



**City of San Fernando
Single Audit Report
Year Ended June 30, 2022
With Independent Auditor's Report**



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with Independent Auditor's Report

| | <u>PAGE</u> |
|---|-------------|
| INDEPENDENT AUDITOR'S REPORT | |
| Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> | 1 |
| Report on Compliance for Each Major Federal Program; on Internal Control Over Compliance; and on the Schedule of Expenditures of Federal Awards Required by the Uniform Guidance | 3 |
| SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS | 6 |
| NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS | 7 |
| SCHEDULE OF FINDINGS AND QUESTIONED COSTS | 8 |
| SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS | 12 |



**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***

**The Honorable Mayor and the Members of the City Council
City of 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, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of San Fernando, California (the City), as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 30, 2022.

Report on 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) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as Finding No. FS 2022-001 to be a significant deficiency.



Report on 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 financial statements. 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 the Findings

Government Auditing Standards requires the auditor to perform limited procedures on the City's response to the findings identified in our audit and 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 the response.

Purpose of this Report

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

**Glendale, California
December 30, 2022**



Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

**The Honorable Mayor and the Members of the City Council
City of San Fernando, California**

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited the City of San Fernando, California's (the City) compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on the City's major federal program for the year ended June 30, 2022. The City's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

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 its major federal program for the year ended June 30, 2022.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the City's compliance with the compliance requirements referred to above.



Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the City's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the City's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the City's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the city's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the city's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the uniform guidance, but not for the purpose of expressing an opinion on the effectiveness of the city's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on 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 a 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 Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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

Report on the Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated December 30, 2022, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions 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 the Uniform Guidance 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 basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic 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.

Glendale, California

March 17, 2023, except for the Schedule of Expenditures of Federal Awards,
as to which the date is December 30, 2022.

City of San Fernando
Schedule of Expenditures of Federal Awards
Year ended June 30, 2022

| Federal Grantor/Pass-through Grantor/Cluster/Program | Assistance Listing Number | Grant Identifying Number | Passed - through to Subrecipients | Federal Award Expenditures |
|--|--|-------------------------------------|--|---|
| National Endowment for the Arts | | | | |
| Direct assistance: | | | | |
| Promotion of the Arts Grants to Organizations and Individuals | 45.024 | 1858258-55-20 | \$ - | \$ 22,652 |
| Promotion of the Arts Grants to Organizations and Individuals | 45.024 | 1864695-55-21 | - | 38,520 |
| Total National Endowment for the Arts | | | - | 61,172 |
| U.S. Department of Housing and Urban Development | | | | |
| Passed-through the County of Los Angeles Community Development Authority (LACDA): | | | | |
| Community Development Block Grants (CDBG) - Entitlement Grants Cluster Business Assistance Program | 14.218 | 602318-21 | - | 19,110 |
| Pico Street & San Fernando Road Improvements FY2019-20 | 14.218 | 602080-19 | - | 496,301 |
| Total U.S. Department of Housing and Urban Development | | | - | 515,411 |
| U.S. Department of Justice | | | | |
| Direct assistance: | | | | |
| Public Safety Partnership and Community Policing Grants | 16.710 | 15JCOPS-21-GG-02434-SPPS | - | 52,624 |
| Total U.S. Department of Justice | | | - | 52,624 |
| U.S. Department of Transportation | | | | |
| Passed-through the State of California - Office of Traffic Safety: | | | | |
| Highway Safety Cluster State and Community Highway Safety | 20.600 | PT21053 / 402PT-21 | - | 6,747 |
| Passed-through the State of California - Office of Traffic Safety: | | | | |
| Minimum Penalties for Repeat Offenders for Driving While Intoxicated | 20.608 | PT21053 / 164AL-21 | - | 3,923 |
| Total U.S. Department of Transportation | | | - | 10,670 |
| U.S. Department of the Treasury | | | | |
| Direct assistance: | | | | |
| Coronavirus State and Local Fiscal Recovery Funds | 21.027 | 1505-0271 | - | 129,595 |
| Passed-through the State Water Resources Control Board | | | | |
| California Water & Wastewater Arrearages Payment Program | 21.027 | 3940-162-8506 | - | 260,291 |
| Total U.S. Department of the Treasury | | | - | 389,886 * |
| Total Expenditures of Federal Awards | | | \$ - | \$ 1,029,763 |

* Denotes major program

See Notes to Schedule of Expenditures and Federal Awards.

NOTE 1 BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (SEFA) presents the activity of all federal financial assistance programs of the City of San Fernando, California (the City). For purposes of this schedule, financial awards include federal awards received directly from a federal agency, as well as federal funds received indirectly by the City from a non-federal agency or other organization. Only the portions of program expenditures reimbursable with federal funds are reported in the accompanying schedule. Program expenditures in excess of the maximum reimbursement authorized, if any, or the portion of the program expenditures that were funded with other state, local or other non-federal funds are excluded from the accompanying schedule.

The information in the SEFA is presented in accordance with the requirements of *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the SEFA presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position, changes in net position, or cash flows of the City.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying SEFA is presented using the modified accrual basis of accounting, which is described in Note 1 of the notes to the City's basic financial statements. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

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

NOTE 3 RELATIONSHIP TO FEDERAL FINANCIAL REPORTS

Grant expenditure reports for the year ended June 30, 2022, which have been submitted to grantor agencies, will, in some cases, differ from the amounts disclosed herein. The reports prepared for grantor agencies are typically prepared at a later date and often reflect refined estimates of the year-end accruals.

NOTE 4 RELATIONSHIP TO ANNUAL COMPREHENSIVE FINANCIAL REPORT

Amounts reported in the accompanying SEFA agree, in all material respects, to the amounts reported within the City's Annual Comprehensive Financial Report.

Section I – Summary of Auditor's Results

Financial Statements

| | |
|---|------------------|
| Type of auditor's report issued on whether the financial statements audited were prepared in accordance with GAAP | Unmodified |
| Internal control over financial reporting: | |
| • Material weakness(es) identified? | No |
| • Significant deficiency(ies) identified? | Yes, FS 2022-001 |
| Noncompliance material to financial statements noted | No |

Federal Awards

| | |
|--|---------------|
| Internal control over major programs: | |
| • Material weakness(es) identified? | No |
| • Significant deficiency(ies) identified? | None reported |
| Type of auditors' report issued on compliance with respect to major federal programs: | Unmodified |
| Any audit findings disclosed that are required to be reported in accordance with Section 2 CFR 200.516(a)? | None |

Identification of Major Programs:

| <u>Assistance Listing Number</u> | <u>Name of Federal Program or Cluster</u> |
|---|---|
| 21.027 | Coronavirus State and Local Fiscal Recovery Funds |
| Dollar threshold used to distinguish between Type A and Type B programs | \$750,000 |
| Auditee qualified as a low-risk auditee? | Yes |

Section II – Financial Statement Findings

Finding No. FS 2022-001- Improper Application of Basis of Accounting

Criteria:

The objective of financial reporting is to provide financial information about the reporting entity that is useful to the primary users of financial reports in making decisions about providing resources to the reporting entity. GASB 34 (as amended) establishes minimum reporting requirements to be in compliance with GAAP. Reporting requirements include fund-based and government-wide presentations supported by notes to the financial statements and a variety of required supplementary information.

Governmental funds are accounted for using the modified accrual basis of accounting and use the current financial resources measurement focus. The source, use, and balance of the government's current financial resources and the related current liabilities are accounted for through the use of governmental funds.

Proprietary funds account for business-type activities and their accounting is similar to commercial accounting. Proprietary funds use the full accrual basis accounting and should be reported using the economic resources measurement focus.

Condition:

During our audit of the financial statements, we identified the following instances where the City failed to apply the correct basis of accounting:

1. The City failed to capitalize an asset amounting to \$152,042 in the internal service funds financial statements for the year ended June 30, 2022. An audit adjustment was made to correct the accounts.
2. The City failed to recognize the liability amounting to \$4,745,000 in the enterprise funds financial statements for the year ended June 30, 2022. This amount was recorded as revenue in the enterprise funds' financial statements. An audit adjustment was made to correct the accounts.

Section II – Financial Statement Findings (Continued)

Finding No. FS 2022-001- Improper Application of Basis of Accounting (Continued)

Cause and Effect:

Cause

The findings noted are recognized as arising from a combination of transitioning audit professional services and staffing shortages.

During the fiscal year ending June 30, 2022, the City issued \$31,780,000 (Series 2021A) and \$4,745,000 (Series 2021B) in Pension Obligation Bonds (POBs). The Series 2021A POB is liquidated in the General Fund while the 2021B POB is funded by Water and Sewer Funds. The City applied the same accounting basis across the issuance, but through the audit process identified that the liability for Series 2021B should have instead been recognized for enterprise funds. With the former accounting firm transitioning out and the new engagement being finalized, there was a timing issue in connecting for guidance in advance of the entry. The transitioning of audit services also impacted review of internal service fund capital expenditures, as there was a different interpretation for the accounting basis that was not previously captured by the prior firm.

Staffing shortages further exacerbated the City's typical process review standards. Finance Department vacancies created heightened workload with reduced personnel, which impacted secondary levels for review.

Effect

An incorrect application of accounting basis can provide an inaccurate illustration of the City's financials if not assessed in a timely fashion. The City engages professional audit services to test for such instances and provide guidance. In both instances, audit adjustments were made to correct the accounts which mitigated the impact of incorrectly reported financial statements.

Recommendation:

We recommend the City establish procedures to identify and correct accounting errors on a timely basis.

Views of Responsible Officials and Planned Corrective Action:

As part of the professional services agreement, the selected audit firm provides year-round consultation on financial and accounting matters. The City will engage the audit firm as non-routine items arise to ensure captured in compliance with best practices and accepted accounting principles. The Finance Department is now at full complement, allowing for re-establishment of review levels to adhere with internal procedures.

Personnel responsible for implementation: Erica D Melton

Position of responsible personnel: Director of Finance/City Treasurer

Expected date of implementation: January 1, 2023

Section III – Federal Award Findings

There were no federal award findings noted during the fiscal year ended June 30, 2022.

**City of San Fernando
Summary Schedule of Prior Audit Findings
Year ended June 30, 2022**

There were no prior year findings reported during the fiscal year ended June 30, 2021.



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