



CITY OF SHAFTER, CALIFORNIA

JUNE 30, 2022

SINGLE AUDIT REPORT

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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*

To the Honorable Mayor and Members of the City Council
City of 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, 2022, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated April 20, 2023.

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) 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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 were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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 deficiency described in the accompanying schedule of findings and questioned costs as item 2022-001 to be a material weakness.

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 as item 2022-002 to be a significant deficiency.



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

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 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2022-001.

City of Shafter, California's Response to Findings

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 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 City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Lance, Soll & Lughard, LLP".

Sacramento, California
April 20, 2023



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

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

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited the City of Shafter, California (the "City")'s compliance with the types of compliance requirements identified as subject to audit 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, 2022. 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, 2022.

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; 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 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.



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

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 generally accepted auditing standards, *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.

Report on 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 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 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 Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be a material weakness, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that have not been identified.



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

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.

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, 2022, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated April 20, 2023, which contained unmodified opinions on those financial statements. Our audit was performed 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.

Lance, Soll & Loughard, LLP

Sacramento, California
April 20, 2023

CITY OF SHAFTER

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2022

<i>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</i>	<i>Federal Assistance Listing Number</i>	<i>Unique Entity Identifier Number</i>	<i>Total Federal Expenditures</i>
U.S. Department of Transportation:			
Highway Planning and Construction Cluster:			
Pass-through the State of California, Department of Transportation:			
Highway Safety Improvement Program	20.205	EHEGWCLJEVJ4	\$ 29,460
Total Highway Planning and Construction Cluster			29,460
U.S. Department of Treasury:			
COVID-19 - Coronavirus State and Local Fiscal Recovery Funds *	21.027	N/A	2,440,176
Pass-through the State Water Resources Control Board:			
COVID-19 - California Wastewater Arrearage Program *	21.027	TGFTZM2DN5Z2	109,348
COVID-19 - California Water Arrearage Program *	21.027	TGFTZM2DN5Z2	254,134
Total Department of Treasury Programs			2,803,658
Total Expenditures of Federal Awards			\$ 2,833,118

* Major Program

¹ There was no federal awards expended in the form of noncash assistance and insurance in effect during the year.

The notes to the schedule of expenditures of federal awards are an integral part of this schedule.

CITY OF SHAFTER

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2022

Note 1: Summary of Significant Accounting Policies Applicable to the Schedule of Expenditures of Federal Awards

a. Scope of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of the City of Shafter, California (the "City") under programs of the federal government for the year ended June 30, 2022. The information in this 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). 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.

b. Basis of Accounting

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized, as applicable, under the cost principles contained in the Uniform Guidance and OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The City has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

CITY OF SHAFTER

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2022

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unmodified Opinion

Internal control over financial reporting:

- Significant deficiencies identified? yes no
- Material weaknesses identified? yes none reported

Noncompliance material to financial statements noted? yes no

Federal Awards

Internal control over major programs:

- Significant deficiencies identified? yes no
- Material weaknesses identified? yes none reported

Type of auditors' report issued on compliance for major programs: Unmodified Opinion

Any audit findings disclosed that are required to be reported in accordance with Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance)? yes no

Identification of major programs:

<u>Assistance Listing Number</u>	<u>Name of Federal Program or Cluster</u>
21.027	Coronavirus Relief Fund Program

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

Auditee qualified as low-risk auditee? yes no

CITY OF SHAFTER

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2022

SECTION II - FINANCIAL STATEMENT FINDINGS

Reference Number: 2022-001 – Delays in Financial Reporting

Evaluation of Finding:

Material weakness.

Criteria:

Management is responsible for providing timely and accurate financial information. Because the City has expended over \$750,000 in federal awards, Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (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 the auditor's report, or nine months after the end of the audit period.

Condition:

The City has experienced significant delays in the preparation and issuance of the 2022 basic financial statements and its Single Audit report 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 in October 2020. Staff were required to take on additional responsibilities and did not have sufficient resources to prepare for the 2022 audit in a timely manner.

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 reporting.

Context:

This is the third year the City has had challenges meeting the filing deadlines. While this has been an ongoing issue, the City has resolved the staffing challenges and is expected to file timely for 2023.

Repeat Finding:

Yes.

Recommendation:

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

Client Response:

The finance team has demonstrated proficiency in all major accounting components, including cash reconciliations, fixed assets, payroll, and utility billings. Issues related to the new ERP setup, including payroll, have been resolved. The team has successfully audited and resolved all transactions related to the 2021 ransomware incident. Additionally, GASB 87 was implemented in early 2023 for the fiscal year 2021/2022, requiring significant commitments, which the team successfully managed.

CITY OF SHAFTER

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2022

SECTION II - FINANCIAL STATEMENT FINDINGS (Continued)

Reference Number: 2022-001 – Delays in Financial Reporting (Continued)

To further enhance our capabilities, three finance team members will attend the Tyler/MUNIS ERP training and conference in May 2023. Based on the evidence, the Shafter team is expected to meet audit targets for the upcoming fiscal year 2022/2023.

Reference Number: 2022-002 – Journal Entry Approvals

Evaluation of Finding:

Significant Deficiency.

Criteria:

Proper segregation of duties must be maintained for effective internal controls to reduce the risk of erroneous and inappropriate actions.

Condition:

Through the course of our journal entry test work, we noted the same individual prepared and approved 18 of 20 sampled entries without independent review from another responsible individual.

Cause:

Changing roles within the organization caused a lapse in proper segregation of duties.

Effect:

Lack of segregation of duties between the preparer and reviewer/approver of journal entries allows for the possibility of erroneous or malfeasant transactions to be recorded.

Recommendation:

We recommend roles be re-evaluated when changing roles to ensure proper segregation of duties is maintained.

Client Response:

While the finance director demonstrated promptness in recording necessary journal entries to expedite the year-end process, a secondary review was inadvertently overlooked. However, the finance team has since become current in all major accounting areas, facilitating a more efficient process. To ensure accuracy and completeness, the finance director and accounting manager now alternate in reviewing and approving all journal entries, resulting in a more effective process that complies with established procedures.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.



336 Pacific Avenue • Shafter, CA 93263

**SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2021**

Finding: 2022-001: Delays in Financial Reporting

Reason for Recurrence:

Delays due to limited staffing and current processes being reviewed as well as needed improvements.

Planned Corrective Action:

Current daily bookkeeping operations have significant improvements which will accelerate the next audit process. With improved procedures, the finance team is spending less time on correcting mistakes, and we are current on major areas related to cash, investments, fixed assets, utility bills, AP, business license, etc. Less time on making corrections is allowing us to do better account analysis and better reconciliations. For example, bank reconciliations were barely started during spring of 2022 for fiscal year 20/21. Fiscal year 21/22 has all bank reconciliations which should lead to a timely and mostly clean trial balance during our next audit. Furthermore, the new finance managers have gained significant experience with the recently closed fiscal year end which will result in a timely process for FY22/23.

Current Year Reference Number:

2022-001

Finding: 2021-002: Inadequate Controls Over Financial Reporting

Appropriate corrective actions were taken; this finding is considered resolved and is not repeated in the fiscal year ended June 30, 2022.

Finding: 2021-003: Recording and Depositing Cash Receipts Timely

Appropriate corrective actions were taken; this finding is considered resolved and is not repeated in the fiscal year ended June 30, 2022.

Finding: 2021-004: Failure to Maintain Internal Controls and Accuracy of Financial Reporting Due to a Financial System Conversion

Appropriate corrective actions were taken; this finding is considered resolved and is not repeated in the fiscal year ended June 30, 2022.