

CITY OF ARROYO GRANDE

SINGLE AUDIT REPORT
For the Fiscal Year Ended
June 30, 2020

CITY OF ARROYO GRANDE
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For the Fiscal Year Ended June 30, 2020

SINGLE AUDIT REPORT

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Moss, Levy & Hartzheim LLP

Certified Public Accountants

**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***

City Council
City of Arroyo Grande
Arroyo Grande, 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, business-type activities, each major fund, and the aggregate remaining fund information of City of Arroyo Grande (the City), as of and for the fiscal year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated January 7, 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) 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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*.

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.

Moss, King & Spangheim LLP

Santa Maria, California
January 7, 2021

CITY OF ARROYO GRANDE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FISCAL YEAR ENDED JUNE 30, 2020

	<u>Federal Catalog Number</u>		<u>Identifying Number</u>	<u>Amount</u>
<u>U.S. Department of Transportation</u>				
Pass-Through Grants:				
State of California Department of Transportation				
Highway Bridge Program	20.205	*	BHLO-5199(027)	\$ 1,380,707
Highway Bridge Program	20.205	*	BRLS-5199(030)	52,533
Total Highway Planning and Construction				<u>1,433,240</u>
Total passed through the California Department of Transportation				<u>1,433,240</u>
 Total Expenditures of Federal Awards				 <u>\$ 1,433,240</u>

* Denotes major program

The note to the schedule of expenditures of federal awards is an integral part of this statement.

CITY OF ARROYO GRANDE
NOTE TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2020

NOTE 1 – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Arroyo Grande and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the *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 this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements. The City has not elected to use the ten percent de minimus cost rate as covered in Section 200.414 Indirect (F&A) costs of the Uniform Guidance.



Moss, Levy & Hartzheim LLP

Certified Public Accountants

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND
ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

City Council
City of Arroyo Grande
Arroyo Grande, California

Report on Compliance for Each Major Federal Program

We have audited City of Arroyo Grande'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 fiscal year ended June 30, 2020. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations 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 of Arroyo Grande, 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 fiscal year ended June 30, 2020.

Report on Internal Control Over Compliance

Management of the City of Arroyo Grande 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. 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 Expenditure of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Arroyo Grande, as of and for the fiscal year ended June 30, 2020, and the related notes to the financial statements which collectively comprise the City of Arroyo Grande's basic financial statements. We issued our report thereon January 7, 2021, which contained an unmodified opinion on those financial statements. Our audit was conducted 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 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.

Moss, Kelly & Spangher LLP

Santa Maria, California
January 7, 2021

FINDINGS AND RECOMMENDATIONS

CITY OF ARROYO GRANDE
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
For the Fiscal Year Ended June 30, 2020

Section I – Summary of Auditors’ Results

Financial Statements

Type of auditors’ report issued

Unmodified

Internal control over financial reporting:
Material weaknesses identified?

_____ Yes X No

Significant deficiencies identified not considered
to be material weaknesses?

_____ Yes X None reported

Noncompliance material to financial statements noted?

_____ Yes X No

Federal Awards

Internal control over major programs:
Material weaknesses identified?

_____ Yes X No

Significant deficiencies identified not considered
to be material weaknesses?

_____ Yes X 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 the Uniform Guidance,
Section 200.516?

_____ Yes X No

Identification of major programs:

CFDA Number(s)
20.205

Name of Federal Program
Highway Planning and Construction

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

\$ 750,000

Auditee qualify as low-risk auditee:

_____ Yes X No

CITY OF ARROYO GRANDE
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
For the Fiscal Year Ended June 30, 2020

Financial Statement Findings:

There were no financial statement findings.

CITY OF ARROYO GRANDE
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
For the Fiscal Year Ended June 30, 2020

Federal Award Findings and Questioned Costs:

There were no federal award audit findings or questioned costs.

CITY OF ARROYO GRANDE
SUMMARY OF PRIOR FISCAL YEAR AUDIT FINDINGS AND QUESTIONED COSTS
For the Fiscal Year Ended June 30, 2020

Financial Statement Findings:

FINDING 2019-001
ACCOUNTS RECEIVABLE

Criteria:

The City uses the modified accrual basis of accounting for its governmental funds and the accrual basis of account for its business-type funds and for the government-wide statements. Accordingly all receivables should be recognized in the fiscal year in which the resources are measurable and become available (within 60 days for the governmental funds).

Condition:

During our examination of the accounts receivable and our testing of receipts subsequent to June 30, 2019, we noted that some material receipts for revenue relating to the fiscal year ended June 30, 2019 but not received until after year-end were not properly accrued and recorded as revenue for the fiscal year-end June 30, 2019.

Effect:

This caused an understatement of revenue.

Cause:

The City did not perform a thorough review of cash receipts subsequent to year-end to check for receipts that should be recorded as revenue for the fiscal year-ended June 30, 2019.

Recommendation:

The City should ensure that internal control procedures are in place so that a designated staff or manager within the Administrative Services Department performs a review of receipts subsequent to the fiscal year-end and properly accrues the receipts relating to the fiscal year then ended.

Corrective Action Plan:

The City will implement controls to ensure that staff within the Administrative Services department review cash receipts subsequent to the fiscal year-end and properly accrue the receipts relating to the fiscal year then ended.

Current Status:

Implemented.

CITY OF ARROYO GRANDE
SUMMARY OF PRIOR FISCAL YEAR AUDIT FINDINGS AND QUESTIONED COSTS
For the Fiscal Year Ended June 30, 2020

FINDING 2019-002
CASH RECEIPTS

Criteria:

Internal control procedures for cash receipts should be in place to ensure all fees are correctly calculated in the system.

Condition:

During our testing of cash receipts, we found that certain building permits did not have the State SMIP and/or Green Building Permit fees correctly calculated and billed to the customer.

Effect:

Certain building permit fees collected by the City for these two State fees were not collected in the proper amount which would lead to either an under or over statement of revenues.

Cause:

The City did not robustly test the permit system to ensure all fees matched with State regulations.

Recommendation:

Ensure that internal control procedures are in place to input fee rate updates properly into the permit system and ensure that the fees are thoroughly tested to ensure it generates accurate billing to customers.

Corrective Action Plan:

The City will implement controls to ensure system rates agree to State SMIP and Green Building Permit fees. Assigned staff will input rates and alternative staff will review the new fees for accuracy. Periodically, manual billings will be recalculated and matched to ensure the rates agree to State SMIP and Building Permit fees.

Current Status:

Implemented.

CITY OF ARROYO GRANDE
SUMMARY OF PRIOR FISCAL YEAR AUDIT FINDINGS AND QUESTIONED COSTS
For the Fiscal Year Ended June 30, 2020

Federal Award Findings and Questioned Costs:

There were no prior year federal award findings and questioned costs.