

**CITY OF MCFARLAND
SINGLE AUDIT REPORT
YEAR ENDED JUNE 30, 2018**



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**CITY OF MCFARLAND
SINGLE AUDIT REPORT
YEAR ENDED JUNE 30, 2018**

INDEPENDENT AUDITORS' 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
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INDEPENDENT AUDITORS' 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 City Council
of the City of McFarland
McFarland, 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 McFarland (City), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated March 5, 2021. Our report contains qualified opinions for the governmental activities, general fund, TDA-LTF fund and aggregate remaining fund information for lack of sufficient appropriate audit evidence on which to base an opinion on for receivables and related unavailable revenue and revenue account balances.

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 the 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 have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2018-001, 2018-002, 2018-003, 2018-004 and 2018-005 that we consider to be material weaknesses.

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*.

The Honorable City Council
of the City of McFarland

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.



CliftonLarsonAllen LLP

Roseville, California
March 5, 2021



INDEPENDENT AUDITORS' 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 THE UNIFORM GUIDANCE

The Honorable City Council
of the City of McFarland
McFarland, California

Report on Compliance for Each Major Federal Program

We have audited the City of McFarland's (City) compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (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, 2018. The City's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal program 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 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, 2018.

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 its major federal program to determine the auditing procedures that are appropriate in

the circumstances for the purpose of expressing an opinion on compliance for the major federal program 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 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.

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, 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, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated March 5, 2021, which contained qualified opinions on the governmental activities, general fund, TDA-LTF fund and the aggregate remaining fund information and unmodified opinions on the business-type activities, major and nonmajor enterprise funds and all major governmental funds other than the general fund and TDA-LTF fund. 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 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.



CliftonLarsonAllen LLP

Roseville, California
March 5, 2021

**CITY OF MCFARLAND
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2018**

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures	Expenditures to Subrecipients
<u>U.S. Department of Housing and Urban Development</u>				
Passed through State of California Department of Housing and Community Development:				
Community Development Block Grants/Entitlement Grants	14.218	15-CDBG-10571	\$ 1,079,408	\$ -
Subtotal - CDBG Entitlement Grants Cluster			<u>1,079,408</u>	<u>-</u>
HOME Investment Partnerships (Outstanding Loans)	14.239		709,906	-
Total U.S. Department of Housing and Urban Development			<u>1,789,314</u>	<u>-</u>
<u>U.S. Department of Interior</u>				
Passed through State of California Department National Park Service				
Land and Water Conservation Fund	15.916	06-01793	78,709	-
Total U.S. Department of Justice			<u>78,709</u>	<u>-</u>
<u>U.S. Department of Justice</u>				
Direct Programs:				
COPS Universal Hiring Grant	16.710	2014UMWX0157	82,432	-
Total U.S. Department of Justice			<u>82,432</u>	<u>-</u>
<u>U.S. Department of Transportation</u>				
Passed through the State Department of Transportation:				
Highway Planning and Construction	20.205	STPL-5343(008)	74,186	-
Highway Planning and Construction	20.205	STPL-5343(010)	30,779	-
Highway Planning and Construction	20.205	ATPL-5343(009)	115,116	-
Highway Planning and Construction	20.205	H8-06-012	27,311	-
Subtotal - Highway Planning and Construction Cluster			<u>247,392</u>	<u>-</u>
Total U.S. Department of Transportation			<u>247,392</u>	<u>-</u>
<u>U.S. Department of Homeland Security</u>				
Passed through the State of California Office of Emergency Services (CALOES)				
Hazard Mitigation Grant	97.039	FEMA 440 DR CA	136,641	-
Total U.S. Department of Homeland Security			<u>136,641</u>	<u>-</u>
Total Expenditures of Federal Awards			<u>\$ 2,334,488</u>	<u>\$ -</u>

See accompanying Note to Schedule of Expenditures of Federal Awards.

CITY OF MCFARLAND
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2018

NOTE 1 BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards presents the activity of all federal awards programs of the City of McFarland for the year ended June 30, 2018. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance).

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the schedule are reported on the modified accrual basis of accounting. 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. Therefore, some amounts presented in the schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

NOTE 3 CATALOG OF FEDERAL DOMESTIC (CFDA) NUMBERS

The program titles and CFDA numbers were obtained from the federal or pass-through grantor or the 2018 *Catalog of Federal Domestic Assistance*. When no CFDA number had been assigned to a program, the two-digit federal agency identifier and the federal contract number were used. When there was no federal contract number, the two-digit federal agency identifier and the word "unknown" were used.

NOTE 4 INDIRECT COST RATE

The City did not elect to use the 10 percent de minimis indirect cost rate as covered in 2 CFR §200.414.

NOTE 5 PASS-THROUGH ENTITIES' IDENTIFYING NUMBER

When federal awards were received from a pass-through entity, the schedule of expenditures of federal awards shows, if available, the identifying number assigned by the pass-through entity. When no identifying number is shown, the City determined that no identifying number is assigned for the program or the City was unable to obtain an identifying number from the pass-through entity.

NOTE 6 LOANS RECEIVABLE

The City offers property rehabilitation and first-time home buyer loans to eligible individuals as part of its Community Development Block Grant (CDBG) program. The loans do not have continuing compliance requirements and therefore the outstanding balances are not reflected on the Schedule of Expenditures of Federal Awards. No new loans were issued during the fiscal year ended June 30, 2018.

**CITY OF MCFARLAND
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2018**

Section I – Summary of Auditors’ Results

Financial Statements

1. Type of auditors’ report issued: Modified
2. Internal control over financial reporting:
- Material weakness(es) identified? x yes no
 - Significant deficiency(ies) identified? yes x none reported
3. Noncompliance material to financial statements noted? yes x no

Federal Awards

1. Internal control over major federal programs:
- Material weakness(es) identified? yes x no
 - Significant deficiency(ies) identified? yes x none reported
2. Type of auditors’ report issued on compliance for major federal programs: Unmodified
3. Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? yes x no

Identification of Major Federal Programs

CFDA Number(s)

14.218

Name of Federal Program or Cluster

Community Development Block Grants/
Entitlement Grants

Dollar threshold used to distinguish between Type A and Type B programs:

\$ 750,000

Auditee qualified as low-risk auditee?

 yes x no

**CITY OF MCFARLAND
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2018**

Section II – Financial Statement Findings

2018 – 001

Type of Finding: Material Weakness in Internal Control over Financial Reporting

Condition: The City did not have adequate design of internal controls over significant processes such as performing monthly reconciliations.

Furthermore, this year's closing process was delayed because some important procedures were not performed on time while others were performed too early in the process. The results were delays in producing closing entries, trial balances, schedules, reconciliations, account analyses, and other financial reports needed by management and the auditors.

Criteria or specific requirement: A benefit of monthly reconciliations is that errors do not accumulate but can be identified and attributed to a particular period, which makes it easier to perform future reconciliations.

Context: Several accounts in the City's accounting system were not reconciled to supporting documentation.

Effect: Certain accounts were misstated at year end, requiring adjustment.

Cause: The City did not allocate sufficient resources to the accounting function.

Repeat Finding: Finding is a repeat finding from the prior year (2017-001)

Recommendation: We recommend the City establish procedures for reconciling the general ledger accounts for cash, receivables, accounts payable, capital assets and long-term debt to supporting documentation monthly. A benefit of monthly reconciliations is that errors do not accumulate but can be identified and attributed to a particular period, which makes it easier to perform future reconciliations.

We further recommend that the finance department prepare a year-end closing schedule and include all tasks that are necessary to close the year-end. Such a list should include, at a minimum, the following: a list of year-end tasks, due date of each task, and the responsible employee and management reviewer of each task.

Views of responsible officials: There is no disagreement with this finding.

2018 – 002

Type of Finding: Material Weakness in Internal Control over Financial Reporting

Condition: During our audit, we noted that the City did not properly record revenues and expenditures for ICE services performed during the period July 1, 2017 through June 30, 2018.

Criteria or specific requirement: Generally Accepted Accounting Principles (GAAP) requires that all revenues and expenditures be recorded in the proper accounting period.

**CITY OF MCFARLAND
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2018**

Context: The revenue and expenditure accounts recorded in the City's ICE Administration Fund did not include all 12 months of activity.

Effect: Revenue and expenditure accounts in the ICE Administration Fund were materially misstated at year-end.

Cause: The City did not review the revenue and expenditure transactions recorded in the ICE Administration Fund to ensure all 12 months of activity were reflected in the fund.

Repeat Finding: Finding is not a repeat finding from the prior year.

Recommendation: We recommend the City establish procedures to ensure revenues and expenditures related to ICE administration are accurately recorded throughout the year, including reviewing all transactions for completeness prior to closing.

Views of responsible officials: There is no disagreement with this finding.

2018 – 003

Type of Finding: Material Weakness in Internal Control over Financial Reporting

Condition: During our audit, we noted the City did not record the activity for the bonds issued during the year, including the balance of the cash with fiscal agent at year-end and related activity such as the issuance of debt and payment of interest.

Criteria or specific requirement: All account balances of the City should be reflected in its accounting system to make financial reports generated by the system as meaningful as possible.

Context: Cash accounts of approximately \$4.5 million at year end were excluded from the City's general ledger.

Effect: Several accounts related to the debt issuance were materially misstated at year-end.

Cause: All activity for the bonds is maintained in a separate fiscal agent account separate from the City's primary operating account.

Repeat Finding: Finding is not a repeat finding from the prior year.

Recommendation: We recommend the City establish procedures to summarize and record all transactions from the external fiscal agent account statements at least quarterly. These procedures should include reconciling the cash balances recorded in the general ledger to the monthly bank statements.

Views of responsible officials: There is no disagreement with this finding.

**CITY OF MCFARLAND
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2018**

2018 – 004

Type of Finding: Material Weakness in Internal Control over Financial Reporting

Condition: During our audit we noted the City had recorded unearned revenues for grants in which the City had met all eligibility requirements. As a result, current and prior period adjustments were necessary to recognize revenue in the proper period.

Criteria or specific requirement: For voluntary nonexchange transactions and government-mandated nonexchange transactions (examples: certain grants, state, and federal mandates on local governments, etc.), revenues and expenditures should be recorded in the period when all eligibility requirements have been met.

Context: The City recorded a \$2.7 million prior period adjustment to correct unearned revenue at the beginning of the year.

Effect: Revenue and restricted fund balance was materially misstated for the year ended June 30, 2017.

Cause: The City appeared to be trying to match revenue with project expenditures incurred instead of recording revenue and restricted fund balance when eligibility requirements were already met. There was no requirement that the City first incur allowable costs to qualify for the resources.

Repeat Finding: Finding is not a repeat finding from the prior year.

Recommendation: We recommend the City review its funding agreements to determine the proper timing of recognition based on the requirements of GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*.

Management should reconcile grant revenue and receivables with expenditures to determine proper revenue recognition monthly.

Views of responsible officials: There is no disagreement with this finding.

2018 – 005

Type of Finding: Material Weakness in Internal Control over Financial Reporting

Condition: During our audit we noted there was a lack of supporting documentation relating to accounts receivable balances. It is likely that material misstatements exist within accounts receivable but CLA was unable to determine the quantitative impact to the financial statements.

Criteria or specific requirement: Amounts recorded in the financial statements should be supported by reconciled subsidiary records.

Context: CLA is unable to determine this amount resulting in a scope limitation and modified opinion. Our opinions on the governmental activities, major governmental funds and aggregate remaining fund information were qualified for this scope limitation.

**CITY OF MCFARLAND
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2018**

Effect: Receivables, unavailable revenues and revenues could be understated or overstated, but due to lack of supporting documentation CLA is unable to determine this amount resulting in a scope limitation and modified opinions.

Cause: The City did not have procedures in place to reconcile year-end receivable and unavailable revenue balances to supporting documentation such as reimbursement claims and subsequent receipts.

In addition, the City's lack of timely preparation and submission of cost reimbursement claims has created additional complexities in recording and tracking receivables for its various projects.

Repeat Finding: Finding is not a repeat finding from the prior year.

Recommendation: To make the financial reports generated by the accounting system as meaningful as possible, the City should reconcile the general ledger accounts for accounts receivable, unavailable revenue and revenue to supporting documentation during the year-end close.

Views of responsible officials: There is no disagreement with this finding.

Section III – Findings and Questioned Costs – Major Federal Programs

Our audit did not disclose any matters required to be reported in accordance with 2 CFR 200.516(a).