AND AGREEMENTS, PART 225—*COST PRINCIPLES OF STATE, LOCAL, AND INDIAN TRIBAL GOVERNMENT* (OMB Circular A-87), Attachment A—General Principles for Determining Allowable Costs, Part C—Basic Guidelines

(1) Factors affecting allowability of costs. To be allowable under Federal awards, costs must meet the following general criteria:

(d) Conform to any limitations or exclusions set forth in these principles, Federal laws, terms and conditions of the Federal award, or other governing regulations as to types or amounts of cost items.

(j) Be adequately documented.

Condition:

During our testing of payroll expenditures we were unable to trace the overtime charged to grant to actual overtime incurred. The city initially charged the overtime to the General Fund, but then transferred the overtime charges to the Equitable Sharing Program due the police department going significantly over budget. The City's management performed an analysis of the expenditure and determined the City overstated the 2013 eligible overtime costs allocated to the Asset Forfeiture Fund and Equitable Sharing grant program. To address this condition, the City has transferred \$364,228 in cash from its General Fund and restored this cash to the Asset Forfeiture grant fund to correct for the overstated 2012-13 grant draw. This transfer has been recorded in the City's General Ledger as of June 30, 2015. The Revised 2012-13 and 2013-14 grant reports have been prepared to reflect this correction and restored cash balance. Upon further review the city was able to provide support for the payroll overtime expenditures which were tested without exception.

Cause:

The City was initially only able to provide auditors with summary payroll charges charged to the Equitable Sharing Program via a transfer from the General Fund. Upon further review the city was able to provide support for the payroll overtime expenditures which were tested without exception.

Effect:

Due to the lack of internal control, expenditures were not properly documented and couldn't be traced to actual expenditures. Upon further review the city was able to provide support for the payroll overtime expenditures which were tested without exception.

Questioned Costs:

None

Recommendation:

Management should ensure policies and procedures are in place to ensure that expenditures are adequately documented.

Current Status:

Implemented

City of Calexico
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2014

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

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

Finding 2013-09 Reporting

Information on the Federal Program:

Equitable Sharing Program (CFDA Number 16.922, U.S. Department of Justice)

Criteria:

Per 2013 compliance supplement, “*Financial Reporting* - Recipients should use the standard financial reporting forms or such other forms as may be authorized by OMB (approval is indicated by an OMB paperwork control number on the form). Each recipient must report program outlays and program income on a cash or accrual basis, as prescribed by the Federal awarding agency.”

Condition:

As described in finding 2013-03 the City resubmitted its *Equitable Sharing and Agreement Annual Certification Report* for fiscal year 2013 on November 18, 2014 with an updated expenditure amount of \$488,722. Therefore the City was not in compliance with submitting complete and accurate reports prepared in accordance with the required accounting basis.”

Cause:

The City did not properly complete and review the *Equitable Sharing and Agreement Annual Certification Report* before submitting it to ensure its accuracy.

Effect:

The City had to resubmit its *Equitable Sharing and Agreement Annual Certification Report* to the U.S. Department of Justice.

Questioned Costs:

Not applicable

Recommendation:

The City should implement policies and procedures to ensure that reports submitted to federal agencies are reviewed and approved by management prior to certification and submission.

Current Status:

Implemented