

**INTERNAL CITY AUDIT COMMITTEE MEETING AGENDA
JAY C. COLEMAN CONFERENCE ROOM, CITY HALL
CITY OF PORTERVILLE, CALIFORNIA
WEDNESDAY, MARCH 29, 2023, 4:00 P.M.**

The City of Porterville is allowing for and encouraging electronic participation at Brown Act Body Meetings. Porterville Brown Act Body Meetings will be live streamed on YouTube at <https://www.youtube.com/channel/UC5KuhSrNMNL9nwHJVtnJvvA>

Alternatively, this meeting will also be available via Zoom using the following information:

Topic: City of Porterville – Internal City Audit Committee Virtual Meeting

Please use the following link below to join the webinar:

<https://us06web.zoom.us/j/83882779874?pwd=TUZUR1BwTWpZSjNPVUluYXNTVDVRpdz09>

Or via Telephone: **1-669-900-6833** *Webinar ID:* **838 8277 9874** *Passcode:* **205228**

Please direct any questions to the Office of City Clerk at 559-782-7464.

Call to Order

Roll Call

Committee Members: Martha A. Flores, Chair
 Kellie Carrillo, Member
 Maria Bemis, Member
 John Lollis, Member
 Julia Lew, Member
 Rob Taylor, Member

ORAL COMMUNICATIONS

This is the opportunity to address the Audit Committee on any scheduled matter. Unless additional time is authorized by the Committee, all commentary shall be limited to three minutes per individual and no more than fifteen minutes total.

SCHEDULED MATTERS

1. Approval of Draft Minutes of February 22, 2023.
 Re: Consideration of draft Minutes of February 22, 2023.

2. City Annual Comprehensive Financial Report
 Re: Auditors Review of the City Annual Comprehensive Financial Report for fiscal year ended June 30, 2022.

OTHER MATTERS

ADJOURNMENT

In compliance with the Americans with Disabilities Act and the California Ralph M. Brown Act, if

you need special assistance to participate in this meeting, or to be able to access this agenda and documents in the agenda packet, please contact the Office of City Clerk at (559) 782-7464. Notification 48 hours prior to the meeting will enable the City to make reasonable arrangements to ensure accessibility to this meeting and/or provision of an appropriate alternative format of the agenda and documents in the agenda packet.

Materials related to an item on this Agenda submitted to the Audit Committee after distribution of the Agenda packet are available for public inspection during normal business hours at the Office of City Clerk, 291 N. Main Street, Porterville, CA 93257, and on the City's website at www.ci.porterville.ca.us.

ITEM 1

**INTERNAL CITY AUDIT COMMITTEE MINUTES
JAY C. COLEMAN CONFERENCE ROOM, CITY HALL
CITY OF PORTERVILLE, CALIFORNIA
WEDNESDAY, FEBRUARY 22, 2023, 4:00 P.M.**

Call to Order at 4:05 p.m.

Roll Call: Chair Martha A. Flores,
Member Kellie Carrillo
Member Maria Bemis,
Member John Lollis,
Member Julia Lew

Absent: Member Rob Taylor

ORAL COMMUNICATIONS

None

SCHEDULED MATTERS

1. Approval of Draft Minutes of January 25, 2023.

Member John Lollis noted a minor typo of an abbreviation on the minutes, which pertained to the abbreviation CMAQ (Congestion Mitigation and Air Quality). Staff stated the correction will be amended and reflected in the minutes.

ACTION: MOVED by Member Julia Lew, SECONDED by Member Kellie Carrillo, that the Committee approve the draft minutes as amended, of the Internal City Audit Committee Meeting of January 25, 2023. The motion carried unanimously.

Disposition: Approved.

2. Review of Porterville Kiwanis Club Agreement

Member Lollis stated that an inspection of the building was conducted by both the Fire Marshall and Building Inspectors, which found that various improvements or corrections were needing to be made to bring the building up to code, and spoke of ADA improvements that may need to be done in order for the Porterville Kiwanis to hold events on the premises.

Engineering and Project Manager Javier Sanchez stated that a tenant must be notified if a building has been inspected by a Certified Access Specialist (CASp), which would show if the property has been determined to meet all applicable building standards. He stated it would be could potentially be added into the language of the agreement between the landlord and tenant. He also mentioned that with regard to ADA compliance, that the tenant can possibly bring in a portable restroom, when events are being held, to comply with accessibility requirements.

Member Lew stated updates to the agreement would include updating the

indemnity language, insurance requirements to meet RMA recommendations, and noted having identical language that are used with facility use agreements that require tenants to follow all laws and regulations that they will need to comply with, and any violations of the aforesaid, would be an immediate termination of the agreement.

A recommendation of the Committee was to draft an updated revised 5-year lease agreement, and bring said agreement back to an Audit Committee meeting for review and potential submission to the City Council for review and consideration of approval.

3. Review of the Tulare County Junior Livestock Show and Community Fair License and Development Agreement – Fairgrounds Property

Member Lollis stated that the Tulare County Junior Livestock Show and Community Fair, had paid off their borrowed debt from the city and that representatives have previously mentioned potentially acquiring the property from the City.

Members of the Committee agreed that the current agreement did not need any changes or amendments as it was recently amended with updated language, and that staff would reach out to representatives of the fair, to find out if they is any interest of property acquisition.

4. Review of City Property Use and Concession Agreements

Member Lew stated that the concession and maintenance and use agreements are periodically reviewed every one or two years and don't require as much of a review as others.

Members of the Committee recommended that the Promoting Self Worth (PSW) agreement would be a good agreement to bring back for review.

Member Lollis mentioned looking at agreements pertaining to exclusive use of city facilities for sports activities, as there have been issues that have been raised in the past by Lessees.

Member Lew stated that she will work with staff to find out how other cities determine who has exclusive use of a city facilities for the purposes of sports activities.

Member Bemis gave an update regarding the City's Annual Comprehensive Financial Report and stated she is still speaking with the auditor in getting the report finalized.

OTHER MATTERS

Members of the Committee agreed to bring back a draft of the Kiwanis Agreement, reach out to representatives of the Tulare County Junior Livestock Show and Community Fair regarding potential property acquisition, and bring forward the PSW Agreement for review.

ADJOURNMENT

The Internal City Audit Committee Meeting adjourned at 4:47 p.m. to the meeting of March 29, 2023.

ATTEST:

Fernando Gabriel-Moraga, Deputy City Clerk

Martha A. Flores, Committee Chair

ITEM 2

ANNUAL COMPREHENSIVE FINANCIAL REPORT

For the FY Ended June 30, 2022

An electronic version of the City of Porterville Annual Comprehensive Financial Report, can be found at our City website at following link:

<https://cms9files.revize.com/PortervilleCA/Porterville%20CA%20ACFR%202022.pdf>

A hard copy is available in the Office of the City Clerk for public review at the following location:

Office of the City Clerk
291 N. Main Street,
Porterville, CA 93257



INDEPENDENT AUDITORS' REPORT

Honorable Mayor and City Council
City of Porterville
Porterville, California

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Porterville, as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the City of Porterville's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Porterville, as of June 30, 2022, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City of Porterville and to meet our other ethical responsibilities, in accordance with the 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 audit opinions.

Emphasis of Matter

Change in Accounting Principles

As discussed in Note 1 G. to the financial statements, effective July 1, 2021, the City of Porterville adopted new accounting guidance for leases. The guidance requires lessees to recognize a right-to-use asset and corresponding lease liability and lessors to recognize a lease receivable and corresponding deferred inflow of resources for all leases with lease terms greater than twelve months. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City of Porterville's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. 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 and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, 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 amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of City of Porterville's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about City of Porterville's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of changes in net pension liability and related ratios and schedule of plan contributions, schedule of proportionate share of the net pension liability / (asset) and related ratios, schedule of change in total OPEB liability and related ratios, and budgetary comparison information as listed in the table of contents be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Porterville's basic financial statements. The combining individual and nonmajor fund financial statements and schedules are presented for purposes of additional analysis and are 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 basic 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 GAAS. In our opinion, the combining individual and nonmajor fund financial statements and schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the introductory and statistical sections but does not include the basic financial statements and our auditors' report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

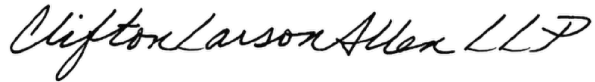
In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 28, 2023, on our consideration of the City of Porterville's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control

Honorable Mayor and City Council
City of Porterville

over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City of Porterville's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Porterville's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "CliftonLarsonAllen LLP". The signature is written in a cursive, flowing style.

CliftonLarsonAllen LLP

Roseville, California
February 28, 2023



Honorable Mayor and City Council
City of Porterville
Porterville, California

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Porterville as of and for the year ended June 30, 2022, and have issued our report thereon dated February 28, 2023. We have previously communicated to you information about our responsibilities under auditing standards generally accepted in the United States of America, and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit in our statement of work agreement dated July 11, 2022. Professional standards also require that we communicate to you the following information related to our audit.

Significant audit findings or issues

Qualitative aspects of accounting practices

Accounting policies

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by City of Porterville are described in Note 1 to the financial statements.

As described in Note 1 G., the entity changed accounting policies related to leases by adopting Statement of Governmental Accounting Standards Board (GASB Statement) No. 87, *Leases*, in fiscal year 2022. Accordingly, the accounting change has been applied to the beginning of the period of adoption.

We noted no transactions entered into by the entity during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the claims liabilities is based on actuarial valuation reports obtained from experts.
- Management's estimate of the other post-employment benefits (OPEB) liability is based on actuarial valuation reports obtained from experts.
- Management's estimate of the pension liability and related deferred inflows/outflows is based on actuarial valuation reports obtained from CalPERS.

We evaluated the key factors and assumptions used to develop the estimates described above in determining that they are reasonable in relation to the financial statements taken as a whole.

Financial statement disclosures

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. There were no particularly sensitive financial statement disclosures.

The financial statement disclosures are neutral, consistent, and clear.

Significant unusual transactions

We identified no significant unusual transactions.

Difficulties encountered in performing the audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Uncorrected misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has determined that the effects of uncorrected misstatements are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. The following summarizes uncorrected misstatements of the financial statements: Expenditures are overstated in other governmental funds in the current year by \$319,890 as a result of loan forgiveness in the amount of \$177,800 not properly expensed in the prior year and expenditures in the amount of \$142,090 that were incurred in the prior year but not properly accrued.

Uncorrected misstatements or the matters underlying uncorrected misstatements could potentially cause future-period financial statements to be materially misstated, even if management has concluded that the uncorrected misstatements are immaterial to the financial statements under audit.

Corrected misstatements

The following material misstatements detected as a result of audit procedures were corrected by management:

- Accounts receivable and unearned revenue were overstated by \$1,547,574 for amounts that were accrued as receivables but the City had not met the criteria for revenue recognition as of June 30, 2022.

Disagreements with management

For purposes of this communication, a disagreement with management is a disagreement on a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. No such disagreements arose during our audit.

Circumstances that affect the form and content of the auditors' report

As previously communicated to you, the report was modified for the adoption of an accounting standard. The following paragraph was added to our auditors' opinion on the financial statements:

Change in Accounting Principles

As discussed in Note 1 G. to the financial statements, effective July 1, 2021, the City adopted new accounting guidance for leases. The guidance requires lessees to recognize a right-to-use asset and corresponding lease liability and lessors to recognize a lease receivable and corresponding deferred inflow of resources for all leases with lease terms greater than twelve months. Our opinion is not modified with respect to this matter.

Management representations

We have requested certain representations from management that are included in the management representation letter dated February 28, 2023.

Management consultations with other independent accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the entity’s financial statements or a determination of the type of auditors’ opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Significant issues discussed with management prior to engagement

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to engagement as the entity’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our engagement.

Other audit findings or issues

The following describes findings or issues arising during the audit that are, in our professional judgment, significant and relevant to your oversight of the financial reporting process:

- During the audit we identified the following significant risks of material misstatement that have not previously been communicated to you:
 - Management override of control is considered a fraud risk.
 - Yearend accruals for receivables are considered higher risk, since they involve communication from various departments and the calculation of estimates for funding not yet received.
 - Net pension liability and net OPEB liability (asset) have high complexity and are considered to be of a higher risk of material misstatement due to the various estimates and allocations in addition to there being various plans.

We have provided a separate communication to you dated February 28, 2023, communicating internal control related matters identified during the audit.

Required supplementary information

With respect to the required supplementary information (RSI) accompanying the financial statements, we made certain inquiries of management about the methods of preparing the RSI, including whether the

RSI has been measured and presented in accordance with prescribed guidelines, whether the methods of measurement and preparation have been changed from the prior period and the reasons for any such changes, and whether there were any significant assumptions or interpretations underlying the measurement or presentation of the RSI. We compared the RSI for consistency with management's responses to the foregoing inquiries, the basic financial statements, and other knowledge obtained during the audit of the basic financial statements. Because these limited procedures do not provide sufficient evidence, we did not express an opinion or provide any assurance on the RSI.

Supplementary information in relation to the financial statements as a whole

With respect to the combining and individual fund statements and schedules (collectively, the supplementary information) accompanying the financial statements, on which we were engaged to report in relation to the financial statements as a whole, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period or the reasons for such changes, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves. We have issued our report thereon dated February 28, 2023.

Other information included in annual reports

Other information (financial or nonfinancial information other than the financial statements and our auditors' report thereon) is being included in your annual report and is comprised of introductory and statistical sections. Our responsibility for other information included in your annual report does not extend beyond the financial information identified in our opinion on the financial statements. We have no responsibility for determining whether such other information is properly stated and do not have an obligation to perform any procedures to corroborate other information contained in your annual report. We are required by professional standards to read the other information included in your annual report and consider whether a material inconsistency exists between the other information and the financial statements because the credibility of the financial statements and our auditors' report thereon may be undermined by material inconsistencies between the audited financial statements and other information. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report. Our auditors' report on the financial statements includes a separate section, "Other Information," which states we do not express an opinion or any form of assurance on the other information included in the annual report. We did not identify any material inconsistencies between the other information and the audited financial statements.

This communication is intended solely for the information and use of the Honorable Mayor, City Council and management of City of Porterville and is not intended to be, and should not be, used by anyone other than these specified parties.

A handwritten signature in black ink that reads "CliftonLarsonAllen LLP". The signature is written in a cursive, flowing style.

CliftonLarsonAllen LLP

Roseville, California
February 28, 2023



**INDEPENDENT AUDITORS' 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**

Honorable Mayor and City Council
City of Porterville
Porterville, 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 City of Porterville, as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the City of Porterville's basic financial statements, and have issued our report thereon dated February 28, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered City of Porterville's internal control over financial reporting (internal control) as a basis for designing 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 of Porterville's internal control. Accordingly, we do not express an opinion on the effectiveness of City of Porterville'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 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 were not identified. We identified a deficiency in internal control, described in the accompanying schedule of findings and responses as items 2022-001 that we consider to be a material weakness.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Porterville'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 statements. 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 of Porterville's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the City of Porterville's response to the findings identified in our audit and described in the accompanying schedule of findings and responses. City of Porterville'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.

A handwritten signature in black ink that reads "CliftonLarsonAllen LLP". The signature is written in a cursive, flowing style.

CliftonLarsonAllen LLP

Roseville, California
February 28, 2023

**CITY OF PORTERVILLE
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2022**

2022 – 001 Accounts Receivable and Unearned Revenue

Type of Finding: Material Weakness in Internal Control over Financial Reporting

Condition: Accounts receivable and unearned revenue were overstated in the Transit Fund for grant amounts where the City had not met the criteria for revenue recognition and had not received the funding as of June 30, 2022.

Criteria or specific requirement: Accounts receivable and revenue for voluntary nonexchange revenue should only be recognized once the City has met all eligibility requirements to earn the revenue.

Effect: Accounts receivable and unearned revenue were overstated by \$1,658,574 at June 30, 2022.

Cause: Amounts were recorded in accordance with the budget, but the City had not incurred eligible expenditures as of June 30, 2022.

Recommendation: The City should have a procedure in place during the year end close to review revenue accrual entries to ensure that all eligible criteria have been met for accounts receivable. Amounts determined to be unearned and not received at year end should be removed from accounts receivable and unearned revenues for reporting purposes.

Views of responsible officials and planned corrective actions: The City submitted its FY21-22 LTF and STAF transit claims to TCAG in April 2022. The claims are based on the FY21-22 operating and capital budget. The City received payment of \$1,691,881 on the claims in July 2022. Because the claims were for the fiscal year 2021-2022, they were recorded as intergovernmental receivables and revenues in the Transit Fund at 6/30/22.

At the end of each fiscal year, the City calculates the unearned revenue in the Transit Fund for those revenues that the City had received during the year but had not expended. For FY21-22, the unearned revenue calculation showed \$1,658,574 of booked revenues is unearned, and city staff, therefore, made the adjustment to the revenues and recorded the unearned revenue.

During the audit, it was discovered that the majority portion of the LTF and STAF revenues that comprise the booked unearned revenue was actually received in July 2022. After discussion with the auditors, an adjustment was made to remove the receivable and the unearned revenue as the funds had not been received during the fiscal year and total revenues had exceeded total expenditures for the year.

City finance staff has been advised and a procedure put in place to review revenue accruals at the end of each fiscal year to ensure that only revenues that have met all the eligibility requirements would be recorded as receivables.