

**CITY OF MCFARLAND
SINGLE AUDIT REPORT
YEAR ENDED JUNE 30, 2021**



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**CITY OF MCFARLAND
SINGLE AUDIT REPORT
YEAR ENDED JUNE 30, 2021**

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 <i>GOVERNMENT AUDITING STANDARDS</i>	1
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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*

The Honorable City Council
of the City of McFarland
McFarland, 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 McFarland (the City), as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated September 30, 2022.

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) 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 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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2021-001, and 2021-002 that we consider to be material weaknesses.

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 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*.

The Honorable City Council
of the City of McFarland

City's Response to Findings

The City's response to the findings 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 cursive script that reads "CliftonLarsonAllen LLP".

CliftonLarsonAllen LLP

Roseville, California
September 30, 2022



**INDEPENDENT AUDITORS' 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 THE UNIFORM GUIDANCE**

The Honorable City Council
of the City of McFarland
McFarland, California

Report on Compliance for Each Major Federal Program

We have audited the City of McFarland's (the 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, 2021. The City's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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, 2021.

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 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 the Uniform Guidance, 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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

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, 2021, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated September 30, 2022, 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 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.



CliftonLarsonAllen LLP

Roseville, California
September 30, 2022

CITY OF MCFARLAND
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2021

Federal Grantor/Pass-through Grantor/Program/Cluster Title	Federal Assistance Listing Number	Pass-Through Entity Identifying Number	Total Federal Expenditures	Passed Through to Subrecipients
<u>U.S. Department of Agriculture</u>				
Direct Programs:				
Community Facilities Direct Loan and Grant Program	10.766	15-CDBG-10571	\$ 790,936	\$ -
Subtotal - Community Facilities Loans and Grant Cluster			<u>790,936</u>	<u>-</u>
Total U.S. Department of Agriculture			<u>790,936</u>	<u>-</u>
<u>U.S. Department of Housing and Urban Development</u>				
Passed-through State of California Department of Housing and Community Development:				
HOME Investment Partnership Program (Outstanding Loans)	14.239		\$ 709,906	\$ -
Total U.S. Department of Housing and Urban Development			<u>709,906</u>	<u>-</u>
<u>U.S. Department of Transportation</u>				
Passed-through the State Department of Transportation:				
Highway Planning and Construction	20.205	CMAQ-8405	191,983	-
Subtotal - Highway Planning and Construction Cluster			<u>191,983</u>	<u>-</u>
Total U.S. Department of Transportation			<u>191,983</u>	<u>-</u>
<u>U.S. Department of Treasury</u>				
Passed-through the State Department of Finance				
COVID-19 Coronavirus Relief Fund	21.019		177,651	
Passed through the County of Kern				
COVID-19 Coronavirus Relief Fund	21.019		509,376	-
Subtotal - Assistance Listing Number 21.019			<u>687,027</u>	<u>-</u>
Total U.S. Department of Homeland Security			<u>687,027</u>	<u>-</u>
Total Expenditures of Federal Awards			<u><u>\$ 2,379,852</u></u>	<u><u>\$ -</u></u>

See accompanying Note to Schedule of Expenditures of Federal Awards.

CITY OF MCFARLAND
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2021

NOTE 1 BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal awards programs of the City of McFarland for the year ended June 30, 2021. The information in this Schedule is presented in accordance with the requirements of 2 CFR Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*. Because the Schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position, changes in net position, or cash flows of the City.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance for all awards with the exception of Assistance Listing 21.019, which follows criteria determined by the Department of Treasury for allowability of costs. Under these principles, certain types of expenditures are not allowable or are limited as to reimbursement. Therefore, some amounts presented in the Schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

NOTE 3 ASSISTANCE LISTING NUMBERS

The program titles and Assistance Listing Numbers were obtained from the federal or pass-through grantor.

NOTE 4 INDIRECT COST RATE

The City did not elect to use the 10 percent de minimis indirect cost rate as covered in 2 CFR §200.414.

NOTE 5 PASS-THROUGH ENTITIES' IDENTIFYING NUMBER

When federal awards were 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.

CITY OF MCFARLAND
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
JUNE 30, 2021

NOTE 6 LOANS WITH CONTINUING COMPLIANCE REQUIREMENTS

The City offers property rehabilitation and first-time home buyer loans to eligible individuals as part of its HOME program. The loans have continuing compliance requirements and therefore the outstanding balances are reflected on the Schedule of Expenditures of Federal Awards. No new loans were issued during the fiscal year ended June 30, 2021.

Assistance Listing Number	Federal Program	Outstanding Loans	Loans w ith Continuing Compliance Requirements
10.766	Community Facilities Direct Loan and Grant Program	\$ 770,898	\$ 790,936
14.239	Home Investment Partnership Program	709,906	709,906

**CITY OF MCFARLAND
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2021**

Section I – Summary of Auditors’ Results

Financial Statements

1. Type of auditors’ report issued: Unmodified
2. Internal control over financial reporting:
- Material weakness(es) identified? x yes no
 - Significant deficiency(ies) identified? yes x none reported
3. Noncompliance material to financial statements noted? yes x no

Federal Awards

1. Internal control over major federal programs:
- Material weakness(es) identified? yes x no
 - Significant deficiency(ies) identified? yes x none reported
2. Type of auditors’ report issued on compliance for major federal programs: Unmodified
3. Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? yes x no

Identification of Major Federal Programs

Assistance Listing Number(s)	Name of Federal Program or Cluster
14.239	HOME Investment Partnerships (Outstanding Loans)
21.019	COVID-19 Coronavirus Relief Fund

Dollar threshold used to distinguish between Type A and Type B programs: \$ 750,000

Auditee qualified as low-risk auditee? yes x no

**CITY OF MCFARLAND
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2021**

Section II – Financial Statement Findings

2021 – 001 Year-end Closing and Account Reconciliations

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

Condition: The City did not have adequate design of internal controls over significant processes such as performing monthly reconciliations of accounts, including cash, receivables and long-term liabilities.

Furthermore, this year's closing process was delayed because some important procedures were not performed on time while others were performed too early in the process. The results were delays in producing closing entries, trial balances, schedules, reconciliations, account analyses, and other financial reports needed by management and the auditors.

Criteria or Specific Requirement: A benefit of monthly reconciliations is that errors do not accumulate but can be identified and attributed to a particular period, which makes it easier to perform future reconciliations.

Effect: Certain accounts were misstated at year-end, requiring material adjustments including a prior period adjustment to receivables, deferred inflows of resources, and revenues.

Cause: The City did not allocate sufficient resources to the accounting function.

Repeat Finding: This is a repeat finding from the prior year (2020-001).

Recommendation: We recommend the City establish procedures for reconciling the general ledger accounts for cash, receivables, accounts payable, to supporting documentation monthly. A benefit of monthly reconciliations is that errors do not accumulate but can be identified and attributed to a particular period, which makes it easier to perform future reconciliations.

We further recommend that the finance department prepare a year-end closing schedule and include all tasks that are necessary to close the year-end. Such a list should include, at a minimum, the following: a list of year-end tasks, due date of each task, and the responsible employee and management reviewer of each task.

Views of Responsible Officials and Planned Corrective Actions: There is no disagreement with this finding. The Finance Department will establish written procedures for reconciliations of all major accounts which are to be completed the end of each month and fiscal year.

**CITY OF MCFARLAND
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2021**

Section II – Financial Statement Findings (Continued)

2021 – 002 Cash Reconciliations

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

Condition: During our audit, we noted the cash reconciliations provided were completed much later than periods being reconciled.

During much of the year, the operating bank account reconciliations appeared to be not completed at the end of each month. Timely preparation of complete and accurate bank reconciliations is a key to maintaining adequate control over both cash receipts and disbursements.

Criteria or Specific Requirement: Year-end and monthly reconciliations and adjustments will ensure meaningful and accurate financial statements.

Effect: Not reconciling the accounts on a monthly basis means that errors or other problems might not be recognized and resolved on a timely basis.

Cause: Management did not perform the cash reconciliations on a monthly basis to confirm the amounts agreed to the general ledger during the fiscal year.

Repeat Finding: This is a repeat finding from the prior year (2020-002).

Recommendation: We recommend that the bank reconciliations be reviewed for accuracy and completeness on a timely basis by the finance department. The review should include tests of mechanical accuracy and tracing of items on the reconciliation to the relevant source documents. The composition of unreconciled differences should be determined and followed up on, and any journal entries deemed necessary as a result be recorded.

Views of Responsible Officials and Planned Corrective Actions: There is no disagreement with this finding. The Finance Department will establish written procedures for reconciliations of all major accounts which are to be completed the end of each month and fiscal year.

Section III – Findings and Questioned Costs – Major Federal Programs

Our audit did not disclose any matters required to be reported in accordance with 2 CFR 200.516(a).



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