



# City of San Fernando

## Single Audit Report on Federal Award Programs

Year Ended June 30, 2014

**CITY OF SAN FERNANDO**

**Single Audit Report on  
Federal Award Programs  
June 30, 2014**



**CITY OF SAN FERNANDO**  
**SINGLE AUDIT REPORT ON FEDERAL AWARD PROGRAMS**  
Year Ended June 30, 2014

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**Independent Auditor's Report on Internal Control over Financial Reporting and  
on Compliance and Other Matters Based on an Audit of Financial Statements  
Performed in Accordance with *Government Auditing Standards***

City Council  
City of San Fernando  
San Fernando, 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, business-type activities, each major fund, and the aggregate remaining fund information of the City of San Fernando (City) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the basic financial statements of the City, and have issued our report thereon dated December 17, 2014.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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

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

schedule of findings and responses as item 2014-1 that we consider to be a significant deficiency.

### **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*.

### **City of San Fernando's Responses to Findings**

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

### **Purpose of this Report**

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

*Van Lant & Fankhaed, LLP*

December 17, 2014



## Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by OMB Circular A-133

City Council  
City of San Fernando  
San Fernando, California

### Report on Compliance for Each Major Federal Program

We have audited the City of San Fernando's 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 of San Fernando 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 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.

## **Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133**

We have audited the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information, of the City of San Fernando, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated February 4, 2015, which contained unmodified opinions on those financial statements. Our audit was conducted for the

purpose of forming an opinion on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

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.

*Van Lant & Fankhaed, LLP*

February 4, 2015

**CITY OF SAN FERNANDO**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**(SUPPLEMENTARY INFORMATION)**  
Year Ended June 30, 2014

Federal Grantor/ Pass-through Grantor/Program Title	Federal Domestic Assistance Number	Program Identification Number	Program Expenditures
<b><u>U.S. Department of Housing and Urban Development</u></b>			
<i>Direct Assistance:</i>			
Brownfield Economic Development Initiative	14.246	B-06-SP-CA-0105	\$ 99,000
<i>Passed through the County of Los Angeles Community Development Commission:</i>			
Community Development Block Grant Section 108 Repayment – Principal	14.218	600674	253,288*
<b><u>U.S. Department of Justice</u></b>			
<i>Direct Assistance:</i>			
Public Safety Partnership and Community Policing Grant	16.710	2010RKWX0433	63,335
Edward Byrne Memorial JAG	16.738	2010-DJ-BX-1541	5,763
<b><u>U.S. Department of Transportation</u></b>			
<i>Passed through the City of Glendora:</i>			
State and Community Highway Safety	20.600	AL1343	1,763
State and Community Highway Safety	20.608	AL1465	4,117
<i>Passed through the California Office of Traffic Safety</i>			
State and Community Highway Safety	20.600	PT1347	12,155
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	PT1347	15,315
<b><u>U.S. Department of Health and Human Services</u></b>			
<i>Passed through the County of Los Angeles Community and Senior Citizens Service:</i>			
Special Program for the Aging Title III – Part B	93.044	AAA-ENP-1216-013	22
Special Program for the Aging Title III – Part CI	93.045	AAA-ENP-1216-013	47,734
Special Program for the Aging Title III – Part CII	93.045	AAA-ENP-1216-013	38,206
Total			85,962

**CITY OF SAN FERNANDO**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)**  
**(SUPPLEMENTARY INFORMATION)**  
Year Ended June 30, 2014

Federal Grantor/ Pass-through Grantor/Program Title	Federal Domestic Assistance Number	Program Identification Number	Program Expenditures
<b><u>U.S. Department of Health and Human Services</u></b>			
<i>Passed through the County of Los Angeles</i>			
<i>Community and Senior Citizens Service:</i>			
Nutrition Services Incentive Program – Part CI	93.053	AAA-ENP-1216-013	\$ 4,577
Nutrition Services Incentive Program – Part CII	93.053	AAA-ENP-1216-013	<u>3,076</u>
Total			<u>7,653</u>
<b><u>National Endowment for the Arts</u></b>			
<i>Direct Assistance:</i>			
Promotion of the Arts Grant to Organizations and Individuals	45.024	12-7700-7007	7,458
Promotion of the Arts Grant to Organizations and Individuals	45.024	12-5100-7024	7,949
Promotion of the Arts Grant to Organizations and Individuals	45.024	13-5100-7047	<u>23,847</u>
Total			<u>39,254</u>
Total Federal Financial Assistance			<u>\$ 587,605</u>

\*Major Program

**CITY OF SAN FERNANDO**  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
Year Ended June 30, 2014

**1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES APPLICABLE TO THE SCHEDULE OF FEDERAL AWARDS**

**A) Scope of Presentation**

The accompanying schedule presents only the expenditures incurred (and related awards received) by the City of San Fernando that are reimbursable under programs of federal agencies providing financial assistance. For the purpose of this schedule, financial assistance includes both federal financial assistance received directly from a federal agency, as well as federal funds received from pass-through entities by the City of San Fernando. Only the portion of program expenditures reimbursable with such federal funds is reported in the accompanying schedule. Program expenditures in excess of the maximum federal reimbursement authorized or the portion of the program expenditures that were funded with the state, local or other non-federal funds are excluded from the accompanying schedule.

**B) Basis of Accounting**

The expenditures included in the accompanying schedule were reported on the modified accrual basis of accounting. Under the modified accrual basis of accounting, expenditures are incurred when the City of San Fernando becomes obligated for payment as a result of the receipt of the related goods and services. Expenditures reported include any property or equipment acquisitions incurred under the federal program.

**C) Major Programs**

The City had one major program for the year ended June 30, 2014, consisting of the Community Development Block Grant, which had total disbursements of \$253,288. This amount calculates to 43.1% of the total disbursements from federal awards.

**CITY OF SAN FERNANDO**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
Year Ended June 30, 2014

**SECTION I – SUMMARY OF AUDITOR’S RESULTS**

**Financial Statements**

Type of Auditors’ Report Issued:	Unmodified
Internal Control Over Financial Reporting:	
Material Weakness(es) Identified?	No
Significant Deficiencies Identified not Considered to be Material Weaknesses?	Yes
Noncompliance Material to Financial Statements Noted?	No

**Federal Awards**

Internal Control Over Major Programs:	
Material Weakness(es) Identified?	No
Significant Deficiencies Identified not Considered to be Material Weaknesses?	No
Type of Auditors’ Report Issued on Compliance for Major Programs:	Unmodified
Any Audit Findings Disclosed that are Required to be Reported in Accordance With OMB Circular A-133, Section 510(a)?	No

Identification of Major Programs:

CFDA Numbers	Name of Federal Program or Cluster
14.218	U.S. Department of Housing and Urban Development Community Development Block Grant

Dollar Threshold used to Distinguish Between Type A And Type B Programs:	\$ <u>300,000</u>
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Auditee Qualified as Low-Risk Auditee?	Yes
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**CITY OF SAN FERNANDO**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
Year Ended June 30, 2014

**SECTION II – FINANCIAL STATEMENT FINDINGS**

*2014-1: Deficit Fund Balance*

Finding:

The following is a continuation from prior years:

The City's General Fund had a total deficit fund balance of \$5,693,905 as of June 30, 2014. Although the General Fund experienced an excess of revenues over expenditures of \$1,585,467 during the 2013-14 fiscal year, total fund balance decreased by \$3,946,853. The decrease was mainly due to the interfund advance payable to the Retirement Tax Fund. In addition, the excess revenues over expenditures in the current year do not take into account the increase in the Other Post-employment Benefits (OPEB) liability which is increasing approximately \$1million each year. As of June 30, 2014, the City has a cumulative OPEB liability of \$9.1 million. This is the amount, based on actuarial calculations, that the City should have contributed to the OPEB plan over the past several years, but has not. Also, retirement benefits costs are increasing significantly each year. Expenditures will continue to increase in the future, because of these issues.

It is essential that governments, including the City, maintain adequate levels of fund balance to mitigate current and future risks (e.g., revenue shortfalls and unanticipated expenditures). Fund balance levels are a crucial consideration in long-term financial planning.

The Government Finance Officers Association (GFOA) has developed a "Best Practice" in this area. They recommend that governments establish a formal policy on the level of unrestricted fund balance that should be maintained in the general fund. As described by GFOA, "the adequacy of unrestricted fund balance in the general fund should be assessed based upon a government's own specific circumstances. Nevertheless, GFOA recommends, at a minimum, that general-purpose governments, regardless of size, maintain unrestricted fund balance in their general fund of no less than two months of regular general fund operating revenues or regular general fund operating expenditures. The choice of revenues or expenditures as a basis of comparison may be dictated by what is more predictable in a government's particular circumstances."

Although the City has taken certain steps to address these issues, we recommend the City continue in its efforts to establish a long-term plan to eliminate fund deficits and interfund borrowings, and create an appropriate level of General Fund reserves for the future. The City should consider referring to GFOA's Best Practice in developing a long-term plan.

Management's Response:

Eliminating the General Fund deficit and addressing the City's long term Other Post Employment Benefits liability are top priorities for City management. In accordance with GFOA Best Practices, the City Council adopted a Budget Policy and Comprehensive Financial Policy, including fund balance goals, to formalize the City's commitment to long-term financial stability.

**CITY OF SAN FERNANDO**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

Year Ended June 30, 2014

*2014-1: Deficit Fund Balances - Continued*

Additionally, management has developed a deficit elimination plan. The key elements of the deficit elimination plan are as follows:

- Develop and maintain a five-year General Fund projection of revenues and expenditures;
- Continue to use the voter approved half-cent transaction and use tax for its intended purpose, which include eliminating the deficit, funding non-recurring expenditures, and establishing an OPEB trust fund;
- Increase economic development efforts, including adoption of a Development Agreement Ordinance;
- Update user fees and cost allocation plan to ensure the City is adequately recovering costs for certain services;
- Sell surplus land and use the one-time land sale proceeds to reduce the City's deficit;
- Transfer financial and management responsibility for the San Fernando Aquatics Center to the County of Los Angeles;
- Restructure employee benefits through bargaining, with a focus on decreasing the City's OPEB liability;
- Explore opportunities to increase the City's operational efficiency through inter-agency and/or private partnerships;
- Reorganize City departments where necessary to create more efficient operations;
- Create and maintain a five-year forecast of revenues and expenditures to evaluate the long-term fiscal impact of major decisions; and
- Create and update the City's financial policies, including, but not limited to, long term planning, budget, purchasing, debt management, grant management, investment, and reserve policies, with an emphasis on creating long term fiscal sustainability.

The deficit elimination plan was developed with the understanding that the General Fund deficit is a result of many years of financial problems, some of which have been beyond the City's control (e.g. the "Great Recession" and state's dissolution of redevelopment) and others that were self-inflicted. It will take many years to dig the City out of these financial problems; however, if the preceding financial and operational elements continue to be implemented, the City will be successful in eliminating the General Fund deficit and building a strong financial base for the future.

Other Post-Employment Benefits (OPEB). The City will be negotiating labor contracts with all bargaining units beginning in the second half of fiscal year 2014-2015. As noted in the deficit elimination plan, the City will be focusing on restructuring employee benefits to decrease the City's OPEB liability. The City will also be exploring ways to fund the current OPEB liability, including using a portion of the half-cent transaction and use tax revenues to establish an OPEB trust fund.



**CITY OF SAN FERNANDO**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
Year Ended June 30, 2014

**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

There were no auditor's findings to be reported in accordance with paragraph 510(a) of OMB Circular A-133.

**CITY OF SAN FERNANDO**  
**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
Year Ended June 30, 2014

**SECTION II – FINANCIAL STATEMENT FINDINGS**

2012-1     *Deficit Fund Balances*

Current Status: This finding has not been resolved. See finding 2014-1.

2012-2     *Segregation of Duties*

Current Status: This finding has been resolved.

**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

There were no auditor's findings required to be reported in accordance with OMB Circular A-133 in the prior year.