

City of Shafter

Shafter, California

Single Audit and Independent Auditors' Reports

For the Year Ended June 30, 2020



**City of Shafter
Single Audit Report
For the Year Ended June 30, 2020**

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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 Auditors' Report

To the Honorable Mayor and Members of City Council
of the City of Shafter
Shafter, 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 Shafter, California (the "City"), as of and for the year ended June 30, 2020, and the related notes to the basic financial statements which collectively comprise the City's basic financial statements and have issued our report thereon dated September 28, 2021.

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, 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. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 2020-002 and 2020-003 to be material weaknesses.

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a significant deficiency as item number 2020-001.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's basic 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.

To the Honorable Mayor and Members of City Council
of the City of Shafter
Shafter, California
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Response to Findings

The City's responses to the findings identified in our audit is described in the accompanying Schedule of Findings and Questions Costs. The City's response was not subjected to the auditing procedures applied in the audit of the basic 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 City'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.

The PwC Group, LLP

Santa Ana, California
September 28, 2021



**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM;
REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF
EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE**

Independent Auditors' Report

To the Honorable Mayor and Members of City Council
of the City of Shafter
Shafter, California

Report on Compliance for Each Major Federal Program

We have audited the City of Shafter, California'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, 2020. The City's major federal programs are identified in the summary of the 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; 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). 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, 2020.

To the Honorable Mayor and Members of City Council
of the City of Shafter
Shafter, California
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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 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 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

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, 2020, and have issued our report thereon dated September 28, 2021 which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming our opinions on the City's Basic Financial Statements. The accompanying Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for 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 basic financial statements and certain other 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 Expenditures of Federal Awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

The PwC Group, LLP

Santa Ana, California
September 28, 2021

City of Shafter
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2020

Federal Grantor/Pass-Through Grantor Program Title	Federal CFDA Number	Agency or Pass-Through Number	Federal Expenditures
U.S. Department of Transportation:			
Highway Planning and Construction Cluster:			
<i>Pass-through the State of California, Department of Transportation:</i>			
Surface Transportation Program & Highway Infrastructure Program- James Phase I (Lerdo to Central)	20.205	STPHIPL-5281(028)	631,000
Surface Transportation Program & Highway Infrastructure Program- James Phase II (Central to Shafter)	20.205	STPHIPL-5281 (029)	75,749
Highway Safety Improvement Program - Lerdo Guardrail Installation (Cherry to Vultee)	20.205	HSIPL-5281(027)	805,050
Appropriations Act Funding - Seventh Standard Road Widening	20.205	DEMO17L-5281(022)	<u>5,025</u>
Total Highway Planning and Construction Cluster			<u>1,516,824</u>
 <i>Pass-through the State of California, Department of Transportation:</i>			
5311 Operating Assistance 2019	20.509	5311 Grant	<u>65,322</u>
Total 20.509			<u>65,322</u>
Total U.S. Department of Transportation			<u>1,582,146</u>
 U.S. Department of Treasury:			
CDBG - Entitlement Grants Cluster:			
<i>Pass-through the County of Kern:</i>			
Coronavirus Relief Fund	21.019	Reso. No. 2728	<u>\$ 97,221</u>
Total Coronavirus Relief Fund			<u>97,221</u>
Total U.S. Department of Treasury			<u>97,221</u>
Total Expenditures of Federal Awards			<u>\$ 1,679,367</u>

City of Shafter
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2020

Note 1 – Reporting Entity

The financial reporting entity, as defined by the Governmental Accounting Standard Board (“GASB”), consists of the primary government, which is the City of Shafter (the “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.

Note 2 – Basis of Accounting

Funds received under the various grant programs have been recorded within the general fund and special revenue funds of the City. The City utilizes the modified accrual method of accounting for the general fund and special revenue funds. The accompanying Schedule of Expenditures of Federal Awards (“Schedule”) is presented in accordance with the 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). Therefore, some amounts presented in the schedule may differ from amounts presented in, or used in, the preparation of the City’s basic financial statements.

Note 3 – Schedule of Expenditures of Federal Awards

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 and County of Kern is included in the Schedule. The Schedule was prepared from only the accounts of various grant programs and, therefore, does not present the financial position, change in fund balance, or results of operations of the City.

Note 4 – Subrecipients

During the fiscal year ended June 30, 2020, there were no amounts provided to subrecipients.

Note 5 – Indirect Cost Rate

The City has not elected to use the 10% de-minimis indirect rate as allowed under the Uniform Guidance.

City of Shafter
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2020

Section I – Summary of Auditors’ Results

Financial Statements

Types of auditors’ report issued:	Unmodified
Internal control over financial reporting:	
• Material weakness(es) identified?	2020-002, 2020-003
• Significant deficiency(ies) identified?	2020-001
Noncompliance material to the financial statements noted?	No

Federal Awards

Internal control over major programs:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified?	None Reported
Type of auditors’ report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CRF 200.516	No

Identification of major programs:

Major Program	Federal CFDA #	Federal Expenditures
Highway Planning and Construction Cluster	20.205	\$ 1,516,824
Total major program expenditures		\$ 1,516,824
Total federal award expenditures		\$ 1,679,367
Percent of total federal award expenditures		90.32%

Dollar threshold used to distinguish between type A and type B programs:	\$750,000
Auditee qualified as low-risk auditee in Accordance with 2 CFR 200.520	No

City of Shafter
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2020

Section II – Financial Statement Findings

A. Current Year Findings – Financial Statement Audit

Finding 2020-001 Delay in Financial Reporting

Criteria:

Management is responsible for providing timely and accurate financial information. Since the City has expended over \$750,000 of expenditures of federal awards, Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Award* (Uniform Guidance), states the City is required to submit the Data Collection Form and the reporting package to the Federal Audit Clearinghouse and the State Controller’s Office, which include the Basic Financial Statements of the City, within the earlier of 30 days after receipt of auditor’s report, or nine month after the end of the audit period.

Condition:

The City has experienced significant delays in the preparation and issuance of the 2020 basic financial statements and its Single Audit required under Uniform Guidance.

Cause:

The City has experienced significant turnover in key personnel in the City’s finance department in past years. Absent robust accounting policies and procedures, when vacancies occur information can be lost and as individuals are getting up to speed, some processes may not be fully executed if they are manual and not fully embedded into an automated system. In addition, the City experienced a Ransomware attack late in the year. Staff had to take on additional responsibilities and did not have sufficient resources to review and reconcile the sub-ledger to the general ledger in a timely manner.

Context:

The City’s financial statements were not submitted within the required time frame under the Uniform Guidance.

Effect:

Delays in processing year-end closing procedures caused the financial statements release to be delayed. In addition, the City is neither in compliance with Uniform Guidance nor is it meeting its current demands for external financial reporting.

Recommendation:

The Finance Department should look at increasing the amount of experienced finance staff to help facilitate year-end closing processes and the preparation of its basic financial statements. Because the basic financial statements are the responsibility of the City, it is in its own best interest to closely monitor the accounting process to ensure that financial position and operating results are accurately and timely reported. The following steps could be used to avoid future delays:

- Assign additional qualified accounting personnel to help process complex transactions;
- Identify critical due dates and develop a listing of assignment, including department coordinated items, based on available resources to meet those due dates;
- Hold periodic meetings to monitor the progress of assignments and responsibilities; and
- Conduct management review of financial statements and audit schedules prior to presenting them to the auditors.

City of Shafter
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2020

Section II – Financial Statement Findings

A. Current Year Findings – Financial Statement Audit

Finding 2020-001 Delay in Financial Reporting

Management’s View and Corrective Action Plan:

City management concurs with the auditor’s comments and recommendations. The Administrative Services Director will work closely with the City Manager to explore options for adding additional accounting staff or consulting services. The Finance Department will also implement the other actions recommended by the auditor. The City of Shafter replaced a new ERP system. The software migration went from Eden to Tyler MUNIS. Employee turnover from key personnel including finance director, finance manager, ERP project manager, and City Manager was during the new ERP implementation. The new finance director has over 10 years of experience on the new MUNIS ERP system and improvements are expected.

Finding 2020-002 Improve Internal Controls Over Financial Reporting

Criteria:

Management is responsible for the preparation and fair presentation, as well as the accuracy of its financial statements, including disclosures in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error. As part of satisfying that responsibility, staff should possess that skills, knowledge, and experience necessary to complete year-end close and diligently employ that knowledge, skill, and experience to produce reliable and accurate financial information.

Generally accepted auditing standards defined internal control as a process – affected by the Members of City Council, management, and other personnel – designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- Reliability of financial reporting
- Effectiveness and efficiency of operations, and
- Compliance with applicable laws and regulations.

The Committee of Sponsoring Organizations of the Treadway Commission (“COSO”) established the following framework that stress the need for policies and procedures to promote effective internal control for an entity:

Control Environment – Establish structures, reporting lines, authorities and responsibilities

Risk Assessment – Select and develop control activities that mitigate risks

Control Activities – Deploy control activities through policies and procedures

Information and Communication – Communicate internal control information internally

Monitoring – Evaluations are used to determine if controls are present and functioning

An overall purpose of internal control over financial reporting is to foster the preparation of reliable financial statements and that reliable financial statements must be materially accurate.

City of Shafter
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2020

Section II – Financial Statement Findings (Continued)

A. Current Year Findings – Financial Statement Audit (Continued)

Finding 2020-002 Improve Internal Controls Over Financial Reporting (Continued)

Condition:

During the audit, we found the following conditions that resulted in significant audit adjustments to the financial statements:

Accuracy in External Financial Reporting

The year-end closing process was not thorough and did not ensure that account balances were reconciled and accurate in advance of the audit requiring a significant number of adjusting journal entries to correct the final financial statements. It appears these errors were primarily caused by the trial balance being prepared from data that was not always complete, contained errors and appropriate year-end reconciliations had not been performed. Some of the more significant entries identified and posted follow:

- Adjustment to correct the entry for capitalized assets contributed from the governmental funds to the enterprise funds (Approximately \$3 million).
- Booked interest receivable in proper fund (Approximately \$356 thousand).
- Correction to the GASB 68 pension entry was needed (Approximately \$787 thousand).
- Correction to double booked interest expense (Approximately \$214 thousand).
- Adjustment to record capitalized asset that was posted to net position (Approximately \$189 thousand).

Bank Reconciliation

The City's monthly bank reconciliation process was not properly completed during the period of the audit. During our review of the bank reconciliation process, we found that 7 out of 12 months of the fiscal year 2019-20 bank reconciliations had not been finalized. In addition, there were unreconciled difference in the amount of approximately \$3,000,000 that could not be identified. The City was able to subsequently identify and reconcile the amounts.

Capital Assets

For the fiscal year ended June 30, 2020, the City utilized Excel spreadsheets to account for most capital asset project activity, including construction in progress (CIP) additions, non-CIP additions, and the capitalization of CIP. Internal controls would dictate that due to the amount of project activity by the City, the current method of maintaining capital asset projects is inadequate to detect potential errors. Due to the significant number of capital projects, the use of multiple worksheets within Excel and the use of multiple Excel documents to account for capital projects, an opportunity exists for a material misstatement to go undetected and uncorrected. The City implemented a new ERP system, but didn't use the system to maintain and track the capital projects.

Cause:

The City has experienced significant turnover in key personnel in the City's finance department in past years. Absent robust accounting policies and procedures, when vacancies occur information can be lost and as individuals are getting up to speed, some processes may not be fully executed if they are manual and not fully embedded into an automated system. In addition, the City experienced a Ransomware attack late in the year. Staff had to take on additional responsibilities and did not have sufficient resources to properly review and reconcile the sub-ledger to the general ledger to ensure the accuracy of the financials.

City of Shafter
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2020

Section II – Financial Statement Findings (Continued)

A. Current Year Findings – Financial Statement Audit (Continued)

Finding 2020-002 Improve Internal Controls Over Financial Reporting (Continued)

Context:

Various financial statement accounts were not accurate and were either under or overstated by a financially significant amount after the audit began and the books were not closed. Misstatements in financial statements can rise to a material amount when aggregated and / or when they can reasonably be expected to influence the decisions taken based on those financial statements and exceed a tolerable level.

Reconciliations and adjustments to year end balances that either are not recorded or are posted after the preparation of fiscal year end reports decreases the reliability and usefulness of the reports. In addition, not following formal policies and procedures regarding internal control over individual transaction cycles could lead to inconsistency in processing transactions and also increase the risk that errors will not be detected and corrected in a timely manner.

Effect:

Due to limited staffing levels faced by the City during the audit period ended June 30 2020, internal controls were either lacking, were not designed properly, and mitigating controls were not sufficient to effectively identify misstatements due from error.

In addition, the City did not have in place during our audit period a systematic method for ensuring that timely and complete year end closing procedures were in operation before presenting the trial balance to auditors, resulting in a number of journal entries made to correct or to reclassify balances in financial statements that should normally be captured through the closing process. Those adjustments have been reported and posted by the City.

The City also does not have standard year-end closing procedures which could reduce the risk that there are accounting errors recorded and go undetected in the City's general ledger.

Recommendation:

We recommend that the City put in place procedures in order to reduce the amount of journal entries needed and errors found after the closing process and reduce the risk of errors in the preparation of the City's Annual Comprehensive Financial Report. The City should contemplate if there are sufficient resources available to prepare a complete set of financial statements and to provide a secondary management review process in order to detect errors prior to delivery for the audit. Additional personnel should be considered to enhance the City's internal control over the financial reporting and within each transaction cycle to ensure transactions are thoroughly evaluated, reviewed and recorded in order to facilitate the accurate and complete year-end closing of the general ledger. We suggest management establish effective review policies and procedures, including, but not limited to, the following functions: review the adequacy of financial statement disclosures by completing a disclosure checklist; apply analytical procedures to the draft financial statements; and perform other procedures considered necessary by management.

City of Shafter
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2020

Section II – Financial Statement Findings (Continued)

A. Current Year Findings – Financial Statement Audit (Continued)

Finding 2020-002 Improve Internal Controls Over Financial Reporting (Continued)

View of Responsible Official:

The City concurs with the recommendation. New procedures including additional checks and balances have been put in place to ensure more accurate closing, reconciliations, cash receipting and payroll processes. New restrictions have been placed in Munis so no batches will automatically release without review. The new Finance Director has implemented best practices to record unreconciled bank transactions in a timely manner. The City will hire outside CPA firm to keep up the new months until the finance department is stable.

Finding 2020-003 Establish a Comprehensive Set of Safeguards over Cyber Security

Criteria:

Cybersecurity is computer security that provides the protection of computer systems and networks from the theft of or damage to their hardware, software, or electronic data, as well as from the disruption or misdirection of the services they provide with a focus on technical controls or safeguards, data location, criticality, risk exposure, and an attack and defend mindset. Information technology general computer controls are part of an overall program but are not a comprehensive set of safeguards designed to protect information assets from breach or compromise. The National Institute of Standards and Technology (NIST), Framework for Improving Critical Infrastructure Cybersecurity, Version 1.1 (April 2018) is one framework that provides a common language for understanding, managing, and expressing cybersecurity risk to internal and external stakeholders. It can be used to help identify and prioritize actions for reducing cybersecurity risk, and it is a tool for aligning policy, business, and technological approaches to managing that risk. It can be used to manage cybersecurity risk across entire organizations, or it can be focused on the delivery of critical services within an organization. The Framework Core, which consists of five functions – identify, protect, detect, respond and recover - provides a set of activities to achieve specific cybersecurity outcomes, and references examples of guidance to achieve those outcomes. There are other frameworks outside of NIST that also provide standards for protection.

Condition:

On October 19, 2020, the City experienced a ransomware attack that affected some City services. The City immediately engaged data privacy legal counsel and a forensic investigation firm called Kivu Consulting to learn the full scope of the incident and assess whether any data might have been placed at risk. Ransomware is a malicious software, or “malware” attack that threatens to publish or block access to a computer, a computer system’s files or data until a ransom is paid. The email that was inadvertently opened contained “malware” that was spread through the city’s network of computers. This “malware” encrypted critical files that interrupted several key phone lines and critical accounting systems within the Finance Department. Along with the “malware”, the unidentified attackers expected the City pay a “Bitcoin” ransom in exchange for the encryption keys, like passwords, that would release the servers, systems, and underlying data. Bitcoin, as an unregulated form of virtual currency, has become the most popular method for demanding ransom because transactions are anonymous. The City restored the systems from their normal system backups relying on established controls to protect critical data without having to pay.

City of Shafter
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2020

Section II – Financial Statement Findings (Continued)

A. Current Year Findings – Financial Statement Audit (Continued)

Finding 2020-003 Establish a Comprehensive Set of Safeguards over Cyber Security (Continued)

Context:

Though little to no data was lost as a result of the attack, the attack exposed that the City lacked procedures to provide adequate protection of computer systems and networks from theft and or damage. Vulnerabilities clearly existed within the City’s security and access controls, training, and other areas that allowed outside attackers to access the City’s systems in a way that gave them the capabilities to sufficiently deploy malware intended to bring down and compromise critical systems, including those systems needed for financial accounting and reporting.

Cause:

The City experienced a ransomware attack on it systems that affected City services.

Effect:

Internal controls over financial reporting were compromised while critical accounting systems within finance could not be completely restored for approximately 18 days. Contingency plans for manual processing were deployed in order to mitigate the loss of system usage which are often inefficient. Though contingency plans functioned during this timeframe, the City was exposed to other financial risks while the internal controls were not functioning in an automated environment such as manual overrides, processes that do not conform to policy, and potential misstatement due to the loss of data.

Recommendation:

There are many simple and effective steps cities can take to avoid vulnerabilities and reinforce cybersecurity best practices as follows:

- Establish a common language for communicating cybersecurity risks across the organization
- Adopt a Cybersecurity Framework that is aligned with the organization’s objectives
- Ensure the cybersecurity program is adequately funded and resourced
- Identify one individual to be responsible for cybersecurity programs
- Make digital hygiene an institutional priority
- Promote cybersecurity awareness and user responsibilities
- Conduct an analysis and develop a risk ledger of local government vulnerabilities
- Ensure data is properly backed up
- Implement multi-factor authentication
- Create policies or plans to manage potential attacks including periodic penetration testing, controlled phishing campaigns and other procedures to identify gaps and take corrective action
- Ensure public communication is part of your attack response plan

View of Responsible Officials:

The City concurs with the recommendation. The City has moved ERP resources to the cloud, and is in the process of upgrading firewalls, email filters, virus protection and penetration testing. The Finance Director will work with IT and HR to investigate training opportunities for City employees to identify and avoid risky emails.

City of Shafter
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2020

Section II – Financial Statement Findings (Continued)

A. Prior Year Findings – Financial Statement Audit

No findings were noted on the City’s financial statement audit for the year ended June 30, 2019.

Section III – Federal Award Findings

A. Current Year Findings and Questioned Costs – Major Federal Award Program Audit

No findings or questioned costs were noted on the City’s major federal programs for the year ended June 30, 2020.

B. Prior Year Findings and Questioned Costs – Major Federal Award Program Audit

Not Applicable – Single Audit was not required for the year ended June 30, 2019.