



Item Number: 18

City Council / Board of Directors

Written Communications

Meeting of June 20, 2023

Submitted By:

Sophie Smith, Deputy City Manager / City Treasurer

Subject:

Receive and File of Annual Single Audit on Federal Expenditures Report for Year Ended June 30, 2022.

Recommendation:

That the City Council receive and file the Fiscal Year 2021-2022 Single Audit.

Fiscal Impact:

There is no fiscal impact from this receive and file item.

Strategic Plan Goal:

Annual single audit and reporting is part of Goal A: Financial Sustainability as this report acts as a tool for management to monitor Federal program activities.

Background:

Governmental organizations or nonprofits with federal expenditures in excess of \$750,000 are required by law to have a single audit performed. This audit includes both the annual financial statements and the federal awards. The single audit reviews the management of the grants and ensures that rules are followed in association with the grant or award. These rules are listed in Title 2 US Code of Federal Regulations (CFR) Part 200.

The purpose of the single audit is to test the City's internal controls and compliance and to report any findings to those charged with governance. The City in turn, initiates a corrective action plan to correct identified deficiencies and produce recommended improvements. Thus, the audit results turn into opportunities to strengthen our internal controls and operate efficiently, and eventually, they become best practices in our business processes.

Discussion:

In most years, the single audit report is included in the same council agenda item with the annual comprehensive financial statements and Southern California Logistics Airport Authority and Victorville Water District annual audit reports. This year, the single audit was performed after those reports were filed as the auditing firm of CliftonLarsonAllen LLP (CLA) audited four major programs per the 2 CFR 200 requirements. This included major Coronavirus Relief Funds including American Rescue Plan Act (ARPA) and CDBG-CV funding sources. The deadline to submit the Single Audit for fiscal year ending June 30, 2022 was March 31, 2023.

There was a delay in filing resulting from the amount of grants that required testing this fiscal year primarily as a result of the additional funding that the City received through Federal Coronavirus Funding and the extensive testing requirements provided to the auditors through the annual supplement to the OMB Uniform Guidance. The expenditures for this period along with the results of the audit are reflected in this report which was filed with the Federal Audit Clearinghouse on May 31, 2023 and sent to all federal agencies granting funding to the City of Victorville.

Audit findings 2022-001 through 2022-003 were submitted to the City Council at the April 18, 2023, meeting on item 8 titled "Annual Financial Reports for the Fiscal Year Ended June 30, 2022". These findings were previously discussed during the receipt and filing of the annual comprehensive audited financial statements and the SCLAA and VWD annual audit reports and provided to the City Council. Auditing standards require that these findings be repeated in the Single Audit as part of the City's Corrective Action Plan.

Findings 2022-004 through 2022-008 deal specifically with the handling of Federal grant funds and management and staff have outlined a corrective action for these items. The corrective action is delineated below in attachment B labeled "Corrective Action Plan".

2022-04 Significant Deficiency in Internal Control over Compliance Allowable Cost
2 CFR Part 200, section 200.303 of the Uniform states that a non-federal entity must establish and maintain effective internal control over the federal award that provides reasonable assurance that the non-federal entity is managing the federal award in compliance with federal statutes, regulations, and the terms and conditions of the federal award. The City has specific CDBG grant personnel that are responsible for reviewing all grant expenditures to ensure they are allowable. However, the designated grant personnel are reviewing the expenditures after the disbursement has been made instead of prior to authorizing the disbursement and charging to the grant. In addition, there is no formal documentation retained to illustrate that all disbursements were reviewed. Internal controls over federal awards should include authorization by appropriate grant personnel prior to such disbursements occurring.

2022-005 Significant Deficiency in Internal Control over Compliance Allowable Cost
Uniform Guidance Title 2, Subtitle A, Chapter II, Part 200, Subpart E, §200.430 requires payroll records to support the distribution of the employee's salary or wages among specific activities or cost objectives if the employee works on more than one federal

award; a federal award and nonfederal award; an indirect cost activity and a direct cost activity; two or more indirect activities which are allocated using different allocation bases; or an unallowable activity and a direct or indirect cost activity. From July 2021 through September 2021, personal services charged were recorded for two employees based on budget to the program and an after-the-fact determination of personal services charged to the program was not conducted and adjustments, if necessary, were not recorded. In addition, the City corrected this matter beginning October 2021 and this finding did not apply from October 2021 through June 2022. In addition, in some cases, overtime charges occurred that were not supported by timesheets.

2022-006 Significant Deficiency in Internal Control over Compliance Allowable Costs

Uniform Guidance Title 2, Subtitle A, Chapter II, Part 200, Subpart E, §200.430 requires payroll charges to be supported by a system of internal control, which provides reasonable assurance that the charges are accurate, allowable, and properly allocated. After the findings the City received in the prior year audit, the City revised the internal controls over payroll to require a supervisor's review and approval of hours charged to federal awards on the electronic timesheets, which is in line with the requirements of the Uniform Guidance. In 2 out of 12 payroll transactions tested, there was no supervisor approval of hours charged to the federal award, which was a lack of internal controls.

2022-007 Significant Deficiency in Internal Control over Compliance Reporting

Prime recipients awarded a federal grant greater than or equal to \$30,000 are subject to FFATA sub-award reporting requirements as outlined in the Office of Management and Budgets guidance issued August 13, 2020. The City is a prime recipient and provided subawards totaling \$135,000 to three recipients, each over the \$30,000 reporting threshold. Two out of the three FFATA reports were filed for these recipients. Also, the two FFATA reports that were filed occurred in the month of August 2022 for the obligation date of July 1, 2021, which is not the end of the month following the month in which the sub-grant was awarded.

2022-008 Significant Deficiency in Internal Control over Compliance (Suspension and Debarment)

2 CFR Part 200 Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Award requires compliance with the provisions of suspension and debarment. The City was not able to provide supporting documentation that the verification of suspension or debarment was performed prior to entering into the contract.

Deficiencies 22-005, 22-006, and 22-007 are repeated findings from the FYE 2021 single audit. Although corrective measures were taken after that single audit was completed, there were some early months in the 21-22 fiscal year where the issues were being addressed; however, there was some slight carryover into the 21-22 fiscal year. Deficiencies 22-004 and 22-008 are new findings. As mentioned in the corrective action plan, Executive Management is initiating an internal auditor function to help identify the causes of these findings and take appropriate action to eliminate future occurrences. It is anticipated the internal auditing firm will begin its work in late June or early July.

Staff remain available for any questions the City Council may have.

Attachments:

- A. Single Audit of Federally Assisted Grant Programs for Year Ended June 30, 2022
- B. Corrective Action Plan