



CITY OF SANTA FE SPRINGS, CALIFORNIA

JUNE 30, 2019

SINGLE AUDIT REPORT

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CITY OF SANTA FE SPRINGS, CALIFORNIA

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CITY OF SANTA FE SPRINGS

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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*

To the Honorable Mayor and Members of the City Council
City of Santa Fe Springs, 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 Santa Fe Springs, California, (the City) as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 4, 2020.

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 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. However, material weaknesses may exist that have not been identified. We did identify the following deficiency in internal control, described in the accompanying schedule of findings and questioned costs as finding 2019-01, that we consider to be a significant deficiency.



To the Honorable Mayor and Members of the City Council
City of Santa Fe Springs, California

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's Response to Findings

The City's response to the findings identified in our audit 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 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.

A handwritten signature in black ink that reads "Lance, Soll & Lughard, LLP". The signature is written in a cursive, flowing style.

Brea, California
June 4, 2020



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND
ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES
OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE

To the Honorable Mayor and Members of the City Council
City of Santa Fe Springs, California

Report on Compliance for Each Major Federal Program

We have audited the City of Santa Fe Springs, California (the City)'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, 2019. 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 federal statutes, regulations, and terms and conditions of its federal awards 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 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). 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, 2019.



To the Honorable Mayor and Members of the City Council
City of Santa Fe Springs, California

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as item 2019-002. Our opinion on each major federal program is not modified with respect to these matters.

The City's response to the noncompliance 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 compliance and, accordingly, we express no opinion on the response.

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 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.

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, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated June 4, 2020, 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 financial statements and certain additional procedures,



To the Honorable Mayor and Members of the City Council
City of Santa Fe Springs, California

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Lance, Soll & Lughard, LLP

Brea, California
June 4, 2020

CITY OF SANTA FE SPRINGS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Expenditures</u>
<i>CDBG - Entitlement Grants Cluster</i>			
<u>U.S. Department of Housing and Urban Development</u>			
Passed through the County of Los Angeles:			
Community Development Block Grant	14.218	96-160-8163	\$ 79,824
Total CDBG - Entitlement Grants Cluster			79,824
<i>Other Programs</i>			
<u>U.S. Department of Justice</u>			
Direct Program:			
Bulletproof Vest Partnership Program	16.607	N/A	743
Total U.S. Department of Justice			743
<u>U.S. Department of Health and Human Services</u>			
Passed through the State of California			
Department of Education:			
Child Care and Development Block Grant	93.575	80-748-0843	21,338
Child Care Mandatory and Matching Funds of the			
Child Care and Development Fund	93.596	80-748-0843	46,459
Total U.S. Department of Transportation			67,797
<u>U.S. Department of Homeland Security</u>			
Passed through the County of Los Angeles			
Office of Emergency Management:			
Homeland Security Grant Program*	97.067	05-223-8763	617,625
Total U.S. Department of Homeland Security			617,625
Total Other Programs			686,165
Total Federal Expenditures			\$ 765,989

* Major Program

Note a: Refer to Note 1 to the schedule of expenditures of federal awards for a description of significant accounting policies used in preparing this schedule.

Note b: There was no federal awards expended in the form of noncash assistance and insurance in effect during the year.

Note c: Total amount provided to subrecipients during the year was \$0.

CITY OF SANTA FE SPRINGS

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2019

Note 1: Summary of Significant Accounting Policies Applicable to the Schedule of Expenditures of Federal Awards

a. Scope of Presentation

The accompanying schedule presents only the expenditures incurred by the City of Santa Fe Springs, California, that are reimbursable under federal programs of federal financial assistance. For the purposes of this schedule, federal awards include both federal financial assistance 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 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 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 becomes obligated for payment as a result of the receipt of the related goods and services. Expenditures reported included any property or equipment acquisitions incurred under the federal program.

c. Indirect Cost Rate

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

d. Loan Programs with Continuing Compliance Requirements

The program loans listed below are administered directly by the City of Santa Fe Springs, and balances and transactions relating to these programs are included in the City's basic financial statements. Loans outstanding at the beginning of the year and loans made during the year are included in the federal expenditures presented in the Schedule of Expenditures of Federal Awards. The balance of loans outstanding at June 30, 2019, consists of:

<u>CFDA Number</u>	<u>Program Name</u>	<u>Outstanding Balance at June 30, 2019</u>
14.218	Community Development Block Grant	\$ 19,250
		<u>\$ 19,250</u>

e. Delay of Single Audit Report Due to Covid-19

The Fiscal year 2018-2019 Single Audit was submitted late due to the delay of Issuance of the City's Comprehensive Annual Financial Report as a result staffing shortages required for social distancing. The Single Audit Submission deadline was extended due to the Pandemic.

CITY OF SANTA FE SPRINGS

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unmodified Opinion

Internal control over financial reporting:

- Significant deficiencies identified? ☒ yes ☐ none reported
 - Material weaknesses identified? ☐ yes ☒ no
- Noncompliance material to financial statements noted? ☐ yes ☒ no

Federal Awards

Internal control over major programs:

- Significant deficiencies identified? ☐ yes ☒ none reported
- Material weaknesses identified? ☐ yes ☒ no

Type of auditors' report issued on compliance for major programs: Unmodified Opinion

Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance? ☒ yes ☐ no

Identification of major programs:

CFDA Number(s)

Name of Federal Program or Cluster

97.067

Homeland Security Grant Program

Dollar threshold used to distinguish between type A and type B program \$750,000

Auditee qualified as low-risk auditee? ☐ yes ☒ no

CITY OF SANTA FE SPRINGS

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

SECTION II - FINANCIAL STATEMENT FINDINGS

Finding 2019-001 – Account Reconciliations

Significant Deficiency

Condition

Upon standard inquiries and requests arising from analytical and substantive review and testwork, the auditors noted various balance sheet and income statement accounts were not reconciled properly. The accrued interest receivable and unavailable revenue accounts were misstated and subsequently corrected by the City.

Criteria

Key balance sheet and income statement accounts should be reviewed and reconciled during the year-end closing process.

Cause of Condition

The cause of the conditions is due to weakness in internal controls and procedures related to year-end close.

Effect or Potential Effect of Condition

The effect of the condition was the requirement for post-closing journal entries to various balance sheet and income statement accounts.

Recommendation

The auditors recommend the City revisit its procedures related to year-end close to ensure all roles and responsibilities of the individuals involved are clearly defined and monitored by management.

Management's Response and Corrective Action

The City concurs with the deficiency noted. The primary cause of the condition above was the fact that the City implemented the Finance Module of the new Enterprise Resource Planning (ERP) system in March of 2018. Fiscal Year 2018-2019 was the first full-year after the Finance Module was implemented. The City experienced system glitches that complicated the reconciliation process and required substantial time to correct at year-end. Staff followed the established year-end close procedures, however, due to the system glitches that delayed the reconciliation process the accounts above were overlooked. New procedures are being implemented to reconcile accounts throughout the year to ensure general ledger accounts are free of errors.

CITY OF SANTA FE SPRINGS

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding 2019-002 – Procurement

Noncompliance

Federal Award Information

CFDA Number: 97.067

Program Title: Homeland Security Grant Program

Federal Award Number: 2017

Federal Award Year: 2018

Name of Federal Agency: Department of Homeland Security

Pass-through Entity: County of Los Angeles Office of Emergency Management

Criteria or Specific Requirement

The non-federal entity is required to adhere to compliance guidelines and monitor any changes outlined in the Uniform Guidance in relation to internal controls and procedures over federal grant programs.

Condition

The non-federal entity did not keep up to date with changes in guidelines to compliance over federal awards and did not implement the required changes to its Procurement Policy by the given deadline.

Cause of the Condition

The City did not update its Procurement Policy timely.

Effect or Possible Effect

Federal expenditures occurring that are out of compliance with Procurement standards required under Uniform Guidance.

Questioned Costs

No questioned costs were identified (\$0).

Context

The Procurement Policy has not been updated in compliance with Uniform Guidance.

Repeat Finding

This is a new finding for the fiscal year ended June 30, 2019.

Recommendation

We recommend that the City monitor changes and pronouncements concerning federal awards on a strict, routine basis and update City policy in a timely fashion.

Management Response and Corrective Action

Management has prepared the draft and is in the process of legal review. Review of the final version will be conducted and once approved, the policy will be put into place and operated city wide.



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SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS FOR THE FISCAL YEAR ENDED JUNE 30, 2018

Finding 2018-001 – Capital Assets Disposals Process Significant Deficiency

Condition

During the auditor's capital assets testwork, LSL noted the City erroneously recorded an asset disposal for an asset with a cost of \$277,270 that had not actually been disposed of.

Criteria

Asset additions and disposals should be reviewed and reconciled throughout the fiscal year, and supported with appropriate documentation.

Cause of Condition

The cause of the conditions is due to an error committed by accounting staff during the disposal review process.

Effect or Potential Effect of Condition

The effect or potential effect of the condition could present the risk of misappropriation of assets' however no such misappropriation was identified at this time.

Recommendation

The auditors recommend the City revisit its disposal and review procedures and to implement the appropriate procedures to ensure they are followed and that asset records are accurate.

Management's Response and Corrective Action

This is an isolated instance where a fully depreciated vehicle was erroneously disposed in the system. The City has revisited the capital assets procedures. The vehicle titles are currently maintained by the Finance Department, while the Fire Department has physical possession of the vehicle and the Public Works Department is the custodian of the inventory records. During the vehicle review period, the Fleet Supervisor is required to provide a listing of obsolete vehicles to the Director of Purchasing for review and approval. Approved requests for vehicle disposals must also be provided to the City Council. Once the vehicle is tagged for disposal, the Director of purchasing will follow the disposition of property procedure with the final action being removing the item from the assets schedule in Finance system. The City believes adequate controls are in place to prevent misappropriation of assets.

William K. Rounds, Mayor • John M. Mora, Mayor Pro Tem
City Council
Annette Rodriguez • Juanita Trujillo • Joe Angel Zamora
City Manager
Raymond R. Cruz

Finding 2018-002 – Revenue Recognition

Significant Deficiency

Condition

During the auditor's review of due from other governments receivables in the Capital Improvement fund, LSL noted \$3,747,398 of reimbursable costs incurred for various capital projects for which revenues had been recognized, but for which funding had not yet been requested for reimbursement as of June 30, 2018.

Criteria

The City should review and adhere to its revenue recognition standard when accounting for reimbursable costs not yet requested as of the year-end date.

Cause of Condition

The cause of the conditions is due to miscommunication between City departments (Finance & Public Works) regarding reimbursable costs.

Effect or Potential Effect of Condition

The effect of the condition resulted in a restatement of \$2,370,320 for revenues booked in previous years and a reclassification of \$1,377,078 from revenue to unavailable revenue relating to reimbursable costs incurred in fiscal year 2017-2018.

Recommendation

We recommend the City request reimbursement in a timely manner and adhere to its revenue recognition standard.

Management's Response and Corrective Action

The City agrees that there should be a process in place to regularly review receivable balances and request reimbursement in a timely manner and to adhere to our revenue recognition standard. The Finance Department will work with Public Works Department to set up a procedure to periodically review project expenditures and requests for reimbursement.