

City of Pomona

Pomona, California

Single Audit and Independent Auditors' Reports

For the Year Ended June 30, 2017



**City of Pomona
Single Audit Report
For the Year Ended June 30, 2017**

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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 *GOVERNMENTAL AUDITING STANDARDS***

Independent Auditors' Report

To the Honorable Mayor and Members of City Council
of the City of Pomona
Pomona, 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 Pomona, California (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 February 12, 2018.

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") to determine 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 a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs that we consider to be material weaknesses as item 2017-001.

To the Honorable Mayor and Members of City Council
of the City of Pomona
Pomona, California
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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*.

The City's Response to Findings

The City's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

The PwC Group, LLP

Santa Ana, California
February 12, 2018



**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

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

Report on Compliance for Each Major Federal Program

We have audited the City of Pomona, 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, 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.

Auditor's 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* (the "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.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2017-002. Our opinion on each major federal program is not modified with respect to these matters.

The City's response to the noncompliance findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The City's response was not subjected to the auditing procedures applied in the audit of compliance and accordingly, we express no opinion on the response.

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 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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weakness. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as item 2017-002 that we consider to be significant deficiency.

The City's response to the internal control over compliance findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The City's response was not subject to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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 Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

To the Honorable Mayor and Members of City Council
of the City of Pomona
Pomona, California
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Report on the Schedule of Expenditures of Federal Awards Required by 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 the related notes to the financial statements, which collectively comprise the City's basic financial statements. We have issued our report thereon dated February 12, 2018, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming our 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 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 other 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 Expenditure 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
February 12, 2018

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City of Pomona
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2017

Federal Grantor/Passed through Grantor Program Title	CFDA Number	Grant Award Number	Federal Expenditures	Amounts provided to Subrecipients
U.S. Department of Housing and Urban Development:				
<i>Direct Programs:</i>				
Community Development Block Grants/Entitlement Grants Cluster:				
Community Development Block Grants/Entitlement Grants	14.218	B-15-MC-06-0527	\$ 1,211,119	\$ 188,258
Community Development Block Grants/Entitlement Grants	14.218	Program Income	79,687	-
Neighborhood Stabilization Program 1	14.218	Program Income	34,349	-
Neighborhood Stabilization Program 3	14.218	Program Income	114,400	-
Community Development Block Grants/Entitlement Grants Cluster Subtotal			<u>1,439,555</u>	<u>188,258</u>
Emergency Solutions Grants Program	14.231	E-14-MC-060527	3,713	-
Emergency Solutions Grants Program	14.231	E-15-MC-060527	8,047	-
Emergency Solutions Grants Program	14.231	E-16-MC-060527	187,020	69,644
Emergency Solutions Grants Program Subtotal			<u>198,780</u>	<u>69,644</u>
Supportive Housing Program	14.235	CA0436L9D001508	157,484	124,529
Shelter Plus Care Program	14.238	CA0462L9D001508	1,035,642	10,194
HOME Investment Partnerships Program	14.239	M-13-MC-06-0528	29,292	-
HOME Investment Partnerships Program	14.239	M-14-MC-06-0528	82,005	-
HOME Investment Partnerships Program	14.239	M-15-MC-06-0528	30,123	-
HOME Investment Partnerships Program	14.239	M-16-MC-06-0528	76,250	-
HOME Investment Partnerships Program	14.239	Program Income	213,801	-
HOME Investment Partnerships Program Subtotal			<u>431,471</u>	<u>-</u>
Housing Voucher Cluster:				
Section 8 Housing Choice Voucher Program	14.871	CA123VO	10,990,170	-
Housing Voucher Cluster Subtotal			<u>10,990,170</u>	<u>-</u>
Lead Paint Hazard Control Grant	14.900	CALHB0626-16	94,602	-
Healthy Homes Grant	14.900	CALHB0626-16	12,597	-
Lead-Based Paint Hazard Control in Privately-Owned Housing Program Subtotal			<u>107,199</u>	<u>-</u>
<i>Passed through Los Angeles Homeless Service Authority:</i>				
Street Outreach Program	14.267	CA0358L9D001407	203,778	-
Pomona Operations Porchlight-Rapid Rehousing Program	14.267	CA1507L9D001500	15,997	-
Continuum of Care Program Subtotal			<u>219,775</u>	<u>-</u>
Total U.S. Department of Housing and Urban Development			<u>14,580,076</u>	<u>392,625</u>

See accompanying Notes to the Schedule of Expenditures of Federal Awards.

City of Pomona
Schedule of Expenditures of Federal Awards (Continued)
For the Year Ended June 30, 2017

Federal Grantor/Passed through Grantor Program Title	CFDA Number	Grant Award Number	Federal Expenditures	Amounts provided to Subrecipients
U.S. Department of Justice:				
<i>Direct Program:</i>				
Equitable Sharing Program	16.922	N/A	1,194,105	-
Edward Byrne Memorial Justice Assistance Grant:				
<i>Direct Program:</i>				
2015 Justice Assistance Grant	16.738	2015-DJ-BX-0133	46,108	-
Total Edward Byrne Memorial Justice Assistance Grant			<u>46,108</u>	<u>-</u>
Total U.S. Department of Justice			<u>1,240,213</u>	<u>-</u>
U.S. Department of Transportation:				
Minimum Penalties for Offenders for Driving While Intoxicated:				
<i>Passed through State of California Office of Traffic Safety:</i>				
Selective Traffic Enforcement Program - FY15-16	20.608	PT16121	77,730	-
Selective Traffic Enforcement Program - FY16-17	20.608	PT1793	201,390	-
Total Minimum Penalties for Offenders for Driving While Intoxicated			<u>279,120</u>	<u>-</u>
Highway Safety Cluster:				
<i>Passed through State of California Office of Traffic Safety:</i>				
Selective Traffic Enforcement Program - FY16-17	20.600	PT1793	100	-
Subtotal - 20.600			<u>100</u>	<u>-</u>
Seat Belt Grant - FY 16/17	20.616	OP1602	38,309	-
Seat Belt Grant - FY 15/16	20.616	OP1706	105,041	-
Subtotal - 20.616			<u>143,350</u>	<u>-</u>
Total Highway Safety Cluster			<u>143,450</u>	<u>-</u>
Total U.S. Department of Transportation			<u>422,570</u>	<u>-</u>
U.S. Department of Treasury:				
<i>Direct Program:</i>				
Equitable Sharing Program	21.016	N/A	186,626	-
Total U.S. Department of Treasury			<u>186,626</u>	<u>-</u>
U.S. Department of Health and Human Services:				
Aging Cluster:				
<i>Passed through County of Los Angeles Department of Aging and Adult Services</i>				
Special Programs for the Aging--Title III, Part C--Nutrition Services	93.045	AAA-ENP-162009	135,285	-
Special Programs for the Aging--Title III, Part C--Nutrition Services	93.045	Program Income	19,481	-
Total Aging Cluster			<u>154,766</u>	<u>-</u>
Total U.S. Department of Health and Human Services			<u>154,766</u>	<u>-</u>
Total Expenditures of Federal Awards			<u>\$ 16,584,251</u>	<u>\$ 392,625</u>

See accompanying Notes to the Schedule of Expenditures of Federal Awards.

City of Pomona
Notes to Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2017

Note 1 – Reporting Entity

The financial reporting entity consists of the primary government, City of Pomona (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.

The City Council acts as the governing body and is able to impose its will on the following organizations, establishing financial accountability:

- City of Pomona Housing Authority
- City of Pomona Public Financing Authority
- Canon Water Company of Pomona
- Fiduciary Component Unit:
 - Successor Agency of the Former Redevelopment Agency of the City of Pomona

Note 2 – Summary of Significant Accounting Policies

Basis of Accounting

Funds received under the various grant programs have been recorded within the special revenue and capital projects funds of the City. The City utilizes the modified accrual basis of accounting for the special revenue and capital projects funds. The accompanying Schedule of Expenditures of Federal Awards (the “Schedule”) is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations (CFR) Part 2, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the “Uniform Guidance”). Therefore, some amounts presented in the Schedule may differ from amounts presented in, or used in, the preparation of City’s basic financial statements.

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, Los Angeles Homeless Service Authority, and the County of Los Angeles, is included in the Schedule. The Schedule was prepared only from the accounts of various grant programs and, therefore, does not present the financial position or results of operations of the City.

Indirect Cost Rate

The City did not elect to use the 10% de minimis cost rate.

City of Pomona
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2017

Section I – Summary of Auditor’s Results

Financial Statements

Types of report the auditors issued on whether the financial statements audited were prepared in accordance with GAAP: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? 2017-001
- Significant deficiency(ies) identified? None Reported

Noncompliance material to financial statements noted? No

Federal Awards

Internal control over major federal programs:

- Material weakness(es) identified? No
- Significant deficiency(ies) identified? 2017-002

Type of auditor’s report issued on compliance for major federal programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? Yes

Identification of major federal programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>	<u>Expenditures</u>
14.231	Emergency Solutions Grants Program	\$ 198,780
14.238	Shelter Plus Care Program	1,035,642
14.871	Section 8 Housing Choice Voucher Program	10,990,170
Total Expenditures of All Major Federal Programs		\$ 12,224,592
Total Expenditures of Federal Awards		\$ 16,584,251
Percentage of Total Expenditures of Federal Awards		73.71%

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

Auditee qualified as low-risk auditee under 2 CFR 500.520? No

City of Pomona
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2017

Section II – Financial Statements Findings

A. Current Year Findings and Questioned Costs – Financial Statement Findings

Finding 2017-001 – Internal control over the inventory process

Criteria:

Management is responsible for utilizing the appropriate inventory management software that can produce accurate reports required to manage inventory as well as designing, implementing, maintaining, and safeguarding controls over the inventory process.

Condition:

The Water Department's current software and lack of an Inventory Procedures Manual limits the ability to produce the necessary reports to manage inventory and to provide guidance to properly train the Department's personnel. Furthermore, the Water Department does not have formal controls in place to track, monitor, reconcile, and safeguard inventory records and access. Currently, there is not a full-time employee working in the Warehouse. Field employees are filling their own work orders and are responsible for returning unused items to inventory. No one is consistently monitoring approvals and coding.

Effect:

The Water Department will have incomplete inventory records without proper inventory management software. Items on hand may be erroneously reordered if the inventory records are not accurate. Additionally, without an Inventory Management Manual, the personnel responsible for the daily work and transactions do not have a clear understanding of their role and responsibilities or the accounting standards applicable to their function. The absence of standardized procedures has and will create inefficient and inconsistent processing of transactions.

Without the proper knowledge or training, the personnel responsible is unable to ensure accuracy of inventory transactions; therefore, products could be misplaced, SKU's could be mismatched (this not only throw off inventory counts but also daily inventory transactions), and erroneous recordings to the general ledger.

Potential oversight of the third party performing inventory counts could lead to high value items not included in the annual count.

Also, not restricting access to the Warehouse could potentially lead to high priced items being stolen if pertinent security controls are in not place at the inventory locations.

Cause:

During our review, we have identified the following causes:

- The system experienced a malfunction in February 2017, which forced the Water Department to a manual process which increases their risk inaccuracy and misappropriation.
- The Water Department does not have detailed policies and procedures in to track and reconcile inventory management system.

City of Pomona
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2017

Section II – Financial Statements Findings (Continued)

A. Current Year Findings and Questioned Costs – Financial Statement Findings (Continued)

Finding 2017-001 – Internal control over the inventory process (Continued)

Cause: (Continued)

- When a new product is placed on the shelf, the accompanying SKU is not updated to match the product. A mismatch is caused when the person creating the SKUs is not able to identify that the product is new and therefore did not update the SKU number. When unused items are returned to the warehouse, sometimes field employees restock items.

SKUs should be checked against the products regularly and counted inventory should be audited during to the count to ensure all items were included.

- Prior to the keypad being installed, the gate was kept open during business hours. Unused parts taken out of inventory should be tracked.

Recommendation:

We recommend the Water Department to take the following actions:

- Work closely with the City to update the Inventory Management System Software.
- Work closely with the City to design, implement and maintain its system of internal controls over inventory management.
- The Water Department needs to have a full-time product knowledgeable employee monitoring and administering these policies to ensure the inventory is properly safeguarded, labeled, located and coded into the system.
- Since Work Orders are approved a day before the items are pulled, we recommend that Warehouse employees pull the items prior to pick-up by field employees. Doing so would also allot time for the Material Requests to be properly approved and corrected coded and limit the amount of employees who will have access to the inventory. Unused items should be restocked by warehouse employees.
- Non-stock items should be monitored and any obsolete items should be annually reviewed and properly liquidated.

City of Pomona
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2017

Section II – Financial Statements Findings (Continued)

A. Current Year Findings and Questioned Costs – Financial Statement Findings (Continued)

Finding 2017-001 – Internal control over the inventory process (Continued)

Recommendation: (Continued)

- The City develop an Inventory Procedures Desk Manual that would set the guidelines for recording and tracking of significant transactions in the inventory software.
- Personnel should assist the third party performing inventory counts to ensure all items are included in the annual count.
- The Water Department hire a full-time employee with product knowledge necessary to manage the warehouse. Access to inventory should be restricted to only warehouse employees. Work orders should only be filled by warehouse employees who can ensure proper approval and proper coding. Unused items should be properly restocked only by warehouse employees.

View of Responsible Officials and Planned Corrective Actions:

In response to Finding 2017-001 – *Deficiencies in and lack of control over the inventory process*, the Water Resources Department has adopted and implemented procedures to increase the efficiency of inventory record keeping in the water warehouse. On February 6, 2017, City Council approved the replacement of the Storekeeper position with a Water Utility Worker I/II position. This change was made in order for the water warehouse to be handled by a staff member knowledgeable with the details and specifications of the inventory items. The water warehouse is now manned by a full-time, product knowledgeable employee who monitors and administers the inventory to ensure it is properly safeguarded, labeled, located and entered into the inventory system. In addition to the Water Utility Worker I/II position, on November 20, 2018, City Council approved the addition of a Senior Accountant in the Water Resources Department. The Senior Accountant will provide the necessary business reports and enhanced internal financial support in the Finance Department. This position will provide a more detailed oversight of financial data, including warehouse inventory, policy adherence and record keeping.

Access to the warehouse is limited to the warehouse staff member and their designated supervisor via an electronic key system. Management of the CyberKey system is designated to Water administrative staff, who ensure access is granted to the appropriate parties. Water Field staff members do not have direct access to the warehouse or inventory items.

Material Requisitions (MR) are filled out by field staff and supervisory approval is obtained via signature. The MR's are given to the warehouse staff member for "staging" prior to pick-up by field staff. The process ensures the correct items are picked and removed from the inventory system. This also addresses prior inconsistencies with SKU numbers and inventory description errors. If an inventory item is no longer needed, the items are restocked and entered into the inventory system by warehouse staff. As in past years, City staff will assist the third party performing inventory counts to ensure all items are included in the annual count. The warehouse staff member will assist the third party with identification of inventory while Finance staff will assist in ensuring all items are included in the annual count.

City of Pomona
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2017

Section II – Financial Statements Findings (Continued)

A. Current Year Findings and Questioned Costs – Financial Statement Findings (Continued)

Finding 2017-001 – Internal control over the inventory process (Continued)

The update of the Inventory Management System software (Dude Solutions) obtained by the City in 2016 has been an ongoing process between warehouse staff, water resources staff and finance staff. The inventory count performed by the third party vendor and approved by Finance has been entered into the software to ensure the physical count matches the systems count. Beginning with the approval of the 2017 Inventory Count by Finance staff, Water warehouse staff now removes the “issued” inventory from the inventory software and water resources administrative staff enters the received inventory into the inventory software. This process ensures checks and balances, as all order receipts and issued receipts are verified by the other party, prior to entering into the system. This process will be included in the Procedures Manual being created by staff (addressed in the next paragraph) and continued each year. Beginning in June 2017, non-stock items stored in the water warehouse, were counted and are now monitored via a spreadsheet. A separate pool will be created in the inventory system to account for and monitor these items. Non-stock inventory is anticipated to be entered and managed in the inventory system prior to July 1, 2018. Obsolete items were accounted for and presented to the Finance Department for approval to remove from inventory and be properly liquidated. This process will be completed on an annual basis at the end of each fiscal year.

Water Resources Department staff will work closely will Finance staff to design, implement and maintain a system of internal controls over inventory management. To ensure consistency in inventory management and daily warehouse operations, the development of a comprehensive Inventory Procedures Manual, along with an Inventory Management Procedures Manual, which sets up guidelines for recording and tracking of significant transactions in the inventory software is being created. Water Resources staff will work with Finance staff to ensure the procedures meet all finance guidelines and City policies. The manuals are anticipated to be completed by the end of June 2018.

City of Pomona
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2017

Section II – Financial Statements Findings (Continued)

B. Prior Year Findings and Questioned Costs – Financial Statement Findings

2016-001 – Fund Balance Restatements

Material fund balance restatements in the amount of \$748,279 were made to correct the general ledger for Sewer CIP project expenses recorded in the Capital Outlay Fund that were incorrectly capitalized in the Sewer Fund. We recommend that management review the coding of its expenditures before posting to the general ledger to ensure that expenditures are recorded in the proper fund.

Management’s Response: and Corrective Action:

This particular restatement is a result of an accounting coding error from FY 2013 and it was identified by Finance Staff during a review of the Sewer Fund’s financial statements. This was a unique transaction where the City issued a bond for use in both the General Fund and the Sewer Fund and it required separate tracking for each fund. To date, the bond funds have been fully expended and therefore an instance of this happening again is very unlikely. However, Finance is also in the process of acquiring updated fixed asset software that will assist with the correct posting of fixed assets and provide additional checks and balances to ensure this does not happen in the future.

Status:

Finding resolved during the year ended June 30, 2017.

2016-002 – Cash with Fiscal Agent Reconciliations

During the course of our audit procedures, we noted that cash with fiscal agent was not properly reconciled to the general ledger on a monthly basis. As a result, a material discrepancy was noted during our audit and a journal entry was provided to reconcile cash with fiscal agent. We recommend that monthly reconciliations be performed to ensure that cash transactions are properly reconciled.

Management’s Response and Corrective Action:

The City does have a regular practice of reconciling fiscal agent cash on a monthly basis. Due to software constraints, this is a two-step process where the statements are first tied out to the reconciliation and then to the General Ledger. The City recently experienced a large amount of turnover in the Finance Department thus this task changed hands multiple times. This was an isolated error and the Finance Department has continued to implement the checks and balances to ensure that an error such as this does not occur in the future. Additionally, Finance is in the process of acquiring Bank Reconciliation software that will streamline this process and increase accuracy.

Status:

Finding resolved during the year ended June 30, 2017.

City of Pomona
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2017

Section III – Federal Awards Findings

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

2017-001 Allowable Costs/Cost Principles– Internal Control and Compliance over Payroll Expenditures

Information on the Federal Program:

Federal Catalog Number: 14.231
Federal Program Name: Emergency Solutions Grants Program (ESG)
Federal Agency: Department of Housing and Urban Development
Pass-Through Entity: N/A
Federal Award Number and Award Year: E-16-MC-060527 – FY 16-17

Federal Catalog Number: 14.238
Federal Program Name: Shelter Plus Care Program
Federal Agency: Department of Housing and Urban Development
Pass-Through Entity: N/A
Federal Award Number and Award Year: CA0462L9D001508 – FY 16-17

Federal Catalog Number: 14.871
Federal Program Name: Housing Choice Voucher (HCV) Cluster
Federal Agency: Department of Housing and Urban Development
Pass-Through Entity: N/A
Federal Award Number and Award Year: CA123VO – FY 15-16

Criteria:

Total salaries charged to Federal awards (including extra service pay) are subject to the Standards of Documentation as described by 2 CFR §200.430(i). Per this section, salaries and wages charged to Federal awards must be based on records that accurately reflect the work performed. These records must:

- Be incorporated into the organization’s official records;
- Reasonably reflect the total activity for which the employee is compensating across all grant related and non-grant related activities (100% effort);
- Support the distribution of employee salary across multiple activities or cost objectives (for example, effort spent on multiple federal awards, spent on general/or administrative activities, vacation, sick leave, leave without pay, etc.); and
- Utilize an "after-the-fact" review of the employee’s actual hours worked during the reporting period for identifying and correcting significant changes (as defined by the organization’s written policies).

Condition:

We determined the City did not comply with federal requirements for direct payroll charges. Payroll costs for all three employees tested were allocated to programs based on percentages provided by management. These allocations were not supported by approved time samples or updated cost allocation methods/plan, nor were they reconciled to actual time spent on the various programs. Employee timesheets did not record the actual labor efforts expended on this grant.

City of Pomona
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2017

Section III – Federal Award Findings (Continued)

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

2017-002 Allowable Costs/Cost Principles– Internal Control and Compliance over Payroll Expenditures (Continued)

Questioned Costs:

Emergency Solutions Grants Program (ESG) - \$12,009.91

Shelter Plus Care Program – \$6,019.91

Housing Choice Voucher (HCV) Cluster – \$15,137.34

Context:

Emergency Solutions Grants Program (ESG) – 14.231

During our testing of payroll expenditures, 6 of the 12 payroll charges non-statistically sampled were based on payroll budget allocations.

Shelter Plus Care Program – 14.238

During our testing of payroll expenditures, 16 of the 24 payroll charges non-statistically sampled were based on payroll budget allocations.

Housing Choice Voucher (HCV) Cluster – 14.871

During our testing of payroll expenditures, 10 of the 40 payroll charges non-statistically sampled were based on payroll budget allocations.

Effect:

The City did not comply with the program’s requirements for allowable costs. There is an increased risk that employees’ compensation charged to the program may not have represented an actual time and effort expended on the program’s activities.

Cause:

The City did not have policies and procedures for ensuring employees’ compensation charged to federal programs was supported by contemporaneous time record or an after-the-fact distribution of employees’ actual time and effort expended on federal program activities.

Identification as a Repeat Finding, If Applicable:

Not applicable

City of Pomona
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2017

Section III – Federal Award Findings (Continued)

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

2017-002 Allowable Costs/Cost Principles– Internal Control and Compliance over Payroll Expenditures (Continued)

Recommendation:

We recommend the City comply with federal regulation requiring that any employee funded by federal grant document the actual time they spend working on the grant’s objectives. Documentation must reflect “actual” time spent by employees on awards being charged. The City should develop and implement policies and procedures that ensure that employees’ compensation charged to federal programs reflect a contemporaneous or after-the-fact distribution of employees’ actual time and effort expended on federal programs.

View of Responsible Officials and Planned Corrective Actions:

The City’s current policy/methodology for time and payroll distribution is based on budgeted allocations. The City is in the process of developing a cost allocation plan for approval by a cognizant agency which includes this methodology. Budgeted allocations for each federal program are reflective of the time employees shall spend working on the various federal programs. All time charged to such programs as directed and monitored by management is allowable and approved by Supervisors each pay period to ensure internal control. Questioned costs for the Emergency Solutions Grant, Shelter Plus Care and Housing Choice Voucher Programs were allowable based on observation of work completed by staff. Effective as of the City’s pay period beginning March 3, 2018, time sheets will continue to be codified but based on actual time and effort expended on federal programs. Additionally, the City’s current policies and procedures regarding time distribution and codification of timesheets will be revised to include “actual time” requirements.

City of Pomona
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2017

Section III – Federal Award Findings (Continued)

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

2016-003 Reporting – Internal Control and Compliance over Quarterly Financial Reporting

Federal Programs:

Federal Agency: U.S. Department of Housing and Urban Development
CFDA Number: 14.218
Title: Community Development Block Grants/Entitlement Grants
Grantor Number: B-08-MN-06-0516, B-11-MN-06-0516, and B-15-MC-06-0527

Criteria or specific requirement:

According to the White House’s Office of Management and Budget, (1) the submission of interim Federal Financial Reports (FFRs) will be on a quarterly, semi-annual, or annual basis, as directed by the Federal Agency. A final FFR shall be submitted at the completion of the award agreement. The following reporting period end dates shall be used for interim reports: 3/31, 6/30, 9/30, or 12/31. For final FFRs, the reporting period end dates shall be the end date of the project or grant period. The U.S. Department of Housing and Urban Development requires a quarterly FFR using Standard Form 425 (SF-425). (2) Quarterly and semi-annual interim reports shall be submitted no later than 30 days after the end of each reporting period. Final reports shall be submitted no later than 90 days after the project or grant period end date.

Condition:

The City files their SF-425 FFRs jointly for both the Community Development Block Grants/Entitlement Grants program and the Emergency Solutions Grant Program. For the quarter ended 9/30/15, the FFR was filed on 11/5/15. This was an interim report and not a final report. As such, it is considered filed late.

Cause:

The City was experiencing personnel changes in the position responsible for filing the reports during the time of filing.

Effect:

The City was late in filing their 9/30/15 quarterly report.

Questioned cost:

None.

Recommendation:

It was recommended that the City set procedures to ensure that FFRs are filed in a timely manner.

Current Status:

Corrected.