

**CITY OF LEMOORE
CALIFORNIA**

SINGLE AUDIT REPORT

**FOR THE YEAR ENDED
JUNE 30, 2018**

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CALIFORNIA
SINGLE AUDIT REPORT
JUNE 30, 2018**

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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

To the Honorable Mayor and
Members of the City Council
City of 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, 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 29, 2019.

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 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 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 schedules of findings and questioned costs as items 2018-001 and 2018-002 that we consider to be material weaknesses.

677 Scott Avenue
Clovis, CA 93612

tel 559.299.9540

fax 559.299.2344

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 are described in the management's response to findings following the schedule of prior year findings. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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 29, 2019



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

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's (the City) 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, 2018. 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 the 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, 2018.

Report on Internal Control over Compliance

Management of the City of Lemoore 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

677 Scott Avenue
Clovis, CA 93612
tel 559.299.9540
fax 559.299.2344

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 a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the 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 of Lemoore, 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 29, 2019, 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, 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 29, 2019

**CITY OF LEMOORE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018**

<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.S. Department of Housing and Urban Development				
Passed through the California Department of Housing and Urban Development Community Development Block Grants	14.228	*	14-CDBG-9884	\$ 1,326,650
Total U.S. Department of Housing and Urban Development				<u>1,326,650</u>
U.S. Department of Transportation				
Passed through State of California Department of Transportation Highway Planning and Construction	20.205		CML-5115-(028)	182,518
Highway Planning and Construction	20.205		CML-5115-(034)	<u>84,214</u>
Total U.S. Department of Transportation				<u>266,732</u>
U.S. Department of Justice				
Direct Award: Public Safety Partnership and Community Policing Grants	16.710		2016UMWX0130	<u>52,982</u>
Total U.S. Department of Justice				<u>52,982</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS				<u>\$ 1,646,364</u>

*Denotes a major program per Uniform Guidance.

CITY OF LEMOORE
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018

NOTE 1 – REPORTING ENTITY

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal awards programs of the City of Lemoore. The City of Lemoore reporting entity is defined in Note 1 to the City's basic financial statements. All federal awards received directly from federal agencies as well as federal awards passed through other government agencies are included in the schedule. 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).

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accompanying Schedule of Expenditures of Federal Awards is prepared using the modified accrual basis of accounting for program expenditures accounted for in governmental funds and the accrual basis of accounting for expenditures accounted for in proprietary funds, as described in Note 1 of the City's basic financial statements.

Relationship to the Basic Financial Statements

The amounts reported in the accompanying Schedule of Expenditures of Federal Awards agree, in all material respects, to amounts reported within the City's financial statements.

Indirect Cost Rate

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

**CITY OF LEMOORE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018**

SECTION I – SUMMARY OF AUDITOR’S RESULTS

FINANCIAL STATEMENTS

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weakness identified? X Yes No

Significant deficiencies identified that are not considered to be material weaknesses? Yes X 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 2CFR section 200.516(a)? Yes X No

IDENTIFICATION OF MAJOR PROGRAMS

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
14.228	Community Development Block Grants
Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 750,000</u>
Auditee qualified as low-risk auditee?	<u> </u> Yes <u> X </u> No

**CITY OF LEMOORE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018**

SECTION II – FINANCIAL STATEMENT FINDINGS

Finding 2018-001 - Year-End Closing Process (Material Weakness)

Condition: During the audit of the City's financial statements, we identified material misstatements in the City's general ledger account balance which necessitated the proposal of numerous audit adjustments. Additionally, the City identified an excessive amount of misstatements to the general ledger account balances subsequent to providing us with the final trial balance for the audit.

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 in order to accurately and completely close the current year general ledger in a timely manner. Management is responsible for maintaining its accounting records in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP.)

Cause: The City's Finance Department did not perform an adequate year-end closing process.

Effect: Almost all areas were misstated resulting in numerous adjusting journal entries which included entries proposed by the City and proposed by us subsequent to receiving the City's final trial balance.

Recommendation: We recommend that the City perform the following steps in order to address the matters described above:

1. Create a closing checklist to assist with the preparation of audit schedules that are complete, accurate, and reconcile to the City's general ledger account balances. Additionally, ensure that a system is in place to allow the City to perform this in a timely manner.
2. Provide additional assistance to the Finance Department through the hiring of additional competent personnel.
3. Provide additional training in accounting specific to government entities to Finance Department staff in order to ensure that they are current with all financial accounting and reporting requirements as directed by the Governmental Accounting Standards Board.

**CITY OF LEMOORE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018**

Finding 2018-002 - Journal Entries (Material Weakness)

- Condition:** During a review of the City's general ledger, we noted that an excessive amount of journal entries were recorded in the accounting system. Additionally, we noted that journal entries were being posted to the accounting system prior to being adequately reviewed.
- Criteria:** A strong system of internal control and management review is necessary in order to ensure that the City transactions are correctly recorded into the City's accounting system and do not require additional subsequent adjustments.
- Cause:** Controls, although designed appropriately, were not being adhered to in order to ensure that all transactions or journal entries were reviewed in a timely manner and correctly posted to the City accounting system, requiring an excessive amount of corrective journal entries.
- Effect:** Posting more journal entries than would normally be necessary, or have not been properly reviewed by appropriate personnel, increases the risk of material misstatements due to error or fraud.
- Recommendation:** We recommend that the City perform the following steps in order to address the matters described above:
1. Adhere to its current internal control policies and ensure all transactions and journal entries are reviewed and approved by appropriate personnel prior to being posted to the City's accounting system.
 2. Provide additional assistance to the Finance Department through the hiring of additional competent personnel.
 3. Provide training to all department heads responsible for authorizing disbursements on methods to accurately classify all disbursements to the appropriate budget line items.

SECTION III – FEDERAL AWARDS FINDINGS

None reported.

**CITY OF LEMOORE
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2018**

FINANCIAL STATEMENT FINDINGS

Finding 2017-001 - Loan Payments (Material Weakness)

Condition: The City improperly recorded a payment made on long-term debt relating to the Golf Course (Proprietary Fund) as an expense, instead of a reduction to the associated debt balance.

Criteria: Government Accounting Standards Board requires that proprietary funds should be accounted for on an accrual basis. In accrual basis accounting, payments made on capitalized debt should be recorded as a reduction to the associated liability (debt), and not expensed in the period paid.

Cause: The City improperly coded the payment as an expense in the current fiscal year. Current processes did not identify the loan payment as such and was never reclassified as a reduction to the associated debt balance.

Effect: As a result of this condition, long-term debt and expenses relating to the Golf Course Fund were overstated by \$94,596 at year-end.

Recommendation: We recommend that the City establish a process to identify all loan payments and ensure that the applicable classification is made for accrual basis funds.

Status: Implemented

Finding 2017-002 - Revenues Being Recorded as Deposits (Significant Deficiency)

Condition: The City improperly recorded receipts received as a deposit (liability) instead of revenue.

Criteria: Governmental Accounting Standards Board Statement No. 33 requires that derived tax revenues should be recognized when the resources are received.

Cause: The City maintains certain funding sources as liabilities in its trial balance for internal tracking purposes.

Effect: As a result of this condition, deposits were overstated by \$201,196, expenses were understated by \$47,340, revenues were understated by \$107,920 and fund balance was overstated by \$140,616 in the General Fund.

Recommendation: We recommend that the City implement a process to prepare a year-end entry to reclassify the activity recorded in the deposit account from liability to revenues and expenses, respectively.

Status: Implemented

**CITY OF LEMOORE
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2018**

FINANCIAL STATEMENT FINDINGS (Continued)

Finding 2017-003 - Golf Course Inventory (Significant Deficiency)

- Condition:** The physical count performed for inventory balances at the golf course was not adequately performed, which led to a misstated inventory balance at year-end.
- Criteria:** A strong system of internal controls and management review should ensure that accurate and complete financial information is provided to the Finance Department in a timely manner and assets are being adequately safeguarded from theft.
- Cause:** The system of internal control over the year-end closing process for the physical count of inventory at the golf course was not sufficient to produce accurate financial information and safeguarding of golf course assets.
- Effect:** The effect of the lack of controls over inventory at the golf course, although immaterial in the current year, could result in a material misstatement of inventory and related cost of goods sold. Additionally, it exposed the golf course to the risk of stolen inventory.
- Recommendation:** We recommend that the City implement a policy in which inventory balances are physically counted monthly by Finance Department staff and adjusted to actual with any variances promptly investigated. Additionally, we recommend that the City create a system to accurately track inventory purchases and sales so inventory balances remain accurate. Finally, once the system has been put in place, we recommend that adequate training is provided to golf course employees.
- Status:** Implemented

Finding 2017-004 - Fund Balance/Net Position (Significant Deficiency)

- Condition:** Fund balance and net position in various funds did not reconcile to the prior year financial statements.
- Criteria:** A strong system of internal controls and management review should ensure that the financial records are adequately closed each year and reconciled to the City's prior year financial statements.
- Cause:** An audit adjustment from the prior year audit was not recorded in the City's accounting system. Additionally, multiple journal entries recorded by the City during the 2018 fiscal year were incorrectly recorded to fund balance/net position.
- Effect:** Fund balance/net position in total was understated by \$263,527.
- Recommendation:** We recommend that the City create and implement controls to ensure that the City's fund balance and net position reconcile to the prior year financial records. Additionally, we recommend that the City create a method whereby all journal entries are reviewed by an appropriate level of management to ensure that fund balance/net position is not effected as a result of the journal entries.
- Status:** Implemented

FEDERAL AWARDS FINDINGS

None reported.

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City of
LEMOORE
CALIFORNIA

119 Fox Street • Lemoore, California 93245 • (559) 924-6715 • Fax (559) 924-9003
Finance Department

CITY OF LEMOORE

CORRECTIVE ACTION PLAN
Fiscal Year End 2018

The City of Lemoore is in receipt of the findings with regards to the annual audit for fiscal year end 2018. Below, is the corrective action plan submitted by the City in response.

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2018-001	The City will create a checklist of procedures for year-end close processes.	06/30/2019	L. Beyersdorf
2018-001 2018-002	The City has reorganized the Finance Department; creating a Finance Manager position to increase effectiveness in general oversight of the Finance Department personnel and processes/procedures	03/25/19	N. Olson/M. Speer
2018-001 2018-002	The City is seeking to partner with a financial consultant (if financially feasible) to assist in developing internal procedures/practices to enhance financial reporting	06/30/19	M.Speer
2018-001 2018-002	The City will seek to engage in accounting specific training for all Finance Department staff to ensure compliance with all reporting requirements and internal control policies	Ongoing	M.Speer
2018-002	The Finance Department reorganization and creating of a Finance Manager will help to ensure compliance with existing policies/procedures	03/25/19	L. Beyersdorf/M. Speer
2018-002	The Finance Director and Finance Manager will conduct training with each department head regarding methods for classifying disbursements, as well as other City policies and procedures	09/01/2019	L. Beyersdorf/M. Speer

Sincerely,

Michelle Speer
Assistant City Manager/
Administrative Services Director

"In God We Trust"