

City of Port Hueneme

Port Hueneme, California

Single Audit and Independent Auditors' Reports

For the Year Ended June 30, 2022

City of Port Hueneme
Single Audit Report
For the Year Ended June 30, 2022
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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Independent Auditors' Report

To Honorable Mayor and Members of the City Council
of the City of Port Hueneme
Port Hueneme, 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 Port Hueneme, California (the "City"), as of and for the year ended June 30, 2022, and the related notes to the basic financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated January 31, 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.

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 identified certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as item 2022-001 that we consider to be a material weakness.

To Honorable Mayor and Members of the City Council
of the City of Port Hueneme
Port Hueneme, California
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Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's basic financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. 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

Government Auditing Standards requires the auditors to perform limited procedures on the City's response to the findings identified in our audit and 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 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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "The PwC Group, LLP". The signature is written in a cursive, flowing style.

Santa Ana, California
January 31, 2023



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 Honorable Mayor and Members of the City Council
of the City of Port Hueneme
Port Hueneme, California

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited the City of Port Hueneme, 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, 2022. The City's major federal programs are identified in the summary of the auditors' 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* (the "Uniform Guidance"). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors' 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.

Auditors' 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 auditing standards generally accepted in the United States of America, *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 auditing standards generally accepted in the United States of America, *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.

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 items 2022-002 and 2022-003.

Our opinion on each major federal program is not modified with respect to these matters. *Government Auditing Standards* requires the auditor to perform limited procedures on the City's response to the noncompliance findings identified in our compliance 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 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.

To Honorable Mayor and Members of the City Council
of the City of Port Hueneme
Port Hueneme, California
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Our consideration of internal control over compliance was for the limited purpose described in the Auditors' 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. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we did identify certain deficiencies in internal control over compliance, described in the accompanying schedule of findings and questioned costs as items 2022-002 and 2022-003 that we consider to be significant deficiencies.

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.

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 January 31, 2023 which contained unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming our opinion on the City's Basic Financial Statements. The accompanying Schedule of Expenditures of Federal Awards, as required by the Uniform Guidance, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain other procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the basic financial statements as a whole.



Santa Ana, California
March 31, 2023, except for the Schedule of Expenditures of Federal Awards, which is as of January 31, 2023.

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City of Port Hueneme
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2022

Federal Grantor/Pass-Through Grantor Program Title	Assistance Listing Number	Grant Award Number	Federal Expenditures	Amount Provided to Subrecipients
U.S. Department of Housing and Urban Development				
<i>Direct Programs:</i>				
Housing Voucher Cluster:				
Section 8 Housing Choice Vouchers	14.871	CA032VO	\$ 3,758,748	\$ -
CARES Act - Section 8 Housing Assistance COVID-19 - Funds	14.871	2020 CARES Act	58,538	-
Total Housing Voucher Cluster			<u>3,817,286</u>	<u>-</u>
Public Housing Capital Fund	14.872	CA032	327,503	-
CARES Act- Public Housing	14.872	CA032	7,082	-
Total Public Housing Capital Fund			<u>334,585</u>	<u>-</u>
Low-Income Public Housing	14.850	CA032	210,239	-
<i>Passed through the County of Ventura:</i>				
Community Development Block Grant	14.218	B-21-UC-06-0507-PH	26,352	-
Total U.S. Department of Housing and Urban Development			<u>4,388,462</u>	<u>-</u>
U.S. Department of Health and Human Services				
<i>Passed through the Ventura County Area Agency on Aging Cluster:</i>				
Special Programs for the Aging, Senior Nutrition Services	93.045	3500FY22-15	16,885	-
Total U.S. Department of Health and Human Services			<u>16,885</u>	<u>-</u>
U.S. Department of Homeland Security				
<i>Passed through the County of Ventura:</i>				
Emergency Management Performance Grant	97.042	N/A	10,997	-
Total U.S. Department of Homeland Security			<u>10,997</u>	<u>-</u>
U.S. Department of Treasury				
<i>Direct Program:</i>				
Coronavirus State And Local Fiscal Recovery Funds	21.027	N/A	551,098	133,000
<i>Passed-Through State Water Resources Control Board:</i>				
California Water Arrearage Payment Program	21.027	2022CAP	262,870	-
California Wastewater Arrearage Program	21.027	3560000C25	118,754	-
Total U.S. Department of Treasury			<u>932,722</u>	<u>133,000</u>
Total Expenditures of Federal Awards			<u>\$ 5,349,066</u>	<u>\$ 133,000</u>

City of Port Hueneme
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2022

Note 1 – Reporting Entity

The financial reporting entity consists of the primary government, City of Port Hueneme, California (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:

- Housing Authority of the City of Port Hueneme
- Surplus Property Authority of the City of Port Hueneme

Note 2 – 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.

Note 3 – Schedule of Expenditures of Federal Awards

The accompanying Schedule presents the activity of all federal financial assistance programs of the City. Federal financial assistance received directly from federal agencies, as well as federal financial assistance passed through the State of California, 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.

Note 4 – Indirect Cost Rate

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

City of Port Hueneme
Notes to the Schedule of Expenditures of Federal Awards (Continued)
For the Year Ended June 30, 2022

Note 5 - Subrecipients

During the year ended June 30, 2022, the City provided federal funds to the following subrecipients:

Assistance Listing Number(s)	Program Name / Subrecipient Names	Amount Provided to Subrecipients
21.027	Coronavirus State And Local Fiscal Recovery Funds	
	Library Reading Programs	\$ 13,000
	Boys & Girls Club Transportation	60,000
	Reel Guppy Outdoors	25,000
	So. Oxnard Panthers Youth Football & Cheer	10,000
	Port Hueneme Little League Association	25,000
	Total Coronavirus State And Local Fiscal Recovery Funds	<u>133,000</u>
	Total Amount Provided to Subrecipients	<u><u>\$ 133,000</u></u>

City of Port Hueneme
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2022

Section I – Summary of Auditors’ Results

Financial Statements

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

Internal control over financial reporting:

- Material weakness(es) identified? 2022-001
- Significant deficiency(ies) identified? None noted

Noncompliance material to financial statements noted? No

Federal Awards

Internal control over major programs:

- Material weakness (es) identified? No
- Significant deficiency (ies) identified? 2022-002, 2022-003

Type of auditors’ report issued on compliance for major programs Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? No

Identification of major programs:

Federal Assistance Listing Number(s)	Name of Federal Program or Cluster	Expenditures
14.871	Housing Voucher Cluster	\$ 3,817,286
21.027	Coronavirus State and Local Fiscal Recovery Funds	932,722
	Total Expenditures of All Major Federal Programs	\$ 4,750,008
	Total Expenditures of Federal Awards	\$ 5,349,066
	Percentage of Total Expenditures of Federal Awards	88.80%

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

Auditee qualified as low-risk auditee in accordance with 2 CFR 200.520? No

City of Port Hueneme
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2022

Section II – Financial Statement Findings

A. Current Year Financial Statement Findings

Finding 2022-001 Internal Control over Financial Reporting

Criteria:

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

The City’s internal control system should be designed to provide reasonable assurance regarding the achievement of the following objectives:

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

Condition:

During the audit, we noted the following conditions that resulted in material audit adjustments to the financial statements:

Accuracy in External Financial Reporting

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

- Corrected account payable balance (Approximately \$1.6 million)
- Corrected the overstated prepaid expense amount at June 30, 2022 (Approximately \$1.8 million)
- Record lease as lessee amount at June 30, 2022 (Approximately \$0.7 million)
- Record lease as lessor amount at June 30, 2022 (Approximately \$1.0 million)
- Record investment unrealized loss amount at June 30, 2022 (Approximately \$0.5 million)
- Record investment amount at June 30, 2022 (Approximately \$0.6 million)

Bank Reconciliation

The City’s monthly bank reconciliation process was not completed in a timely manner during the period of the audit. During our review of the bank reconciliation process, we found that 9 samples out of 12 of the fiscal year 2021-22 bank reconciliations had not been finalized correctly. In addition, there were identified unreconciled difference in the amount of approximately \$3.5 million that could not be reconciled by the time of the audit.

City of Port Hueneme
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2022

Section II – Financial Statement Findings (Continued)

A. Current Year Financial Statement Findings (Continued)

Finding 2022-001 Internal Control over Financial Reporting (Continued)

Cause:

The City continued to follow previous reporting formats of the financial statements. Furthermore, the City experienced significant turnovers in 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. The City's financial system is a legacy accounting system which requires manual processes to general financial reports.

Effect or Potential Effect:

Multiple adjusting entries were proposed during the audit to correct the financials and delayed the process of the audit.

Recommendation:

The City should follow its policies and procedures and employ additional personnel to assist in the month-end and year-end closing and bank reconciliation process.

Context:

See condition above for context of the finding.

Views of Responsible Officials:

Lupe Acero, Finance Director has implemented a monthly and year end closing process and checklist. If and when errors are detected, they will be corrected on a monthly basis.

Finance is implementing Tyler Munis ERP Software. The implementation will be conducted in phases with first priority being the Financial Module. The system will include workflows which will improve the approval process and internal controls. The new software will also provide enhanced reporting capabilities which will enable the City to produce and review reports on a monthly basis.

On going training is scheduled for Finance staff members. The training includes but is not limited to attending CSMFO and GFOA Conferences and Webinars.

The bank reconciliation process is manual and will be enhanced with the new ERP System.

B. Prior Year Financial Statement Findings

No prior year financial statement findings were noted.

City of Port Hueneme
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2022

Section III – Federal Awards Findings and Questioned Costs

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

Finding 2022-002 Reporting – Internal Control and Compliance over Reporting

Identification of the Federal Program:

Assistance Listing Number: 14.871
 Assistance Listing Title: Section 8 Housing Choice Vouchers
 Federal Agency: Department of Housing and Urban Development
 Pass-Through Entity: N/A
 Federal Award Number and Award Year: CA032

Criteria:

HUD-52648, SEMAP Certification – Addendum for Reporting Data for Deconcentration Bonus Indicator (OMB No. 2577-0215) – PHAs with jurisdiction in metropolitan Fair Market Rent areas have the option of submitting data to HUD with their annual Section Eight Management Assessment Program (SEMAP) certifications on the percent of their tenant-based Section 8 families with children who live in and who have moved during the PHA fiscal year to low poverty census tracts in the PHA’s principal operating area. Submission of this information with the SEMAP certification makes the PHA eligible for bonus points under SEMAP (24 CFR section 985.3(h)). The following federal fiscal year quarter reporting period will be used for all quarterly reports, are due to HUD 30 days after the period end dates.

HUD-52681-B, Voucher for Payment of Annual Contributions and Operating Statement (OMB No. 2577-0169). The PHA submits this form monthly to HUD electronically via the VMS. Congress has instructed HUD to use VMS data to determine renewal funding levels. HUD also uses VMS data for other funding, monitoring, and SEMAP-related decisions. HUD relies on the audit of the key line items below to determine the reasonableness of the data submitted for the purposes of calculating funding under the program.

Condition:

For the Section 8 Housing Choice Vouchers program, the City did not submit the reports within the required deadline:

Report Type	Reporting Period (End Date)	Report Submission Deadline	Report Submission Date
SF-425 Federal Financial Report	August 2021	September 22, 2022	September 24, 2022
SF-425 Federal Financial Report	July 2021	August 22, 2022	August 26, 2022

Cause:

The City did not have internal controls in place to ensure that financial and performance reports are filed timely.

Effect or Potential Effect:

Delay in filing the reports resulted in non-compliance with the compliance requirements.

Questioned Costs:

None.

City of Port Hueneme
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2022

Section III – Federal Awards Findings and Questioned Costs (Continued)

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

Finding 2022-002 Reporting – Internal Control and Compliance over Reporting (Continued)

Identification as a Repeat Finding, If Applicable:

Not applicable.

Recommendation:

We recommend that the City strengthen internal controls by implementing procedures to ensure the timely filing of financial and performance reports.

View of Responsible Officials:

The City agrees with the auditor's finding. The City's Finance Department has implemented procedures to monitor the filing of financial and performance reports.

Finding: 2022-003 Allowable Costs/Cost Principles – Internal Control and Compliance over Payroll Expenditures

Identification of the Federal Program:

Assistance Listing Number:	14.871
Assistance Listing Title:	Section 8 Housing Choice Vouchers
Federal Agency:	Department of Housing and Urban Development
Pass-Through Entity:	N/A
Federal Award Number and Award Year:	CA032

Criteria or Specific Requirement (Including Statutory, Regulatory, or Other Citation):

Pursuant to §200.430 Compensation - Personal Services under Uniform Guidance Title 2 Grants and Agreement, Part 200 Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, Subpart E – Cost Principles:

In general, costs of compensation are allowable to the extent that they satisfy the specific requirements of this part, and that the total compensation for individual employees:

- (1) Is reasonable for the services rendered and conforms to the established written policy of the non-Federal entity consistently applied to both Federal and non-Federal activities;
- (2) Follows an appointment made in accordance with a non-Federal entity's laws and/or rules or written policies and meets the requirements of Federal statute, where applicable; and
- (3) Is determined and supported as provided in paragraph in accordance with the Standards for Documentation of Personnel Expenses.

When budget estimates are used, the Standards for Documentation of Personnel Expenses require the following: Budget estimates (i.e., estimates determined before the services are performed) alone do not qualify as support for charges to Federal awards, but may be used for interim accounting purposes, provided that:

City of Port Hueneme
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2022

Section III – Federal Awards Findings and Questioned Costs (Continued)

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

Finding 2022-003 Allowable Costs/Cost Principles – Internal Control and Compliance over Payroll Expenditures (Continued)

Criteria or Specific Requirement (Including Statutory, Regulatory, or Other Citation) (Continued):

(A) The system for establishing the estimates produces reasonable approximations of the activity actually performed;

(B) Significant changes in the corresponding work activity (as defined by the non-Federal entity's written policies) are identified and entered into the records in a timely manner. Short term (such as one or two months) fluctuation between workload categories need not be considered as long as the distribution of salaries and wages is reasonable over the longer term; and

(C) The non-Federal entity's system of internal controls includes processes to review after-the-fact interim charges made to a Federal awards based on budget estimates. All necessary adjustment must be made such that the final amount charged to the Federal award is accurate, allowable, and properly allocated.

Condition:

During our audit, we noted payroll allocation of the one employee in six selected payroll periods didn't match with the current approved payroll distribution schedule. Furthermore, there was no updated cost allocation plan after fiscal year 2020, and there was no further justification of actual activities performed by the City staff during the year to the budgeted allocation.

Cause:

The program did not follow the Uniform Guidance requirements.

Effect or Potential Effect:

Without further reviewing and reconciliation over actual activities performed by the City staff, it resulted in the City not in compliance with the Uniform Guidance.

Questioned Costs:

\$2,813

Context:

See condition above for the context of the finding.

Identification as a Repeat Finding, If Applicable:

Not applicable.

Recommendation:

We recommended the City incorporate the Uniform Guidance requirements into its existing policies and procedures to ensure the City is in compliance with the Uniform Guidance.

Views of Responsible Officials:

The cost allocation study is currently being updated and any changes will be reflected in the next fiscal year.

City of Port Hueneme
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2022

Section III – Federal Awards Findings and Questioned Costs (Continued)

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

No findings or questioned costs were noted for the City’s major program for the year ended June 30, 2021.