

CITY OF FONTANA

Single Audit Report on
Federal Awards

Year Ended June 30, 2022

CITY OF FONTANA
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Year ended June 30, 2022

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City Council
City of Fontana
Fontana, California

**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***

Independent Auditors' Report

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 Fontana (the "City") as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated July 13, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) as a basis for designing 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 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 the 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. However, as described in the accompanying schedule of findings and questioned costs we identified certain deficiencies as items 2022-001 through 2022-002 that we consider to be material weaknesses.

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Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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 instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, in the Schedule of Findings and Questioned Costs.

City of Fontana's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the City's response to the findings identified in our engagement and described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.

Davis Farr LLP

Irvine, California
July 13, 2023

City Council
City of Fontana
Fontana, California

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

Independent Auditors' Report

Opinion on Each Major Federal Program

We have audited the City of Fontana (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 City's major federal programs for the year ended June 30, 2022. City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, City complied, in all material respects, with the 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, 2022.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of City's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the City's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the City's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the City's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the City's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of City's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of City's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control Over Compliance

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or 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 Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. We did identify a deficiency in internal control over compliance, as described in the schedule of findings and questioned costs as 2022-003, that we consider to be a material weakness.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

Government Auditing Standards requires the auditor to perform limited procedures on the City's response to the internal control over compliance findings identified in our audit described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Schedule of Expenditures of Federal Awards Required by Uniform Guidance

We have audited the financial statements of the City as of and for the year ended June 30, 2022, and have issued our report thereon dated July 13, 2023, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. 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 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 financial statements or to the 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 expenditure of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Davis Farr LLP

Irvine, California
July 13, 2023

CITY OF FONTANA

Schedule of Expenditures of Federal Awards
For the Fiscal Year ended June 30, 2022

Federal Grantor/Pass-Through Grantor Program Title	Federal Domestic Assistance Number	Program Identification Number	Program Expenditures	Amount Provided to Subrecipients
U.S. Department of Housing and Urban Development				
Direct Assistance:				
Community Development Block Grant/Entitlement Grants Cluster	14.218	B-22-MC-06-0565 B-20-MW-06-0565 B-11-MN-06-0507	\$ 1,549,764 873,372 140,587	- - -
Subtotal Community Development Block Grant/Entitlement Grants Cluster			<u>2,563,723</u>	<u>-</u>
Emergency Solutions Grant	14.231	E-21-MC-06-0565 E-20-MW-06-0565	186,823 1,232,709 1,419,532	168,336 663,421 831,757
Subtotal Emergency Solutions Grant	14.231			
HOME Investment Partnerships Program	14.239	M-21-MC-06-0548	66,853	-
Total U.S. Department of Housing and Urban Development			<u>4,050,108</u>	<u>831,757</u>
U.S. Department of Justice				
Direct Assistance:				
Equitable Sharing Program	16.922	n/a	<u>1,859,322</u>	<u>-</u>
Total U.S. Department of Justice			<u>1,859,322</u>	<u>-</u>
U.S. Department of Transportation				
Passed through the State of California, Office of Traffic Safety:				
State and Community Highway Safety Cluster	20.600	PT21134 PT22171	155,383 206,269 361,652	- - -
Subtotal Highway Safety Cluster				
Passed through the California Department of Parks and Recreation				
Recreational Trails Program	20.219	RT-36-012	105,238 105,238	- -
Subtotal Highway Planning & Construction Cluster				
Total U.S. Department of Transportation			<u>466,890</u>	<u>-</u>
U.S. Department of Treasury				
Direct Assistance:				
Coronavirus State and Local Fiscal Recovery Funds	21.027	n/a	<u>257,551</u>	<u>-</u>
Total U.S. Department of Treasury			<u>257,551</u>	<u>-</u>
U.S. Department of Justice				
Direct Assistance:				
Public Safety Partnership and Community Policing Grants (COPS Grant)	16.710	Grant13025283	<u>205,698</u>	<u>-</u>
Total U.S. Department of Agriculture			<u>205,698</u>	<u>-</u>
Total Federal Expenditures			<u>\$ 6,839,569</u>	<u>831,757</u>

n/a - not available

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Notes to the Schedule of Expenditures of Federal Awards

Year Ended June 30, 2022

(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 that are reimbursable by agencies providing federal assistance. For the purposes of this schedule, federal financial assistance includes both federal financial assistance received directly from a federal agency, as well as federal funds received indirectly from a non-federal agency or other organization. Only the portion of program expenditures reimbursable with such federal funds are 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. The City did not use the 10% de minimis indirect cost rate covered in section 200.414 of the Uniform Guidance.

(b) Basis of Accounting

The expenditures included in the accompanying schedule were reported on the accrual basis of accounting. Under the accrual basis of accounting, expenditures are recognized when incurred. Expenditures reported include any property or equipment acquisitions incurred under the federal program.

CITY OF FONTANA

Schedule of Findings and Questioned Costs

Year ended June 30, 2022

Section I - Summary of Auditors' Results

Financial Statements

1. Type of auditors' report issued on whether the financial statements audited were prepared in accordance with GAAP:	Unmodified
2. Internal control over financial reporting:	
a. Material weakness(es) identified?	2022-001
b. Significant deficiency(ies) identified?	2022-002 None reported
3. Noncompliance material to the financial statements noted?	None reported

Federal Awards

1. Internal control over major programs:	2022-003
a. Material weakness(es) identified?	None reported
b. Significant deficiency(ies) identified?	
2. Type of auditors' report issued on compliance for major programs:	Unmodified
3. Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516 (a)?	No
4. Identification of major programs:	

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
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16.922	Equitable Sharing Program
14.231	Emergency Solutions Grant
5. Dollar threshold used to distinguish between Type A and Type B programs:	\$750,000
6. Auditee qualified as a low risk auditee?	No

CITY OF FONTANA

Schedule of Findings and Questioned Costs

Year ended June 30, 2022

Section II - Financial Statement Findings

2022-001 Journal Entries and Delays in Financial Reporting

Certain audit schedules were received after the start of the audit, resulting in delays and journal entries provided to the auditor after the scheduled timing of the audit. As a result of audit procedures and the City's review of financial information for the fiscal year ended June 30, 2022, there was one material audit adjustment, prior period adjustments and delays in financial reporting. The auditing standards acknowledge that material audit entries and prior period adjustments represent a deficiency in internal controls.

Recommendation

An important element of controls over financial reporting is for management to identify adjustments necessary for financial statements to be fairly stated. Whenever possible, adjustments should be reflected in the accounting records prior to the start of the audit. In addition, we recommend the City establish a well-defined process for its annual financial reporting.

Management's Response Regarding Corrective Action Taken or Planned

Management acknowledges the importance of making any adjustment, material and/or immaterial, prior to the start of the audit. The City's fiscal year-end closing process for June 30, 2022, was significantly delayed and was directly related to the delay of the June 30, 2021 audit and staff vacancies. During fiscal year 2022-23, the Accounting Department has filled 3 additional accountant level (or above) positions which will allow the city to meet closing entries, perform a more thorough review of transactions, and mitigate/minimize errors. Any adjustments that occur during the audit process will be communicated to the auditors.

CITY OF FONTANA

Schedule of Findings and Questioned Costs

Year ended June 30, 2022

Section II - Financial Statement Findings

2022-002 Capital Assets

A significant amount of time was spent by the City after the start of the audit to update the year end capital asset records and reconcile those updated records to the general ledger. To ensure a timely completion of these significant transactions at year end, the City should perform and update reconciliations throughout the year which would ease the effort needed at year end. In addition, there were several adjustments recorded by the City during the course of the audit that affected this area and resulted in updates to the accounting schedules.

Recommendation

We recommend that the City consider performing quarterly updates of its capital assets listings to ease the burden at year end. Instead of having to perform a full year's worth of updates, the effort needed at year end would be reduced due to the periodic reconciliations performed during the year. This would also help identify errors in a timely manner and give the City an opportunity to correct them prior to the start of the audit.

In addition, the preparer of the capital asset schedule relies on external department notification of sales, disposals and acquisition of capital assets. The City should develop controls to mitigate the reliance on notification when such transactions have occurred.

Management's Response Regarding Corrective Action Taken or Planned

Management recognizes the importance of recording transactions involving capital assets accurately and timely. To avoid adjustments and misstatement to the capital asset schedule, the Finance department will be performing quarterly reconciliations of Capital Asset related schedules and transactions. The Accounting Division has implemented a new process for capturing all capital expenditures including quarterly meetings with Engineers and project managers, quarterly reconciliations of ledgers, and the reading of all council meeting minutes to ensure timely recordation. During fiscal year 2022-23, the Accounting Department has filled 3 additional accountant level (or above) positions which will allow the city to meet closing entries, perform a more thorough review of transactions, and mitigate/minimize errors.

CITY OF FONTANA

Schedule of Findings and Questioned Costs

Year ended June 30, 2022

Section III - Federal Award Findings and Questioned Costs

(2022-003) Procurement Process

Federal Agency: Department of Justice

CFDA Cluster Nos.: 16.922

Federal Program Cluster: Equitable Sharing Program

Compliance Requirement: Procurement, Suspension, and Debarment – Noncompetitive Procurement (Sole Source Designation), Competition – Formal Procurement Methods

Type of Finding: Material Weakness

Questioned Costs: \$0

Criteria: 2 CFR 200.318 General Procurement Standards, 2 CFR 200.319 Competition, 2 CFR 200.320 Methods of Procurement to be Followed.

(1) All procurement transactions for the acquisition of services required under federal award must be conducted in a manner providing full and open competition in compliance with the standards of section 200.319 and 200.320. Additionally, in compliance with the standards of section 200.320 (c) (2) Noncompetitive procurement, there are specific circumstances in which noncompetitive procurement can be used.

Condition: In 2 of 4 sample selections of vendor purchases, the City was not able to provide evidence of properly following the procurement policy for federal awards. In 1 of the 2 failed instances, the City inappropriately designated a vendor as sole source. In 1 of the 2 failed instances, the City was unable to produce documentation for the simplified acquisition threshold related to small purchases to show procurement by sealed bids and competitive proposals.

Cause: Failure to follow Federal procurement regulations.

Effect: Procurement support was unavailable to demonstrate the procurement policy was followed for a vendor and an inappropriate use of sole source designation for a vendor.

Recommendation: We recommend the City adhere to Federal procurement policies for federal awards to ensure proper procurement standards are followed and adhere to allowable sole source designations.

CITY OF FONTANA

Schedule of Findings and Questioned Costs

Year ended June 30, 2022

Management's Response Regarding Corrective Action Taken or Planned

Management agrees that all procurement transactions for the acquisitions of services required must be conducted in a manner providing full and open competition, must have supporting documentation of the process, and must follow federal procurement requirements. In December 2022, the purchasing department updated the City's purchasing policy to strengthen the language related to Federal procurement guidelines and trained all external departments. Additionally, all procurement requests now include a field that requires the funding source to be identified. The purchasing department has also contracted a consultant that will further assist in strengthening and creating efficiencies all procurement processes.

CITY OF FONTANA
Summary Schedule of Prior Audit Findings
Year ended June 30, 2022

Section IV – Summary of Prior Audit Findings and Current Status

The following is the status of prior audit findings for the year ended June 30, 2021:

(2021-001) Journal Entries Detected During the Audit

This finding has been repeated as item 2022-001

(2021-002) Reconciliation of Investments

This finding has been resolved

(2021-003) Capital Assets

This finding has been repeated as item 2022-002

(2021-004) Payroll

This finding has been resolved

(2021-005) Employee Timecards

This finding has been resolved