

CITY OF FONTANA

Single Audit Report on
Federal Awards

Year Ended June 30, 2023

CITY OF FONTANA
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Year ended June 30, 2023

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City Council
City of Fontana
Fontana, California

**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

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 Fontana (the "City") as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated February 20, 2024.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) as a basis for designing the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency or 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 the 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 were not identified. However, as described as follows, we identified a deficiency as item 2023-001 that we consider to be a significant deficiency.

City Council
City of Fontana
Fontana, 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 no instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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.

Davis Farr LLP

Irvine, California
February 20, 2024

City Council
City of Fontana
Fontana, California

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

Independent Auditors' Report

Opinion on Each Major Federal Program

We have audited the City of Fontana's (City) 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 City's major federal programs for the year ended June 30, 2023. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, City complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2023.

Basis for Opinion on Each Major Federal Program

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

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

Responsibilities of Management for Compliance

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

Auditor's Responsibilities for the Audit of Compliance

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the City's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of 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 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 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 Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. We did identify a deficiency in internal control over compliance, as described in the schedule of findings and questioned costs as 2023-002, that we consider to be a significant deficiency.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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

Report on Schedule of Expenditures of Federal Awards Required by Uniform Guidance

We have audited the financial statements of the City as of and for the year ended June 30, 2023, and have issued our report thereon dated February 20, 2024, which 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.

Davis Farr LLP

Irvine, California
March 27, 2024 except for our report on the Schedule of Expenditures of Federal Awards, for which the date is February 20, 2024.

CITY OF FONTANA

Schedule of Expenditures of Federal Awards
For the Fiscal Year ended June 30, 2023

<u>Federal Grantor/Pass-Through Grantor Program Title</u>	<u>Assistance Listing Number</u>	<u>Program Identification Number</u>	<u>Program Expenditures</u>	<u>Amount Provided to Subrecipients</u>
U.S. Department of Housing and Urban Development				
Direct Assistance:				
Community Development Block Grant/Entitlement Grants Cluster	14.218	B-22-MC-06-0565	\$ 2,665,714	-
Community Development Block Grant/Entitlement Grants Cluster	14.218	B-20-MW-06-0565	343,982	-
Subtotal Community Development Block Grant/Entitlement Grants Cluster			3,009,696	-
Emergency Solutions Grant	14.231	E-22-MC-06-0565	174,162	165,672
	14.231	E-20-MW-06-0565	599,963	318,632
Subtotal Emergency Solutions Grant			774,125	484,304
HOME Investment Partnerships Program	14.239	M-22-MC-06-0548	144,710	-
Total U.S. Department of Housing and Urban Development			3,928,531	484,304
U.S. Department of Justice				
Direct Assistance:				
Equitable Sharing Program	16.922	n/a	2,730,855	-
Public Safety Partnership and Community Policing Grants (COPS Hiring Grant)	16.710	Grant13025283	304,603	-
Subtotal Direct Assistance			3,035,458	-
Passed through San Bernardino County:				
Edward Byrne Memorial Justice Assistance Grant (2017 JAG)	16.738	2017-DJ-BX-0991	54,365	-
Total U.S. Department of Justice			3,089,823	-
U.S. Department of Transportation				
Passed through the State of California, Office of Traffic Safety:				
State and Community Highway Safety Cluster	20.600	PT22171	87,786	-
	20.600	PD23029	235,863	-
Subtotal Highway Safety Cluster			323,649	-
Passed through the California Department of Parks and Recreation				
Recreational Trails Program	20.219	RT-36-012	69,122	-
Subtotal Highway Planning & Construction Cluster			69,122	-
Total U.S. Department of Transportation			392,771	-
U.S. Department of Treasury				
Direct Assistance:				
Coronavirus State and Local Fiscal Recovery Funds - Covid 19	21.027	n/a	12,851,534	-
Passed through the California Department of Housing and Community Development:				
Coronavirus State and Local Fiscal Recovery Funds (Homekey) - Covid 19	21.027	21-HK-17429	2,124,713	-
Passed through San Bernardino County:				
Coronavirus State and Local Fiscal Recovery Funds (pass-through County) - Covid 19	21.027	n/a	131,499	-
Subtotal Coronavirus State and Local Fiscal Recovery Funds Clustre			15,107,746	-
Direct Assistance:				
Emergency Rental Assistance Program - 2	21.023	ERAE0059	1,214	-
Total U.S. Department of Treasury			15,108,960	-
U.S. Department of Homeland Security				
Passed through the California Governor's Office of Emergency Services:				
Homeland Security Grant Program - 2020	97.067	n/a	41,224	-
Homeland Security Grant Program - 2021	97.067	n/a	26,050	-
Total U.S. Department of Homeland Security			67,274	-
Total Federal Expenditures			\$ 22,587,359	484,304

n/a - not available

CITY OF FONTANA

Notes to the Schedule of Expenditures of Federal Awards

Year Ended June 30, 2023

(1) Summary of Significant Accounting Policies Applicable to the Schedule of Expenditures of Federal Awards

(a) Scope of Presentation

The accompanying schedule presents only the expenditures incurred by the City that are reimbursable by agencies providing federal assistance. For the purposes of this schedule, federal financial assistance includes both federal financial assistance received directly from a federal agency, as well as federal funds received indirectly from a non-federal agency or other organization. Only the portion of program expenditures reimbursable with such federal funds are reported in the accompanying schedule. Program expenditures in excess of the maximum federal reimbursement authorized or the portion of the program expenditures that were funded with state, local or other non-federal funds are excluded from the accompanying schedule. The City did not use the 10% de minimis indirect cost rate covered in section 200.414 of the Uniform Guidance.

(b) Basis of Accounting

The expenditures included in the accompanying schedule were reported on the accrual basis of accounting. Under the accrual basis of accounting, expenditures are recognized when incurred. Expenditures reported include any property or equipment acquisitions incurred under the federal program.

CITY OF FONTANA

Schedule of Findings and Questioned Costs

Year ended June 30, 2023

Section I - Summary of Auditors' Results

Financial Statements

1. Type of auditors' report issued on whether the financial statements audited were prepared in accordance with GAAP:	Unmodified
2. Internal control over financial reporting: a. Material weakness(es) identified? b. Significant deficiency(ies) identified?	No 2023-001
3. Noncompliance material to the financial statements noted?	No

Federal Awards

1. Internal control over major programs: a. Material weakness(es) identified? b. Significant deficiency(ies) identified?	No 2023-002
2. Type of auditors' report issued on compliance for major programs:	Unmodified
3. Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516 (a)?	No
4. Identification of major programs:	

Assistance Listing Number
21.027

Name of Federal Program or Cluster
Coronavirus State and Local Fiscal Recovery Funds

Assistance Listing Number
14.218

Name of Federal Program or Cluster
Community Development Block Grants/Entitlement Grants

5. Dollar threshold used to distinguish between Type A and Type B programs:	\$750,000
6. Auditee qualified as a low risk auditee?	No

CITY OF FONTANA

Schedule of Findings and Questioned Costs

Year ended June 30, 2023

Section II - Financial Statement Findings

2023-001 Prior Period Adjustment

During the audit of the financial statements for the current period, it was noted that there were misstatements identified in the financial records related to prior periods. Prior period restatements indicate a weakness in internal controls over financial reporting.

Recommendation

We recommend the City conduct a review of internal processes and controls to identify the root causes of the misstatements. This may involve assessing the adequacy of existing controls, procedures, and oversight mechanisms to prevent similar errors from occurring in the future.

Management Response

The City has strong internal controls in place over financial reporting to identify errors and mistakes and ratify them to the best of its ability. Additionally, the city continuously assesses its internal controls and policy to ensure compliance with applicable regulations and standards. The prior period adjustment was proposed and made by the city to the auditor to reflect the correct GASB 75 entries. The prior period adjustment was a result of misinformation provided by the contracted professional actuary and the oversight of the city auditors.

Section III - Federal Award Findings and Questioned Costs

2023-002 Methods of procurement to be followed

Federal Agency: Department of Treasury

CFDA Cluster Nos.: 21.027

Federal Program Cluster: Coronavirus State and Local Fiscal Recovery Funds

Compliance Requirement: Methods of procurement to be followed

Type of Finding: Significant Deficiency

Questioned Costs: \$0

Criteria: 2 CFR 200.320 *Methods of procurement to be followed*

CITY OF FONTANA

Schedule of Findings and Questioned Costs

Year ended June 30, 2023

(2023-002) Methods of procurement to be followed (continued)

Condition: In two instances, the City did not follow the procurement method to be followed under Uniform Guidance. In the first instance, the City claimed a higher threshold for Micro-purchases, up to \$50,000 as allowed by self-certification, however evidence of the self-certification was not available. In the second instance, the City exceeded the \$50,000 threshold required for method of procurement for Micro-purchases.

Cause: Inaccurate interpretation of Uniform Guidance.

Effect: The City's method of procurement was not in compliance with the methods prescribed by *2 CFR 200.320 Methods of procurement to be followed*.

Recommendation: We recommend the City follow the methods of procurement as prescribed by *2 CFR 200.320 Methods of procurement to be followed*. In addition, the City should self-certify annually and retain evidence of the self-certification for the increases threshold of Micro-purchases.

Management's Response Regarding Corrective Action Taken or Planned

The City concurs with the second instance in which the City exceeds the \$50,000 threshold required for the method of procurement for Micro-Purchases. The City corrected the public works contract template using federal funds not to exceed \$50,000 and has updated the City internal website to reflect the updated contract templates and provide guidelines for public work projects using federal funds under the micro-purchase thresholds. For the first instance, the City believes some form of self-certification was performed as the procurement policy was updated and reviewed by internal management level and was approved by the council in FY2023. However, moving forward, the city will include an approved annual memo on the review of the purchasing policy to further strengthen the self-certification documentation.

CITY OF FONTANA
Summary Schedule of Prior Audit Findings
Year ended June 30, 2023

Section IV – Summary of Prior Audit Findings and Current Status

The following is the status of prior audit findings for the year ended June 30, 2022:

(2022-001) Journal Entries and Delays in Financial Reporting

This finding has been partially repeated as item 2023-001.

(2022-002) Capital Assets

This finding has been resolved.

(2022-003) Procurement Process

This finding has been partially repeated as item 2023-002.