

City of La Verne

La Verne, California

Single Audit Reports

For the year ended June 30, 2023

City of La Verne
Single Audit Reports
For the year ended June 30, 2023
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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Independent Auditor's Report

To the Honorable Mayor and Members of City Council
of the City of La Verne
City of La Verne, 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 La Verne, California (City), as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated January 31, 2024.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) 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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2023-001 and 2023-002 that we consider to be significant deficiencies.

To the Honorable Mayor and Members of City Council
of the City of La Verne
La Verne, California
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Report on Compliance and Other Matters

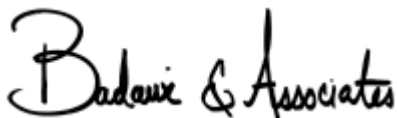
As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

City's Response to Findings

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Badawi & Associates, CPAs
Berkeley, California
January 31, 2024

**REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH THE UNIFORM GUIDANCE AND ON THE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

Independent Auditor's Report

To the Honorable Mayor and Members of City Council
of the City of La Verne
La Verne, California

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited the City of La Verne, California's (City) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2023. 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.

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, 2023.

Basis for Opinion on Each Major Federal Program

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

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

Responsibilities of Management for Compliance

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

Auditor's Responsibilities for the Audit of Compliance

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

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

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

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

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items SA2023-001. Our opinion on each major federal program is not modified with respect to these matters. *Government Auditing Standards* requires the auditor to perform limited procedures on the City's response to the noncompliance findings identified in our audit described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as item SA2023-001, to be a significant deficiency.

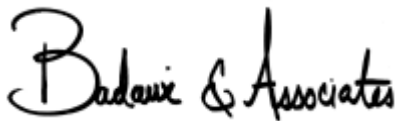
Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed. *Government Auditing Standards* requires the auditor to perform limited procedures on the City's response to the internal control over compliance findings identified in our audit described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

To the Honorable Mayor and Members of City Council
of the City of La Verne
La Verne, California
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Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the 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, 2023, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated January 31, 2024, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the 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 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 auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.



Badawi & Associates, CPAs
Berkeley, California
April 1, 2024, except for the schedule of expenditures
of federal awards on page 7, which is as of January 31, 2024

City of La Verne
Schedule of Expenditures of Federal Awards
For the year ended June 30, 2023

Grantor Agency and Grant Title	Assistance Listing Number	Pass-Through Identifying Number	Program Expenditures	Amounts Passed Through to Subrecipients
<u>U.S. Department of Housing and Urban Development:</u>				
<i>Passed through the Los Angeles County:</i>				
Community Development Commission				
Community Development Block Grants/Entitlement Grants	14.218	B-18-UC-06-0505	\$ 21,653	\$ 8,000
Total U.S. Department of Housing and Urban Development			21,653	8,000
<u>U.S. Office of National Drug Control Policy:</u>				
<i>Direct Program</i>				
High Intensity Drug Trafficking Program	95.001		5,934,072	-
Total U.S. Office of National Drug Control Policy			5,934,072	-
<u>U.S. Department of Justice</u>				
<i>Direct Program:</i>				
Equitable Sharing Fund Program	16.922		1,303,919	-
Total U.S. Department of Justice			1,303,919	-
<u>U.S. Department of the Treasury</u>				
<i>Direct Program:</i>				
Equitable Sharing Fund Program	21.016		149,545	-
<i>Passed through the State of California:</i>				
Coronavirus State And Local Fiscal Recovery Funds	21.027	N/A	1,463,442	-
Total U.S. Department of the Treasury			1,612,987	-
<u>U.S. Department of Homeland Security</u>				
<i>Passed through the Los Angeles County:</i>				
2019 Homeland Security Grant	97.067	2019-SS-00083	86,634	-
Total U.S. Department of Homeland Security			86,634	-
Total Expenditures of Federal Awards			\$ 8,959,265	\$ 8,000

City of La Verne
Notes to the Schedule of Expenditures of Federal Awards
For the year ended June 30, 2023

A. Reporting Entity

The financial reporting entity, as defined by Governmental Accounting Standards Board (GASB), consists of the primary government, which is the City of La Verne (City), organizations for which the primary government is financially accountable, and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The Schedule of Expenditure of Federal Awards (the Schedule) includes expenditures of federal awards for the City as disclosed in the notes to the Basic Financial Statements.

B. Basis of Accounting

Funds received under the various grant programs have been recorded within the special revenue, internal service, and capital projects funds of the City. The City utilizes the modified accrual basis of accounting for the special and capital projects funds and full accrual basis for internal service fund. Expenditures of federal awards reported on the Schedule of Expenditures of Federal Awards (Schedule) are recognized when incurred.

C. Relationship of Schedule of Expenditures of Federal Awards to Financial Statements

The accompanying Schedule presents the activity of all federal financial assistance programs of the City. Federal financial assistance received directly from federal agencies as well as federal financial assistance passed through the State of California is included in the Schedule.

The Schedule was prepared only from the accounts of various grant programs and, therefore, does not present the financial position or results of operations of the City.

D. Pass-Through Entities' Identifying Number

When federal awards were received from a pass-through entity, the Schedule 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.

E. Indirect Costs

The City did not elect to use the 10% de minimis indirect cost rate.

F. Subrecipients

During the fiscal year ended June 30, 2023, the City disbursed \$8,000 of federal awards to a subrecipient for the Community Development Block Grants/Entitlement Grants (ALN No. 14.218).

City of La Verne
Single Audit Reports
Schedule of Findings and Questioned Costs
For the year ended June 30, 2023

Section I - Summary of Auditor's Results

Financial Statements

Types of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? No
- Significant deficiency(is) identified? Yes

Any noncompliance material to the financial statements noted? No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? No
- Significant deficiency(ices) identified? Yes

Type of auditor's report issued on compliance for major programs Unmodified

Any audit findings disclosed that are required to be reported in Accordance with section 200.516(a) Yes

Identification of major programs:

Assistance Listing Numbers	Name of Federal Program or Cluster	Expenditures
21.027	Coronavirus State And Local Fiscal Recovery Funds	\$ 1,463,442
95.001	High Intensity Drug Trafficking Program	5,934,072
	Total Expenditures of All Major Federal Programs	\$ 7,397,514
	Total Expenditures of Federal Awards	\$ 8,959,265
	Percentage of Total Expenditures of Federal Awards	82.6%

Dollar threshold used to distinguish between type A and type B program \$750,000

Auditee qualified as low-risk auditee under section 200.520? Yes

City of La Verne
Single Audit Reports
Schedule of Findings and Questioned Costs
For the year ended June 30, 2023

Section II – Current Year Findings

A. Financial Statement Audit Finding

2023-001 Restatement of previously issued financial statements (Significant Deficiency)

Criteria: The City is responsible for the fair presentation of the financial statements in conformity with accounting principles generally accepted in the United States of America. An effective internal control system over financial closing and reporting provides reasonable assurance for the reliability of financial information, and compliance with laws and regulations.

Condition: The City restated its previously issued financial statements to correct various accounting errors including recording the restricted cash and long-term obligations related to the 2022 Lease Revenue Bonds that were omitted in the past, correct the revenue recognition of the ARPA funds, and other timing related adjustments.

Cause: The City’s internal controls over financial reporting did not identify the misstatements in a timely manner resulting in misstatements.

Effect: Accounting records may be inaccurate, incomplete, or not adequately supported. Issued financial statements may be inaccurate and may require restatements in the future.

Recommendation: We recommend that the City enhance its internal control over financial reporting to ensure complete and accurate financial reporting. The City can accomplish this by expanding its year-end closing procedures to ensure that all non-routine and nonsystematic transactions are accounted for, the appropriate accounting standards are applied, and transactions are accounted for in the proper period.

Management’s response:

The City of La Verne acknowledges the findings highlighted in the financial statement audit for the fiscal year ended June 30, 2023. We recognize that the restatement of previously issued financial statements indicates a significant weakness in our internal control system over financial reporting. We understand the importance of accurate and timely financial reporting and acknowledge that the identified misstatements could potentially affect the reliability of our financial information.

To address this issue, the City is committed to enhancing its internal control over financial reporting. We will implement measures to strengthen our year-end closing procedures, ensuring that all transactions are properly accounted for in accordance with accounting principles generally accepted in the United States of America. This includes detailed review processes to identify and rectify errors promptly, thereby preventing the recurrence of similar issues in the future.

City of La Verne
Single Audit Reports
Schedule of Findings and Questioned Costs
For the year ended June 30, 2023

Section II – Current Year Findings, continued

A. Financial Statement Audit Finding, continued

2023-002 Bank Reconciliation accuracy (Significant Deficiency)

Criteria: An effective internal control system over cash and investments includes frequent and timely reconciling of account balances to information provided by the bank and custodians.

Condition: During the performance of the audit, we noted that the City was behind in performing the monthly bank reconciliation. When the City caught up, we noted that some the reconciliations had errors such as incorrect reconciling items that should not be reconciling items, reconciling some accounts as of a date different than the fiscal year end date. Several adjustments needed to be made as a result of correcting the reconciliations.

Cause: The City’s internal control over the bank reconciliations did not work as intended to identify those issues as part of the normal bank reconciliation process. They were rather identified as a result of the audit procedures.

Effect: Cash and investment balances could be misstated and misappropriation of cash and investments could occur and not be detected timely.

Recommendation: We recommend the City to improve its bank reconciliation preparation and review process to ensure that banks a reconciled timely and accurately and that errors are detected timely as part of the review process.

Management’s Response:

Regarding the significant deficiency identified in the accuracy of bank reconciliations, the City acknowledges the importance of maintaining an effective internal control system over cash and investments. We recognize that timely and accurate bank reconciliations are essential for ensuring the integrity of our financial records and preventing misstatements or misappropriation of funds.

The City’s June 30, 2022 financial reports were not issued until May 2023 due to staffing shortages and changes during that year, as was presented in the prior year’s single audit. Bank reconciliations for the Treasurer’s account for fiscal year 2022-23 could not begin until the fiscal year 2021-22 reconciliations had been completed. During this period, the City reviewed bank statements on a daily basis and cleared outstanding checks monthly to maintain oversight of bank activity. This was implemented as a backfill process to mitigate the risk of misappropriation of funds. While not ideal, this interim measure was communicated to the City’s previous auditors as a temporary solution to address the delay. To address this finding, the City has implemented a bank reconciliation preparation and review process, aiming to complete reconciliations within 60 days of receiving the statement. We will prioritize timely reconciliation of bank accounts and ensure accuracy in accordance with established procedures. Additionally, we will enhance our review processes to promptly detect and correct any errors identified during reconciliation.

City of La Verne
Single Audit Reports
Schedule of Findings and Questioned Costs
For the year ended June 30, 2023

Section II – Current Year Findings, continued

B. Federal Award Program Audit Finding

SA2023-001 – Failure to file the report timely

Assistance Listing Numbers: 21.027

Assistance Listing Title: Coronavirus State And Local Fiscal Recovery Funds

Name of Federal Agency: U.S. Department of the Treasury

Criteria: Per the State and Local Fiscal Recovery Funds Compliance and Reporting Guidance, Project and Expenditure Reports (P&E Reports) required by the program include providing cumulative obligations and expenditures. Internal controls over reporting compliance should ensure accurate, complete, and timely submission of all required reports..

Condition: The City did not submit the annual project and expenditure report timely.

Cause: The City experienced technical issues in accessing the Department of Treasury system to submit the required report. The City contacted the Department of Treasury regarding the issue but it was not resolved prior to the due date of the report.

Effect: The City is not in compliance with the reporting requirement of the grant

Recommendation: The City should address those technical issues early to ensure the report is submitted timely.

Management’s Response:

Regarding the failure to file the required report timely for the Coronavirus State And Local Fiscal Recovery Funds, the City acknowledges the compliance issue and its potential impact on our obligations under the federal award program.

The City has rectified the issue by ensuring that current employees are listed as contacts. When the lack of access was discovered, the City made efforts to seek assistance, including sending emails to three separate contact addresses before receiving a response roughly 6 weeks later. No phone numbers were available, and email was the only form of contact. To prevent similar occurrences, the City will take proactive measures to address technical issues that may impede timely submissions. Additionally, we will update contacts within the necessary agency promptly when staffing changes occur and work closely with relevant federal agencies to resolve technical issues and ensure compliance with reporting requirements.

City of La Verne
Single Audit Reports
Schedule of Findings and Questioned Costs
For the year ended June 30, 2023

Section III - Prior Year Findings

A. Financial Statement Audit Finding

2022-001 Year End Accounting and Reconciliations (Significant Deficiency)

Criteria: All bank accounts should be reconciled monthly and reviewed and approved in a timely manner. Other accounts should be reconciled, and year-end closing entries posted to the general ledger timely for all accounts.

Condition: The condition noted was identified during audit testing of various transaction cycles and inquiries with personnel and management.

Cause: The City was experiencing significant delays in its accounting and reporting processes due to an understaffed finance department and staff turnover. Due to staff shortages, the current City finance staff also had overlapping administrative duties that often took priority over their accounting duties.

Effect: The City experienced significant delays in its accounting and reporting process and the completion of its audit.

Recommendation: We recommend that the City review the administrative responsibilities assigned to each accounting staff so that appropriate time can be spent in each accounting area. This can be achieved by either hiring additional employees in the Finance department or transferring the administrative duties to other employees who have more available time. This change will greatly benefit the City with more efficient accounting processes that produce more timely financial statements.

Status: Partially implemented. See current year finding 2023-002.

B. Federal Award Audit Finding

No federal award findings in the prior year.