



THE CITY OF
SAN FERNANDO

SINGLE AUDIT REPORT

FOR THE
FISCAL YEAR ENDED
JUNE 30, 2023

SAN FERNANDO,
CALIFORNIA



CITY OF SAN FERNANDO

**Single Audit Report on
Federal Award Programs**

June 30, 2023

CITY OF SAN FERNANDO
SINGLE AUDIT REPORT ON FEDERAL AWARD PROGRAMS
Year Ended June 30, 2023

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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, 2023, and the related notes to the financial statements, which collectively comprise the City’s basic financial statements, and have issued our report thereon dated February 28, 2024.

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 preceding 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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as item 2023-001, that we consider to be a material weakness.



Van Lant & Fankhanel, LLP

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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 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 2023-002.

City of San Fernando's Responses to 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 responses. The City's responses were not subject to the other 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 organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Van Lant & Fankhaed, LLP

February 28, 2024



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

City Council
City of San Fernando
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’s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City’s major federal programs for the year ended June 30, 2023. 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.

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, 2023.

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; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). 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 of San Fernando 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 requirements referred to above.

Van Lant & Fankhanel, LLP

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Responsibilities of Management for Compliance

Management is responsible for compliance with 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 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 generally accepted auditing standards, *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 City's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *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 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 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 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 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 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 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 Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

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, 2023, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated February 28, 2024, which contained unmodified opinions on those financial statements. Our audit was performed 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 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.



March 20, 2024

CITY OF SAN FERNANDO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2023

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal ALN Number	Program Identification Number	Program Expenditures
<u>U.S. Department of Housing and Urban Development</u>			
<i>Passed through the Los Angeles County Development Authority:</i>			
CDBG - Entitlement Grants Cluster			
Community Development Block Grant	14.218	602080-19	\$ 24,975
Community Development Block Grant	14.218	602507-22	5,475
Total Community Development Block Grant			<u>30,450</u>
Total Department of Housing and Urban Development			<u>30,450</u>
<u>U.S. Department of Justice</u>			
<i>Direct Assistance:</i>			
Public Safety Partnership and Community Policing Grant	16.710	15JCOPS-22-GG-04	2,250
Total Department of Justice			<u>2,250</u>
<u>U.S. Department of Transportation</u>			
<i>Passed through the California Department of Transportation:</i>			
Highway Planning and Construction Cluster			
Highway Planning and Construction	20.205	ATPL-502(020)	559,906
<i>Passed through the Los Angeles County MTA:</i>			
Highway Planning and Construction	20.205	LAF 1505	494,149
Total Highway Planning and Construction			<u>1,054,055</u>
Total Department of Transportation			<u>1,054,055</u>
<u>National Endowment for the Arts</u>			
<i>Direct Assistance:</i>			
Promotion of the Arts Grant	45.024	18-646955521	1,480
Promotion of the Arts Grant	45.024	18-879495522	37,386
Total National Endowment for the Arts			<u>38,866</u>
<u>U.S. Department of Treasury</u>			
<i>Direct Assistance:</i>			
COVID-19 - Coronavirus State and Local Fiscal Recovery Funds	21.027	1505-0271	1,264,127 *
Total Department of Treasury			<u>1,264,127</u>
<u>U.S. Department of Homeland Security</u>			
<i>Passed through the California Governor's Office of Emergency Services:</i>			
Hazard Security Grant Program	97.039	037-66140-00	4,374
<i>Passed through the City of Los Angeles, Office of the Mayor - Urban Areas Security Initiative (UASI):</i>			
Homeland Security Grant Program	97.067	C-1985	92,505
Total Department of Homeland Security			<u>96,879</u>
Total Expenditures of Federal Awards			<u>\$ 2,486,627</u>

* = Major Program

CITY OF SAN FERNANDO
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2023

1) Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of the City of San Fernando (the City) under programs of the federal government as well as federal financial assistance passed through other government agencies for the year ended June 30, 2023. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial statements of the City. The City's reporting entity is defined in Note 1 of the notes to the City's financial statements.

2) Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported using the modified accrual basis of accounting for governmental funds and the accrual basis for proprietary funds, which is described in Note 1 of the notes to the City's financial statements. Such expenditures are recognized following the cost principles contained in the Uniform Guidance and OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass through entity identifying numbers are presented when available. The City did not elect to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

3) Relationship to Other Reports

Amounts reported in the accompanying Schedule agree to the amounts reported within the City's Annual Comprehensive Financial Report and Federal Financial Report.

4) Contingencies

Under the terms of federal and state grants, additional audits may be requested by the grantor agencies, and certain costs may be questioned as not being appropriate expenditures under the terms of the grants. Such audits could lead to a request for reimbursement to the grantor agencies.

5) Subrecipient Expenditures

During the fiscal year ended June 30, 2023, the City did not make payments to subrecipients.

CITY OF SAN FERNANDO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2023

SECTION I – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of Auditor’s Report Issued:	Unmodified
Internal Control Over Financial Reporting:	
Material Weakness(es) Identified?	Yes
Significant Deficiencies Identified not Considered to be Material Weaknesses?	None Reported
Noncompliance Material to Financial Statements Noted?	Yes

Federal Awards

Internal Control Over Major Programs:	
Material Weakness(es) Identified?	No
Significant Deficiencies Identified not Considered to be Material Weaknesses?	None Reported
Type of Auditor’s Report Issued on Compliance for Major Programs:	Unmodified
Any Audit Findings Disclosed that are Required to be Reported in Accordance With Uniform Guidance?	No

Identification of Major Programs:

ALN Number	Name of Federal Program or Cluster
21.027	Coronavirus State and Local Recovery Funds

Dollar Threshold used to Distinguish Between Type A And Type B Programs:	\$ <u>750,000</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, 2023

SECTION II – FINANCIAL STATEMENT FINDINGS

2023-001 Timeliness and Accuracy of Accounting Records Relating to Grant-funded Projects

Condition:

In preparation for the annual audit, the City’s Finance staff performed significant analysis and reconciliations of various accounts in the City’s general ledger. However, during our year-end audit fieldwork, it became apparent that certain accounts had not yet been thoroughly analyzed and reconciled to supporting records, resulting in significant adjustments being made during the audit process. The significant audit adjustments related to grant-funded projects in various City funds. After discussing this with the City’s Finance staff, they ultimately performed a detailed analysis of the activity in these funds over the past few years, which resulted in significant prior period adjustments, recording of unearned grant revenue, and additional grant receivables. *Statements on Auditing Standards No. 115, “Communicating Internal Control Related Matters Identified in an Audit”* states that “indicators of material weaknesses in internal control include: identification by the auditor of a material misstatement of the financial statements under audit in circumstances that indicate the misstatement would not have been detected by the entity’s internal control.”

Timely reconciliation and review of all balance sheet accounts and various revenue and expenditure accounts on a recurring basis, and especially at year-end, is a vital part of maintaining the integrity of the accounting and financial reporting system. If the year-end closing process is not completed in a timely manner, the issuance of audit reports will be delayed and reporting deadlines will not be met.

Criteria:

The City’s management is responsible for establishing and maintaining effective internal controls over financial reporting to help ensure that appropriate goals and objectives are met. This responsibility includes the selection and application of accounting principles, ensuring that financial information is reliable and properly recorded, and evaluating and monitoring ongoing activities, including grant-funded projects and related revenues/receivables.

Cause of Condition:

The City has applied for and received significant grants over the past few years, for various projects. It appears this condition may be a result of lack of timely and adequate communication between departments administering grant-funded projects and the Finance Department, along with delays in reimbursement requests being made to the grantor agencies.

Recommendation:

In order to maintain the integrity of the accounting and financial reporting system, and to ensure timely reporting, we recommend that the City establish stronger controls over the accounting for grant-funded projects. This should include procedures to ensure the Finance Department is receiving timely and adequate information from the departments administering the projects and the related grants.

CITY OF SAN FERNANDO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2023

2023-001 Timeliness and Accuracy of Accounting Records Relating to Grant-Funded Projects - Continued

Procedures should be documented and implemented to ensure that grant reimbursement requests are made in a timely manner, each fiscal year.

Views of Responsible Officials:

Management accepts the recommendation as provided. Refer to separate Corrective Action Plan.

2023-002 Compliance with Debt Covenants

Condition:

Based on the 2022-23 activity in the City's Water Fund, it appears the City is not in compliance with certain debt covenant provisions in the 2020 Installment Sale Agreement.

Criteria:

Section 4.5 of the 2020 Installment Sale Agreement states that, "the City shall fix, prescribe, revise and collect rates, fees and charges for the services and facilities furnished by the Enterprise during each Fiscal Year which are sufficient to yield Net Revenues which, together with all other receipts and revenues of the City, are at least equal to 130% of the Average Annual Debt Service.

130% of the Average Annual Debt Service on the debt is approximately \$192,000, while the Net Revenues for the Water Fund in 2022-23 were a negative 933,000.

Cause of Condition:

While the City's gross revenues in the Water Fund have remained fairly consistent, the operating costs in the Fund have been increasing. This is primarily due to costs of importing water from the Metropolitan Water District (MWD) to meet demand while completing current water treatment projects.

Recommendation:

We recommend the City evaluate the revenues and expenses of the Water Fund to determine what action, if any, needs to be taken to bring the City into compliance with the applicable debt covenants.

Views of Responsible Officials:

Management accepts the recommendation as provided. Refer to separate Corrective Action Plan.

CITY OF SAN FERNANDO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2023

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There were no auditor's findings to be reported in accordance with *Uniform Guidance*.

CITY OF SAN FERNANDO
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended June 30, 2023

SECTION II – FINANCIAL STATEMENT FINDINGS

2022-001: Improper Application of Basis of Accounting

Current Status: The finding has been corrected.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There were no auditor's findings to be reported in accordance with the *Uniform Guidance*.