

CITY OF PORTERVILLE
SINGLE AUDIT REPORT
YEAR ENDED JUNE 30, 2017



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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

The Honorable Mayor and City
Council Members
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 (the City), as of and for the year ended June 30, 2017, 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 10, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements of the City of Porterville as of and for the year ended June 30, 2017, in accordance with auditing standards generally accepted in the United States of America, 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.

The Honorable Mayor and City Council Members
City of Porterville

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 identified a deficiency in internal control, described in the accompanying schedule of findings and questions costs, as finding 2017-001, that we consider 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

City's Response to Finding

The City of Porterville's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. 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.



CliftonLarsonAllen LLP

Roseville, California
January 10, 2018



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 Mayor and City
Council Members
City of Porterville
Porterville, California

Report on Compliance for Each Major Federal Program

We have audited the City of Porterville's (the City) compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (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, 2017. 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 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, 2017.

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.

The Honorable Mayor and City Council Members
City of Porterville

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, 2017, and have issued our report thereon dated January 10, 2018, that 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 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 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.



CliftonLarsonAllen LLP

Roseville, California
January 10, 2018

**CITY OF PORTERVILLE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2017**

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures	Expenditures to Subrecipients
<u>U.S. Department of Transportation</u>				
Passed through the State Department of Transportation:				
Highway Planning and Construction	20.205	BHLS-5122-028	\$ 114,036	\$ -
Highway Planning and Construction	20.205	BLHS-5122-036	2,360,125	-
Highway Planning and Construction	20.205	CMLNI-5122(081)	473,090	-
Highway Planning and Construction	20.205	CMLNI-5122(082)	222,878	-
Highway Planning and Construction	20.205	CML-5122(083)	49,671	-
Highway Planning and Construction	20.205	CML-5122(076)	18,175	-
Highway Planning and Construction	20.205	RPSTPLE-5122(073)	63,117	-
Highway Planning and Construction	20.205	ATPL-5122(084)	64,717	-
Highway Planning and Construction	20.205	HSIPL-5122(080)	70,178	-
Subtotal			3,435,987	-
Passed through the State Department of Transportation:				
Transit Operating Assistance	20.507	CA904199	750,399	-
Transit Operating Assistance	20.507	CA904016	22,837	-
Transit Operating Assistance	20.507	64B017-00380	151,466	-
Mobile Fare Payment System	20.507	CA900116	26,972	-
Mobile Fare Payment System	20.507	CA900979	5,574	-
Mobile Fare Payment System	20.507	CA900199	34,505	-
Mobile Fare Payment System	20.507	644905	148,012	-
Subtotal			1,139,765	-
Direct Programs:				
Airport Improvement Program	20.106	3-06-090-013	10,089	-
Airport Improvement Program	20.106	3-06-0190-12	4,978	-
Airport Improvement Program	20.106	3-06-0190-014	31,735	-
Subtotal			46,802	-
Passed through the State Office of Traffic Safety:				
National Priority Safety Programs	20.600	PT16131	19,798	-
National Priority Safety Programs	20.600	PT1794	44,244	-
Subtotal			64,042	-
Total U.S. Department of Transportation			4,686,596	-
<u>U.S. Department of Housing and Urban Development</u>				
Passed through State Department of Housing and Community Development:				
Community Development Block Grants/Entitlement Grants	14.218		89,783	-
Community Development Block Grants/Entitlement Grants	14.218		138,367	-
Community Development Block Grants/Entitlement Grants	14.218		47,870	-
Community Development Block Grants/Entitlement Grants	14.218		25,078	-
Community Development Block Grants/Entitlement Grants	14.218		1,608	-
Community Development Block Grants/Entitlement Grants (outstanding loan)	14.218		3,512,286	-
Shelter Plus Care	14.238		20,000	-
Shelter Plus Care	14.238		57	-
Home Investment Partnership Program (outstanding loan)	14.239		4,327,612	-
Total U.S. Department of Housing and Urban Development			8,162,661	-

See accompanying Notes to Schedule of Expenditures of Federal Awards.

**CITY OF PORTERVILLE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
YEAR ENDED JUNE 30, 2017**

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures	Expenditures to Subrecipients
<u>U.S. Department of Homeland Security</u>				
Direct Programs:				
FEMA - SAFER grant	97.083		1,414	-
Pass through the County of Tulare				
Homeland Security Grants	97.067		<u>30,818</u>	-
Total U.S. Department of Homeland Security			<u>32,232</u>	-
<u>U.S. Department of Justice</u>				
Direct Programs:				
Edward Byrne Memorial Justice Assistance Grant	16.738		14,726	-
Edward Byrne Memorial Justice Assistance Grant	16.738		15,275	-
Bulletproof Vest Partnership Grant	16.607		<u>5,554</u>	-
Total U.S. Department of Homeland Security			<u>35,555</u>	-
Total Expenditures of Federal Awards			<u>\$ 12,917,044</u>	<u>\$ -</u>

See accompanying Notes to Schedule of Expenditures of Federal Awards.

**CITY OF PORTERVILLE
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2017**

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 Porterville for the year ended June 30, 2017. The information in this schedule is presented in accordance with the 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)*.

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, wherein 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 CATALOG OF FEDERAL DOMESTIC (CFDA) NUMBERS

The program titles and CFDA numbers were obtained from the federal or pass-through grantor or the 2017 *Catalog of Federal Domestic Assistance*. When no CFDA number had been assigned to a program, the two-digit federal agency identifier and the federal contract number were used. When there was no federal contract number, the two-digit federal agency identifier and the word "unknown" were used.

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. Uniform Guidance §200.510(6) requires the City to disclose whether or not it elected to use the 10 percent de minimis cost rate that §200.414(f) allows for nonfederal entities that have never received a negotiated indirect cost rate.

NOTE 5 LOANS WITH CONTINUING COMPLIANCE REQUIREMENTS

Outstanding federally-funded program loans, with a continuing compliance requirement, carried balances as of June 30, 2017 as follows:

<u>CFDA No.</u>	<u>Federal Program</u>	<u>Outstanding Loans</u>	<u>Loans with Continuing Compliance Requirements</u>	<u>New Loans</u>
14.228	Community Development Block Grant/States Program	\$ 3,512,286	\$ 3,512,286	\$ -
14.239	Home Investment Partnership Program	4,327,612	4,327,612	-

**CITY OF PORTERVILLE
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
YEAR ENDED JUNE 30, 2017**

NOTE 6 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 PORTERVILLE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2017**

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? _____ yes x no
 - Significant deficiency(ies) identified? x yes _____ 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

CFDA Number(s)

20.205

Name of Federal Program or Cluster

Highway Planning and Construction

Dollar threshold used to distinguish between Type A and Type B programs:

\$ 750,000

Auditee qualified as low-risk auditee?

 x yes _____ no

**CITY OF PORTERVILLE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2017**

Section II – Financial Statement Findings

2017 – 001

ACCRUED REVENUE

Type of Finding:

- Significant Deficiency in Internal Control over Financial Reporting

Criteria: Accounting standards generally accepted in the United States of America state that revenues should be recorded as receivable in the year in which they are earned.

Condition: During the audit it was determined that the City did not properly record all revenues that were earned during the period.

Cause: The City had a policy to review sales and use tax revenues to ensure that 12 months of revenues are reported, additionally it was the City's policy to review the Porterville School District's Youth Experiencing Success (YES) program to ensure that 4 quarters of charges for services are reported. The policy did not include reviewing to ensure that revenue was recognized in accordance with accounting standards generally accepted in the United States of America.

Effect: The City understated its accounts receivable by \$1,625,200 in fiscal year 2017 and \$1,591,851 in fiscal year 2016 resulting in a prior period adjustment.

Recommendation: The City should update its revenue accrual policy to include a review of revenue recognition in accordance with accounting standards generally accepted in the United States of America.

Management Response: It has been the City of Porterville's practice to report 12 months of sales and use tax revenues and 4 quarters of the Youth Experiencing Success (YES) program revenues annually each year, which do not necessarily correspond to the period in which they are earned. This practice has been in place for decades and has been consistently applied through the years. In Fiscal Year 2016-2017, with the auditor's recommendation, the City modified this practice in order to correctly report the annual sales and use tax revenues and YES program revenues in the correct period in which they are earned. This new accrual policy has been communicated to finance staff and will be followed consistently beginning with the current 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).