

**CITY OF LEMOORE
CALIFORNIA**

SINGLE AUDIT REPORT

**FOR THE YEAR ENDED
JUNE 30, 2014**

**CITY OF LEMOORE
CALIFORNIA**
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TABLE OF CONTENTS

	<u>Page</u>
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 <i>Government Auditing Standards</i>	1
Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by OMB Circular A-133.....	3
Schedule of Expenditures of Federal Awards.....	5
Notes to the Schedule of Expenditures of Federal Awards	6
Schedule of Findings and Questioned Costs.....	9
Summary Schedule of Prior Audit Findings	12



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

To the Members of City Council of the
City of Lemoore
Lemoore, 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 Lemoore, California (the City), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated March 23, 2015.

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 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 City'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. 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 a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2014-001 that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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 Finding

The City of Lemoore's response to the finding 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 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.

Price Pange & Company

Clovis, California
March 23, 2015

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

To the Members of City Council of the
City of Lemoore
Lemoore, California

Report on Compliance for Each Major Federal Program

We have audited the City of Lemoore, California's (the City) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2014. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City of Lemoore, California, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

Report on Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

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

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 of Lemoore, California, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated March 23, 2015, 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 OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 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.

Price Pange & Company

Clovis, California
March 23, 2015

**CITY OF LEMOORE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2014**

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
<u>U.S. Department of Housing and Urban Development</u>			
Passed through the California Department of Housing and Urban Development			
Housing and Community Development:			
Home Investment Partnerships Program	14.239	10-HOME-6868	\$ <u>65,000</u>
Total U.S. Department of Housing and Urban Development			<u>65,000</u>
<u>U.S. Department of Transportation</u>			
Passed through State of California Department of Transportation			
Highway Planning and Construction	20.205	* CML-5115-(024)	564,007
Highway Planning and Construction	20.205	* CML-5115-(026)	315,955
Highway Planning and Construction	20.205	* CML-5115-(028)	29,301
Highway Planning and Construction	20.205	* SRTSL-5115(022)	<u>7,283</u>
Total U.S. Department of Transportation			<u>916,546</u>
<u>U.S. Department of Justice</u>			
Direct Award:			
Public Safety Partnership and Community Policing Grants	16.710	2012UMWX0187	<u>41,600</u>
Total U.S. Department of Justice			<u>41,600</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 1,023,146</u>

*Denotes a major program per OMB A-133.

**CITY OF LEMOORE
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2014**

NOTE 1 – ORGANIZATION AND OPERATIONS

The financial reporting entity consists of (a) the primary government, City of Lemoore (the City), and (b) component units which include organizations for which the primary government is financially accountable, and other organizations for which the primary government is not accountable, but for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The component units of the City are the:

- Lemoore Financing Authority
- Lemoore Housing Authority

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

Funds received under the various grant programs have been recorded within special revenue, and enterprise funds of the City. The City utilizes the modified accrual method of accounting for the special revenue, and full accrual method for enterprise funds. The accompanying Schedule of Expenditures of Federal Awards (Schedule) has been prepared accordingly.

Schedule of Expenditures of Federal Awards

The accompanying Schedule presents the activity of all federal financial assistance programs of the City. Federal financial assistance received directly from federal agencies, as well as federal financial assistance passed through the State of California is included in the schedule.

The Schedule was prepared from only the accounts of various grant programs and, therefore, does not present the financial position or results of operations of the City.

NOTE 3 – PROGRAM DESCRIPTIONS

U.S. Department of Housing and Urban Development

Home Investment Partnerships Program (HOME)

The objectives of the Home Investment Partnerships Program include expanding the supply of decent and affordable housing, particularly housing for low and very low-income Americans; strengthening the abilities of state and local governments to design and implement strategies for achieving adequate supplies for decent, affordable housing; providing financial and technical assistance to participating jurisdictions, including the development of model programs for affordable low-income housing; and extending and strengthening partnerships among all levels of government and the private sector, including for-profit and non-profit organizations, in the production and operation of affordable housing.

CITY OF LEMOORE
LEMOORE, CALIFORNIA

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2014**

NOTE 3 – PROGRAM DESCRIPTIONS (Continued)

U.S. Department of Transportation

Highway Planning and Construction

State pass-through funds are granted directly to Local Public Agencies, such as cities and counties and other political subdivisions. These funds may be used for several highway projects, such as surveying, engineering, capital improvements such as new construction and reconstruction, planning, research and development and other authorized projects.

U.S. Department of Justice

Public Safety and Community Policing Grants

The Community Oriented Policing Services (COPS) grant programs provide State, local, and tribal law enforcement agencies with resources to address law enforcement needs with a focus on advancing public safety through the implementation of policing strategies. The COPS Hiring Program provides direct funding to enforcement agencies to hire new and/or rehire full-time career law enforcement officers to increase their community policing capacity and crime prevention efforts

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**CITY OF LEMOORE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014**

SECTION I – SUMMARY OF AUDITOR’S RESULTS

FINANCIAL STATEMENTS

Type of auditor's report issued: Unmodified

Internal control over financial reporting:
 Material weakness identified? _____ Yes X No
 Significant deficiencies identified that are not considered
 to be material weaknesses? X Yes _____ None reported

Noncompliance material to financial statements noted? _____ Yes X No

FEDERAL AWARDS

Internal control over major programs:
 Material weakness identified? _____ Yes X No
 Significant deficiencies identified that are not considered
 to be material weaknesses? _____ Yes X 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 Circular A-133 Section .510(a) _____ Yes X No

IDENTIFICATION OF MAJOR PROGRAMS

<u>CFDA Number</u> 20.205	<u>Name of Federal Program or Cluster</u> Highway Planning and Construction
Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 300,000</u>
Auditee qualified as low-risk auditee?	_____ Yes <u> X </u> No

**CITY OF LEMOORE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014**

SECTION II – FINANCIAL STATEMENT FINDINGS

Finding 2014-001

Year-End Closing Process (Significant Deficiency)

- Condition:** We have determined that the processes utilized for the closing and reporting of the City's financial activity were not concluded in a timely manner. Accordingly, we received various reconciling schedules that were either inaccurate or incomplete.
- Criteria:** A strong system of internal controls and management review requires that general ledger account balances be properly reconciled to a subsidiary ledger or other adequate supporting documentation on a periodic basis, as well as during the year-end financial close process, and provided to the City's auditors at the time fieldwork commences. Management is responsible for maintaining its accounting records in accordance with accounting principles generally accepted in the United State of America.
- Cause:** Year-end balances, specifically related to long-term debt and capital assets, were incorrectly recorded in the City's financial records and the incorrect balances were not subsequently reviewed. Additionally, various schedules, including the City's depreciation schedules and Schedule of Expenditures of Federal awards were either incomplete or inaccurate when they were requested and/or provided to us by the City.
- Effect:** As a result of this condition, long-term debt and the Schedule of Expenditures of Federal Awards were initially materially misstated. Additionally, significant delays in the completion of the audit occurred due to the City providing us incomplete and inaccurate reconciling schedules.
- Recommendation:** Although the City's Finance Department has continued to make significant improvements in its overall ability to provide accurate financial information, we recommend that further emphasis be placed on closing accounting records in a more timely manner. This will include creating and implementing specific procedures to ensure that the general ledger and all supporting schedules are complete and have been reviewed by the appropriate personnel prior to the commencement of audit fieldwork. We also recommend that the Finance Department create and implement controls to ensure the proper tracking of all grants the City receives. We believe that this can be achieved through increased communication with all of the City's departments regarding the receipt and progress of grant expenditures. Additionally, the progress of all grants should be consistently maintained on a schedule that reconciles each of its grants to the general ledger.

**CITY OF LEMOORE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014**

SECTION II – FINANCIAL STATEMENT FINDINGS (Continued)

Finding 2014-001 **Year-End Closing Process (Significant Deficiency) (Continued)**

Management Response: The Finance Department had all departments conduct a physical inventory of all assets during fiscal year 2013-2014. The supporting schedules were updated accordingly. However, the year-end process did not proceed as timely as anticipated. Finance staff was tasked with new duties beginning July 2014 that required a tremendous allotment of time. The capital asset schedules were not completed timely due to the time restraints placed on staff. The schedules are currently up to date and the next fiscal year process will proceed in a timely manner.

The Finance Department plans to take a more active role in the grant activities of the City. We now have a clear picture of what information is required for the future audits. The Finance department staff will work closely with the departments to ensure that all schedules are available for the 2014-2015 audit.

The Finance Department has worked diligently to make improvements in accounting for the financial activities in the past three years. Each year new hurdles are presented and the Finance staff continues to take on the additional tasks while maintaining existing duties. The Finance Department will strive to provide complete and accurate financial information for the next audit in a timely manner.

SECTION III – FEDERAL AWARDS FINDINGS

None reported.

**CITY OF LEMOORE
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2014**

FINANCIAL STATEMENT FINDINGS

Finding 2013-001 Recordkeeping of General Government Capital Assets

Condition: The City has not maintained a complete and accurate general government capital assets listing and depreciation schedule as it relates to the City's governmental activities and, accordingly, has not reconciled the general government capital asset listing and corresponding depreciation schedule to the amounts reported in the financial statements. In addition, records for general government CIP projects are not being contemporaneously maintained, resulting in incomplete schedules being provided during the audit that require revisions.

Criteria: The capital assets listing and corresponding depreciation schedule should be reconciled to the prior year financial statements and should be maintained on an ongoing basis. The summary schedules provided to the auditors at the beginning of the audit should be reviewed by someone other than the preparer and reconciled to the supporting subsidiary records.

Effect: Inadequate maintenance of capital assets records could result in financial statements that are misstated.

Cause: The City did not have proper controls in place to ensure that general government capital assets records are adequately and contemporaneously maintained. Specifically, general government capital asset schedules are not adequately reviewed prior to being provided to the auditors.

Recommendation: Prior to the beginning of the audit, all capital assets schedules should be adequately prepared by staff and reviewed by management to ensure accuracy and agreement to the prior year financial statements and supporting subsidiary records.

Management Response: During the audit, the Finance Director became aware that the general government capital asset listing and depreciation schedule had not been reconciled by the staff that was assigned this task. The general government capital assets do not require a journal entry in the general ledger, which allowed this to be overlooked. Subsequently, there has been a change in staff. The listings that the Finance Department was able to obtain from the City's capital assets records and from the previous auditing firm do not balance to the 2012 fiscal year audited financial statements. The Finance Director decided that the City should take their time reconciling the general government capital assets listing in order to correct the finding for the 2014 fiscal year financial statements. Finance will be conducting an internal audit of the general government capital assets, including a physical inventory to ensure the accuracy of the 2014 fiscal year financial statements.

Status: Partially implemented

**CITY OF LEMOORE
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2014**

FINANCIAL STATEMENT FINDINGS (Continued)

Finding 2013-002 Closing of Accounting Records

Condition: We identified and proposed adjustments (which were approved and posted by management) that were material, either individually or in the aggregate, to the City's financial statements.

Criteria: A strong system of internal controls and management review mandates that general ledger account balances are properly reconciled to a subsidiary ledger or other adequate supportive documentation on a periodic basis. Management is responsible for maintaining its accounting records in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP.)

Effect: As a result of this condition, various accounts in the trial balance were initially materially misstated.

Cause: The City did not have proper controls in place to ensure that all transactions get recorded completely and accurately.

Recommendation: We recommend that the City take steps to ensure that all year-end adjustments are identified and posted for financial reporting purposes and are accounted for in the proper period.

Response: The Finance Department dramatically decreased the number of adjusting journal entries for the 2013 fiscal year audit compared to the 2012 fiscal year audit. The adjusting journal entries were items that were missed by the Finance Department in the year-end adjustments. The Finance Department is making progress in reviewing all financial records so that transactions will be accounted for properly for the 2014 fiscal year audit.

The Finance Department is planning to send staff to an Intermediate Governmental Accounting training seminar. This will help the staff to better understand the nuances of reporting transactions in line with governmental accounting standards in accordance with generally accepted accounting principles (GAAP.)

Status: Partially implemented