

**ATTACHMENT B
CORRECTIVE ACTION PLAN**



**CORRECTIVE ACTION PLAN
Year Ended June 30, 2023**

June 12, 2024

City of Victorville respectfully submits the following corrective action plan for the year ended June 30, 2023.

Audit Period: July 1, 2022– June 30, 2023

The finding from the fiscal year 2022-23 schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

FINDINGS –FINANCIAL STATEMENT AUDIT

2023-001 Material Weakness in Internal Control over Financial Reporting

Condition: During our review of capital assets, we noted that some detail schedules did not agree to the capital asset rollforward, which also did not agree to the general ledger balances. The discrepancies were material and required us to request the City to re-perform the capital asset year-end close process with an emphasis on a review and approval process over the employee performing the work.

In addition, during our review of capital assets, we noted an asset that was sold from the Southern California Logistics Airport Authority (SCLA) to the Water District that was capitalized at the price paid instead of the book value.

Also, the Victorville Water District enterprise fund expensed \$4.985 million of capital project expenses that should have been capitalized as construction in progress.

Criteria or Specific Requirement: An important part of the reporting function is maintaining accurate and current detail schedules for account balances. In addition, general ledger amounts should be updated to reflect the current year balances for accurate financial reports. Year-end close processes should include a review and approval aspect where material differences and errors are identified and corrected prior to providing such information for the audit.

Assets sold within the City funds must be capitalized at the asset's book value as recorded in the fund from which it is sold.

Expenses that meet the City's capitalization policy should be capitalized in the year incurred.

Effect: The adjustments made after the City re-performed the year-end close had the following impact:

Business-type activities had a decrease in construction in progress of \$105 thousand, increase in buildings and improvements of \$7 thousand, increase in accumulated depreciation of \$359 thousand, increase in depreciation expense of \$352 thousand, and increase in expenses of \$105 thousand.

Specifically, Victorville Water District had a decrease in construction in progress of \$105 thousand, increase in buildings and improvements of \$7 thousand, increase in accumulated depreciation of \$25 thousand, increase in depreciation expense of \$18 thousand, and increase in expenses of \$105 thousand.

Specifically, Southern California Logistics Airport Authority had an increase in accumulated depreciation and depreciation expense of \$857 thousand.

The governmental activities had a decrease in construction in progress of \$8.6 million, increase in depreciation expense and accumulated depreciation of \$400 thousand, and increases in capital asset categories of buildings and improvements, computers and communications, furniture and equipment, infrastructure, and land of \$50 thousand, \$2.5 million, \$911 thousand, \$3.5 million, and \$70 thousand, respectively.

The Water District's capital assets were reduced, and expenses increased by \$692,124, which is the excess paid by the Water District to SCLA above the book value of the asset previously recorded in the SLCA.

The Water District's expenses were reduced and construction in progress capital asset category increased by \$4.985 million.

Cause: The City did not sufficiently follow the year-end closing procedures to identify the above errors.

The City was not aware that accounting standards require intra-entity sales to be capitalized at the book value recorded in the previous fund.

The City did not appropriately identify all capital expenses when performing year-end close for capital assets in the Water District

Repeat Finding: This particular finding was not noted in the immediately prior year; however, findings related to audit adjustments for capital assets were noted in the immediately prior year.

Recommendation: We recommend the City implement policies and procedures to review capital assets at year-end for appropriate classification and ensure the work is reviewed in detail and approved by management who did not perform the work.

In addition, we recommend the City implement policies and procedures to review intra-entity asset sales to ensure the amounts are capitalized at book value.

Also, we recommend that the City implement policies and procedures to ensure the completeness of capital asset additions.

Views of Responsible Officials and Planned Corrective Actions:

- (1) City personnel reconciling capital assets will be coordinating with departments at a minimum twice a year as well as reviewing budget to actual for projects and notices of completion in city council agenda items to catch all completed projects. Additionally, staff will question departments regarding all projects residing in the Construction in Progress coding with no activity for at least four months to ensure that

project is still continuing forward or if it needs to move to “Idle Assets” to be completed in the future or expensed if project has been discontinued and/or did not result in an asset.

- (2) City personnel will be reviewing and updating as needed City Policy E-6: Fixed Asset Policy to ensure that proper capitalization and safeguarding of all assets are performed in a timely manner. The updated policy will help ensure the City is operating in a way that is consistent with current accounting principles. The policy will be reviewed annually and updated as needed. Additionally, City personnel will conduct trainings for staff that are responsible for tracking, approving, and acquiring assets at the department level.
- (3) City personnel reconciling capital assets will be attending additional trainings to help ensure they stay appraised of new requirements and / or are well equipped to handle non re-occurring transactions such as assets sold within City funds. Additional training on the City’s ERP system will also be performed to ensure staff is aware of the any new upgrades that can impact the methodology of how the system depreciates assets.

Name(s) of the contact person(s) responsible for corrective action: Carmen Cun and Cristian Dominguez

Planned completion date for corrective action plan: 01/30/2024 and 06/30/2024

2023-002 Material Weakness in Internal Control over Financial Reporting

Condition: The City has various projects that are grant funded on a reimbursement basis, which means that the City incurs the cost and then requests for reimbursement from the funding source. During our audit, we reviewed these projects and had numerous inquiries when grant receivables did not equal the unreimbursed eligible expenditures. This led to numerous adjustments to correct the balances.

In addition, the City had a restatement to correct the funding source for capital expenditures that reverses a restatement the City recorded in the prior year. The original restatement provided by the City for fiscal year 2022-2023 required an audit adjustment to correct the restatement.

Criteria or Specific Requirement: Grant receivables should be equal to the eligible project expenditures less any amounts previously reimbursed by the grantor. For governmental funds, deferred inflows of resources, unavailable revenues, should be recorded instead of revenue when those amounts are received after the City’s availability period, which is 60 days. In addition, in the cases when revenues must be returned if not utilized, cash received should be offset by unearned revenue.

Grant expenditures should be carefully matched to grant revenues to record amounts in the correct fund originally. Should corrections in subsequent years be required, the history of all journal entries for grant revenues and expenditures should be performed to determine where transactions have been recorded before recording restatements.

Effect: Approximate changes in the general ledger balances due to the adjustments are as follows: other aggregate governmental funds had a net increase in receivables of \$267 thousand, increase in revenue of \$340 thousand, and an decrease in deferred inflows of resources, unavailable revenues of \$73 thousand; other state and local grants major special revenue fund had a decrease in receivables of \$186 thousand, decrease in deferred inflows of resources, unavailable revenues, of \$372 thousand an increase in revenues of \$186 thousand; other federal grants major special revenue had a decrease in both receivables and deferred inflows of resources, unavailable revenues of \$109 thousand.

The restatement to correct the funding source for capital expenditures was \$494 thousand that impacted the measure I special revenue fund (decrease) and the transportation tax special revenue fund (increase). This restatement is appropriately not disclosed in the notes to the financial statements in accordance with generally accepted accounting principles since both funds are included in the other aggregate governmental funds, which nets the restatement to zero for the financial statement presentation of other aggregate governmental funds.

Cause: The City did not perform an analysis on each project to verify the balances in these accounts prior to commencement of the audit procedures. Regarding the restatement, the City did not perform adequate research to identify the impact of all previously recorded journal entries since the funds were originally recorded in 2020.

Repeat Finding: This finding is a repeat of a finding in the immediately prior year.

Recommendation: We recommend that the City implement policies and procedures to review all project activity and verify the amounts recorded for grants receivable and deferred inflows of resources, unavailable revenues, are accurate prior to the commencement of the audit. In addition, we recommend that the City implement policies and procedures to ensure all grant revenues and expenditures are recorded in the appropriate fund that contains the funding source at the time the original receipt occurs. Should corrections be required in subsequent years, we recommend that the City perform an analysis that will show all activity of the grant before recording restatements.

Views of Responsible Officials and Planned Corrective Actions:

- (1) City personnel will be reviewing and updating as needed City Policy E-8: Grant Management Policy and Procedures and City Policy E-7: Infrastructure Policy to ensure that all activities are properly verified and recorded in the period incurred.
- (2) The City has procedures set up to review and ensure that each project and org is reconciled at the end of the fiscal year. Unfortunately, due to the large volume of grants, there were instances where activities were posted after personnel had completed their reconciliation, as result, these entries were not reviewed again prior to the audit. Staff is currently developing a schedule and updating access controls to ensure that unauthorized or unreviewed entries cannot be back dated into the prior fiscal year while staff is working on the reconciliation for audit.
- (3) City personnel will be conducting quarterly meetings with departments to ensure that proper grant management at the department level is in place. This will help City personnel identify and correct any issues with amounts recorded and provide any additional assistance to ensure that adequate controls are in place to improve the accountability of funds received.
- (4) City personnel will monitor the volume of grants received by the City and will seek a grant monitoring software solution if it is determined to be needed.

Name(s) of the contact person(s) responsible for corrective action: Carmen Cun and Cristian Dominguez

Planned completion date for corrective action plan: 06/30/2024

2023-003 Material Weakness in Internal Control over Financial Reporting

Condition: The City provided a bank reconciliation as of June 30, 2023, that had an unidentified variance of \$27 thousand. In addition, the bank reconciliation contained reconciling items for May 2023 bank activity that were not posted to the general ledger until fiscal year 2023-2024 instead of recorded when the transactions occurred in fiscal year 2022-2023. The bank reconciliation also contained reconciling items for July 2023 bank activity that were recorded as cash activity in June 2023 instead of fiscal year 2023-2024.

Criteria or Specific Requirement: Bank reconciliations should not contain unidentified variances. Also, cash transactions should be recorded in the correct fiscal year. May 2023 cash activity should be recorded in fiscal year 2022-2023 and July 2023 cash activity should be recorded in fiscal year 2023- 2024.

Effect: The unreconciled variance of \$27 thousand required an audit adjustment to increase cash by this amount in order to match the general ledger to the bank reconciliation. Audit adjustments were also required to decrease cash by \$193 thousand for May 2023 bank activity and increase cash by \$346 thousand to remove July 2023 bank activity.

Cause: The City did not complete the bank reconciliation process by identifying all reconciling items and ensuring transactions were recorded in the appropriate fiscal year.

Repeat Finding: This finding is not a repeat of a finding in the immediately prior year.

Recommendation: We recommend that the City implement policies and procedures to ensure that all reconciling items are identified and recorded in the appropriate fiscal year.

Views of Responsible Officials and Planned Corrective Actions:

- (1) City personnel will be establishing a Bank Reconciliation policy to ensure bank reconciliations are completed in a timely manner, have proper internal controls, and workflow approvals in place.
- (2) A standard operating procedure will be developed and updated as needed. Management will also implement cross-training to ensure that all items are recorded in a timely manner and help identify roll forward transactions. The policy and standard operating procedure will further help identify accounting and bank errors and further strengthen the City's ability in preventing and identifying potential fraud.

Name(s) of the contact person(s) responsible for corrective action: Carmen Cun and Cristian Dominguez

Planned completion date for corrective action plan: 01/30/2024 and 12/31/2024

2023-004 Material Weakness in Internal Control over Financial Reporting

Condition: Due to our audit inquiry, the City identified homes or units that were connected to the City's water system during the fiscal year for which connection fees had been collected in advance. These amounts were not recognized as revenue and remained a liability on the water enterprise fund's statement of net position.

Criteria or Specific Requirement: The City collects connection fees in advance for large capital projects that will result in connections to the City's water lines. As the individual homes or units are connected to the City's system, the amounts collected should be recognized as revenue.

Effect: The liability was decreased, and revenues were increased by approximately \$0.2 million.

Cause: The City did not perform the analysis on the connections for the prepaid water connection fees account until after audit inquiry occurred.

Repeat Finding: This finding is not a repeat of a finding in the immediately prior year but is a repeat finding from the fiscal year 2020-2021 audit.

Recommendation: We recommend the City perform the analysis required on this account prior to the commencement of the audit.

Views of Responsible Officials and Planned Corrective Actions:

- (1) Due to personnel turnover at the department level, current staff were unfamiliar with the process required to reconcile prepaid water connection fees. The department's management and staff had to familiarize themselves with how these prepaids are established, how they're tracked, and subsequently how to reconcile them. As such, a standard operating procedure will be established by the department to document the various prepaid connection fees paid by developers, how to track them in the existing software solution, and institute a re-occurring reconciliation throughout the fiscal year.
- (2) The reconciliation of water connection fees will be completed at a minimum on a semi-annual basis or more regularly if needed.

Name(s) of the contact person(s) responsible for corrective action: Carmen Cun and Cristian Dominguez

Planned completion date for corrective action plan: 01/30/2024 and 06/30/2024

2023-005 Material Weakness in Internal Control over Financial Reporting

Condition: During our review of land held for resale, we noted that the general ledger did not agree to the City's detail schedule, which provided an analysis of lower of cost or market.

Criteria or Specific Requirement: Land held for resale is required to be recorded at the lower of cost or market value.

Effect: An audit adjustment was required to reduce land held for resale and increase expenditures by approximately \$454 thousand.

Cause: The City performed the analysis over land held for resale but did not ensure that the general ledge reflected the required value.

Repeat Finding: This finding is not a repeat of a finding in the immediately prior year.

Recommendation: We recommend that the City develop policies and procedures to ensure that land held for resale is recorded at the lower of cost or market value.

Views of Responsible Officials and Planned Corrective Actions:

- (1) As stated in item 2023-001, City personnel will be reviewing and updating as needed City Policy E-6: Fixed Asset Policy to ensure that proper capitalization and safeguarding of all assets are performed in a timely manner. The updated policy will help ensure the City is operating in a way that is consistent with current accounting principles, including the proper recording of land held for resale. The policy will be reviewed annually and updated as needed.
- (2) City personnel recording land held for resale will be attending additional trainings to help ensure they stay informed of new requirements and / or are well equipped to handle non re-occurring transactions.

Name(s) of the contact person(s) responsible for corrective action: Carmen Cun and Cristian Dominguez

Planned completion date for corrective action plan: 06/30/2024

2023-006 Material Weakness in Internal Control over Financial

Condition: During our testing of the Schedule of Expenditures of Federal Awards (SEFA), we noted that the following federal expenditures should have been included in the fiscal year 2021-2022 SEFA but were excluded: \$6,355,730 under Assistance Listing Number 21.027, Coronavirus State and Local Fiscal Recovery Funds, and \$199,999 under 14.231, Emergency Solutions Grant Program. These amounts were instead included in the fiscal year 2022-2023 SEFA even though the federal expenditures were incurred in fiscal year 2021-2022.

Criteria or Specific Requirement: The SEFA should include all federal expenditures in the appropriate fiscal year, which is the year in which the expenditures were incurred.

Effect: The SEFA was materially misstated for fiscal year 2021-2022 by excluding these amounts and the SEFA is materially misstated for fiscal year 2022-2023 by including these amounts in the incorrect fiscal year.

Cause: The City did not verify that grants provided by non-federal entities did not originate from federal funding when preparing the fiscal year 2021-2022 SEFA.

Repeat Finding: This finding is not a repeat of a finding in the immediately prior year.

Recommendation: We recommend that the City implement policies and procedures to investigate the source of funding for all grants to identify federal expenditures. In addition, to ensure the ease of identification of federal funding in the general ledger, we recommend that the City include the federal program assistance listing number and name in the general ledger account name to ensure the ease of identification of federal funds and the completeness of the SEFA.

Views of Responsible Officials and Planned Corrective Actions:

- (1) As this relates to item 2023-002; City personnel will be reviewing and updating as needed City Policy E-8: Grant Management Policy and Procedures and City Policy E-7: Infrastructure Policy to ensure that all activities are properly verified and recorded in the period they were incurred.
- (2) The City has procedures set up to review and ensure that each project and org is reconciled at the end of the year. Unfortunately, due to the large volume of grants, there were instances where activities were posted after personnel had completed their reconciliation, as result, and these entries were not reviewed

again prior to the audit. Staff is currently developing a schedule and updating access controls to ensure unauthorized or unreviewed entries cannot be back dated into the prior fiscal year while staff is working on the reconciliation for the audit.

- (3) City personnel will be conducting quarterly meetings with departments to ensure that proper grant management at the department level is in place. This will help City personnel identify and correct any issues with amounts recorded and provide any additional assistance to ensure that adequate controls are in place to improve the accountability of funds received.
- (4) City personnel will monitor the volume of grants received by the City and will seek a grant monitoring software solution if it is determined to be needed.

Name(s) of the contact person(s) responsible for corrective action: Carmen Cun and Cristian Dominguez

Planned completion date for corrective action plan: 06/30/2024

If the U.S. Department of Housing and Urban Development or U.S. Treasury has questions regarding this plan, please call Cristian Dominguez at (760) 955-5083.

Signature:  _____

Name and Title: Carmen Cun, Finance Director/City Treasurer