

**CITY OF PORTERVILLE
SINGLE AUDIT REPORT
YEAR ENDED JUNE 30, 2014**

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CITY OF PORTERVILLE

Single Audit Report
For the Year Ended June 30, 2014

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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Honorable Mayor and 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 the City of Porterville, California (City), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 31, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2014-001 to be a significant deficiency.

Compliance and Other Matters

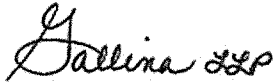
As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

City's Response to Findings

The City's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on it.

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, appearing to read "Gallina LLP", with a stylized flourish at the end.

Roseville, California
December 31, 2014

**INDEPENDENT AUDITOR'S 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 OMB CIRCULAR A-133**

To the Honorable Mayor and City Council
City of Porterville
Porterville, California

Report on Compliance for Each Major Federal Program

We have audited the City of Porterville's (City) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2014. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

Report on Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the

To the Honorable Mayor and City Council
City of Porterville

auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

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, as of and for the year ended June 30, 2014, and have issued our report thereon dated December 31, 2014, 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 OMB Circular A-133 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.



Roseville, California
February 12, 2015, except for
the Schedule of Expenditures
of Federal Awards as to which
the date is December 31, 2014

CITY OF PORTERVILLE

Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2014

| Federal Grantor/Pass-Through Grantor/Program Title | Pass-Through Grantor's Number | Federal CFDA Number | Federal Expenditures |
|----------------------------------------------------------------|-------------------------------------|---------------------------|-------------------------|
| U. S. DEPARTMENT OF HOUSING & URBAN DEVELOPMENT | | | |
| Direct programs: | | | |
| Community Development Block Grants/Entitlement Grants | | | |
| Youth Center | N/A | 14.218 | \$ 117,602 |
| Admin | N/A | 14.218 | 152,566 |
| Across Murray Park - improvements | N/A | 14.218 | 29,410 |
| Shelter Plus Care | N/A | 14.238 | 19,997 |
| Educ Program | N/A | 14.238 | 709 |
| Neighborhood Improvement Program | N/A | 14.238 | 40,000 |
| Lime St Park improvement | N/A | 14.238 | 1,821 |
| Total Department of Housing & Urban Development | | | \$ 362,105 |
| U. S. DEPARTMENT OF TRANSPORTATION | | | |
| Direct programs: | | | |
| Runway 7-25 design | 6019012 | 20.106 | 34,956 |
| Plano Bridge @ Tule River | BHLS-5122-028 | 20.205 | 8,159,956 |
| Jaye St Bridge / Tule River | BLHS-5122-036 | 20.205 | 84,525 |
| Jaye St/Montgomery Roundabout Project | CML-5122(070) | 20.205 | 1,172,953 |
| Newcomb & Beverly | CML-5122(064) | 20.205 | 310 |
| Indiana St shoulder stabilization - Union to Roby | CML-5122(079) | 20.205 | 237,516 |
| Morton Ave shoulder stab - 65 to Westwood | CML-5122(077) | 20.205 | 123,897 |
| Matthew St shoulder stab - Olive to Garden | CML-5122(078) | 20.205 | 56,988 |
| Putnam & D traffic signal | HSIPL-5122(080) | 20.205 | 21,723 |
| CNG dump truck | CML-5122(075) | 20.205 | 159,516 |
| CNG sweeper | CML-5122(074) | 20.205 | 250,139 |
| CNG refuse trucks (4) | CML-5122(072) | 20.205 | 971,174 |
| Transit operating assistance | CA904979 | 20.507 | 130,492 |
| Transit operating assistance - Route 9 | CA904015 | 20.507 | 165,996 |
| Transit operating assistance-extended dial-a-ride | CA904016 | 20.507 | 32,276 |
| Transit operating assistance | CA904116 | 20.507 | 1,039,614 |
| CHK signs | CA900979 | 20.507 | 27,264 |
| CNG El Dorado bus | CA900979 | 20.507 | 186,421 |
| Plano St bus pull-out | CA900979 | 20.507 | 19,755 |
| Signal pre-emption | CA900979 | 20.507 | 16,826 |
| Main St bus pull-out | CA900834 | 20.507 | 13,836 |
| Signal pre-emption | CA900834 | 20.507 | 20,000 |
| Plano St bus pull-out | CA900882 | 20.507 | 76,549 |
| Signal pre-emption | CA900882 | 20.507 | 20,800 |
| Subtotal | | | 13,023,482 |
| National Highway Traffic Safety Administration | | | |
| Pass through the CA Office of Traffic Safety - STEP | | | |
| Selective Traffic Enforcement Program | PT13117 | 20.600 | 16,071 |
| Subtotal Pass-Through | | | 16,071 |

See accompanying Notes to Schedule of Expenditure of Federal Awards.

CITY OF PORTERVILLE

Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2014

| Federal Grantor/Pass-Through Grantor/Program Title | Pass-Through Grantor's Number | Federal CFDA Number | Federal Expenditures |
|-------------------------------------------------------|-------------------------------------|---------------------------|-----------------------------|
| U. S. DEPARTMENT OF TRANSPORTATION (continued) | | | |
| Total Department of Transportation | | | <u>\$ 13,039,553</u> |
| DEPARTMENT OF HOMELAND SECURITY | | | |
| Direct Programs: | | | |
| SAFER grant | EMW-2011-FF-00355 | 97.004 | 26,650 |
| Homeland Security grant | 2011-SS-0077 | 97.004 | <u>13,700</u> |
| Subtotal Direct | | | <u>40,350</u> |
| Pass through the County of Tulare | | | |
| FY 2011 Homeland Security Grant | | 97.004 | 11,037 |
| FY 2012 Homeland Security Grant | 2012-SS-0012 | 97.004 | 6,835 |
| FY 2012 Homeland Security Grant | 2012-SS-0012 | 97.004 | 160 |
| FY 2013 Homeland Security Grant | | 97.004 | 29,288 |
| FY 2013 Homeland Security Grant | | 97.004 | <u>2,014</u> |
| Subtotal Pass-Through | | | <u>49,334</u> |
| Total Department of Homeland Security | | | <u>\$ 89,684</u> |
| DEPARTMENT OF JUSTICE | | | |
| Edward Byrne Memorial Justice Assistance Grant | 2012-DJ-BX-1064 | 16.738 | 10,612 |
| Bulletproof Vest Partnership grant | | 16.607 | <u>7,306</u> |
| Total Department of Justice | | | <u>\$ 17,918</u> |
| Total Expenditures of Federal Awards | | | <u>\$ 13,509,260</u> |

See accompanying Notes to Schedule of Expenditure of Federal Awards.

CITY OF PORTERVILLE

Notes to the Schedule of Expenditures of Federal Awards For the Year Ended June 30, 2014

NOTE 1: **REPORTING ENTITY**

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

NOTE 2: **BASIS OF ACCOUNTING**

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

NOTE 3: **RELATIONSHIP TO FINANCIAL STATEMENTS**

The amounts reported in the accompanying Schedule of Expenditures of Federal Awards agree or can be reconciled with the amounts reported in the City's financial statements.

NOTE 4: **OUTSTANDING LOANS OF FEDERAL FUNDS**

The following schedule presents the amount of outstanding loans. The City's loans are administered by the Development Department. All loans are provided by the U.S. Department of Housing and Urban Development:

| <u>Program Title</u> | <u>CFDA Number</u> | <u>Amount Outstanding</u> |
|------------------------------------|------------------------|-------------------------------|
| Section 108 Loan Guarantee Program | 14.248 | \$ 2,556,000 |

NOTE 5: **PASS-THROUGH ENTITIES' IDENTIFYING NUMBER**

When federal awards are received from a pass-through entity, the Schedule of Expenditures of Federal Awards shows, if available, the identifying number assigned by the pass-through entity. When no identifying number is shown, the City determined that no identifying number is assigned for the program or the City was unable to obtain an identifying number from the pass-through entity.

NOTE 6: **TOTAL FEDERAL AWARDS EXPENDED BY CFDA NUMBER**

When there is more than one program under a single CFDA number, the Schedule of Expenditures of Federal Awards totals all programs under the one CFDA number. Occasionally, however, this total could not be conveniently displayed because all programs under one CFDA number were not contiguous. When this occurred, this total is not shown in the Schedule, but instead is provided below.

| <u>CFDA No.</u> | <u>Total Federal Expenditures</u> |
|-----------------|---------------------------------------|
| 14.218 | \$ 299,578 |
| 14.238 | 62,527 |
| 20.205 | 11,238,697 |
| 20.507 | 1,749,829 |

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CITY OF PORTERVILLE

Schedule of Findings and Questioned Costs For the Year Ended June 30, 2014

Section I – Summary of Auditor's Results

Financial Statements

- | | |
|----------------------------------------------------------------------------------|------------|
| 1. Type of auditor's report issued: | Unmodified |
| 2. Internal controls over financial reporting: | |
| a. Material weaknesses identified? | No |
| b. Significant deficiencies identified not considered to be material weaknesses? | Yes |
| 3. Noncompliance material to financial statements noted? | No |

Federal Awards

- | | |
|-------------------------------------------------------------------------------------------------------------------------|------------------------------------|
| 1. Internal control over major programs: | |
| a. Material weaknesses identified? | No |
| b. Significant deficiencies identified not considered to be material weaknesses? | None Reported |
| 2. Type of auditor's report issued on compliance for major programs: | Unmodified for all major programs. |
| 3. Any audit findings disclosed that are required to be reported in accordance with Circular OMB A-133, Section 510(a)? | No |
| 4. Identification of major programs: | |

CFDA Number

Name of Federal Program

20.205

Highway Planning and Construction

- | | |
|-----------------------------------------------------------------------------------|------------|
| 5. Dollar Threshold used to distinguish between Type A and Type B programs? | \$ 405,278 |
| 6. Auditee qualified as a low-risk auditee under OMB Circular A-133, Section 530? | Yes |

Section II– Financial Statement Findings

| | |
|------------------|----------|
| SEFA Preparation | 2014-001 |
|------------------|----------|

Section III– Federal Award Findings and Questioned Costs

None Reported.

Section IV– Prior Year Findings and Questioned Costs

No findings or questioned costs were noted on the City's major programs for the year ended June 30, 2013.

CITY OF PORTERVILLE

Schedule of Findings and Questioned Costs For the Year Ended June 30, 2014

Reference Number 2014-001

SEFA Preparation

Criteria:

Statement on Auditing Standard No. 115, *Communicating Internal Control Related Matters Identified in an Audit* (SAS 115), applies to the City's current year fiscal audit. The standard provides guidance in that if an entity is unable to draft its own financial statements, there may be a material weakness or significant deficiency. External auditors cannot be part of the City's internal controls, including controls over the preparation of the financial statements, and are prohibited from auditing their own work as doing so impairs independence. These same requirements apply to the Schedule of Expenditures of Federal Awards (SEFA).

The Schedule of Expenditures of Federal Awards (SEFA), while not part of the basic financial statements, is audited in relation to the basic financial statements, in accordance with the requirements of OMB Circular A-133. OMB Circular A-133 requires auditors to determine major programs and perform risk determinations based on a complete SEFA prior to performing fieldwork.

Proper internal controls over financial reporting include, but are not limited to, internal controls that identify misstatements in the SEFA, retaining staff competent in SEFA reporting and related oversight roles, and adequate design of internal control over the preparation of the SEFA.

Condition:

In the process of obtaining the City's federal expenditures and reconciliations to the general ledger by grant and by program we noted that the City omitted \$856,330 of federal expenditures for the Highway Planning and Construction Program.

Cause:

Expenditures that were included in the detailed general ledger were not claimed for reimbursement and the SEFA was understated. The City did not have proper oversight to determine if the remaining expenditures were reportable.

Effect of Condition:

Undetected omission of federal expenditures from the SEFA could lead to action by federal and state grantor agencies, and may result in additional audit costs if the omitted information leads to changes in audit requirement.

Recommendation:

We recommend that the City review all expenditures reported on the SEFA for accuracy and completeness and compare what is reported to the general ledger and claims for reimbursement. We further recommend that the City ensure that all departments have provided their federal expenditures, including loans, in-kind and other federal awards. We also recommend that the City have more than one person review the SEFA prior to submitting it for audit to help ensure that all grants and programs are reported accurately and timely.

CITY OF PORTERVILLE

Schedule of Findings and Questioned Costs For the Year Ended June 30, 2014

Management Response:

The City's Public Works Department recently appointed a new staff to prepare the claims for reimbursement of federally awarded grant funds for approved projects. Unfortunately, the training had failed to emphasize the importance of billing all the allowable expenditures through the fiscal year end. At the time of preparation of the SEFA, the claim for reimbursement for the Jaye/Montgomery Roundabout project was not completed. Staff was waiting for the project completion before billing. (The project was almost complete at 6/30/14.) As a result, federal expenditures of \$856,330 were not included in the SEFA. Additionally, Finance staff failed to recognize the omission and did not follow-up with Public Works Department to confirm that all federal expenditures are reported on the SEFA.

In order to correct this oversight, Finance and Public Works staff had met and discussed the procedures we need to follow beginning with the next fiscal year, stressing the significance of billing and reporting all allowable federal expenditures through the fiscal year end. Finance staff will verify that all federal grant expenditures for the fiscal year are reconciled to the general ledger and all claims for reimbursement are prepared. Finance staff will confirm that all federal expenditures are reported on the SEFA and will review it for completeness and accuracy before transmittal to the auditors.

Maria Bemis
Finance Director
City of Porterville

