

City of Commerce

Commerce, California

Single Audit and Independent Auditors' Reports

For the Year Ended June 30, 2024

City of Commerce
Single Audit and Independent Auditors' Reports
Table of Contents

	<u>Page</u>
Independent Auditors' Reports:	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	1
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	3
Schedule of Expenditures of Federal Awards	7
Notes to the Schedule of Expenditures of Federal Awards	8
Schedule of Findings and Questioned Costs	9

This page intentionally left blank.



**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 the Honorable Mayor and the Members of City Council
of the City of Commerce
Commerce, 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 (“*Government Auditing Standards*”), the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Commerce, California (the “City”), as of and for the year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise the City’s basic financial statements, and have issued our report thereon dated June 30, 2025.

Report on Internal Control Over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2024-001, 2024-002 and 2024-003 to be material weaknesses.

To the Honorable Mayor and the Members of City Council
of the City of Commerce
Commerce, California
Page 2

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as item 2024-004 to be a significant deficiency.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 2024-003.

The City's Response to Findings

Government Auditing Standards requires the auditor 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 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.

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

Santa Ana, California
June 30, 2025



**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 the Members of City Council
of the City of Commerce
Commerce, California

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited the City of Commerce, California's (the "City") compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2024. 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 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, 2024.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America ("GAAS"); the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States ("*Government Auditing Standards*"), and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Our responsibilities under those standards and the Uniform Guidance are further described in the 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 GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the City's compliance with the requirements of each major federal program as a whole.

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

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the City's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- obtain an understanding of the City's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control Over Compliance

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2024-006 and 2024-007 to be material weaknesses.

To the Honorable Mayor and the Members of City Council
of the City of Commerce
Commerce, California
Page 3

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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2024-005 to be a significant deficiency.

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

Government Auditing Standards requires the auditor to perform limited procedures on the City's response to the internal control over compliance findings identified in our 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.

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 the Schedule of Expenditures of Federal Awards 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, 2024, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon, dated June 30, 2025, which contained unmodified opinions 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 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 basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with GAAS. 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.

The PwC Group, LLP

Santa Ana, California
June 30, 2025

This page intentionally left blank.

City of Commerce
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2024

Federal Grantor/Pass-Through Grantor Program Title	Assistance Listing Number	Agency or Pass-Through Number	Federal Expenditures
<u>U.S. Department of Housing and Urban Development</u>			
<i>Passed through County of Los Angeles:</i>			
CDBG - Entitlement/Special Purpose Grants Cluster:			
Community Development Block Grants / Entitlement Grants	14.218	70729	\$ 156,930
Total CDBG - Entitlement/Special Purpose Grants Cluster			156,930
Total U.S. Department of Housing and Urban Development			156,930
<u>U.S. Department of Justice</u>			
<i>Passed through City of Los Angeles:</i>			
Public Safety Partnership and Community Policing Grants (COPS)	16.710	N/A	185,710
Total U.S. Department of Justice			185,710
<u>U.S. Department of Transportation</u>			
<i>Direct:</i>			
Federal Transit Cluster:			
Federal Transit - Formula Grants	20.507	CA-2020-191	14,777
COVID - Federal Transit - Formula Grants	20.507	CA-2021-018	13,968
COVID - Federal Transit - Formula Grants	20.507	CA-2021-115	439,612
Federal Transit - Formula Grants	20.507	CA-2021-239	243,573
Federal Transit - Formula Grants	20.507	CA-2022-135	1,070,343
Federal Transit - Formula Grants	20.507	CA-2023-034	66,060
Total Federal Transit Cluster			1,848,333
Total U.S. Department of Transportation			1,848,333
Total Expenditures of Federal Awards			\$ 2,190,973

City of Commerce
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2024

Note 1 – Reporting Entity

The financial reporting entity, as defined by the Governmental Accounting Standards Board (“GASB”) Codification, consists of the primary government, which is the City of Commerce, 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 City’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:

- Commerce Joint Powers Financing Authority (“JPFA”)

Note 2 – Summary of Significant Accounting Policies

Basis of Accounting

The various grant programs have been recorded within the special revenue and enterprise funds of the City. The City utilizes the modified accrual method of accounting for the special revenue funds and accrual method of accounting for enterprise funds. The accompanying Schedule of Expenditures of Federal Awards (“Schedule”) is presented in accordance with the requirements of Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in the schedule may differ from amounts presented in, or used in, the preparation of the 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 City of Los Angeles and County of Los Angeles is included in the Schedule. The Schedule was prepared from only the accounts of various grant programs and, therefore, does not present the financial position, change in fund balance, 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 Commerce
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2024

Section I – Summary of Auditors’ Results

Financial Statements

Type 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? 2024-001 to 2024-003
- Significant deficiency(ies) identified? 2024-004

Noncompliance material to financial statements noted? Yes

Federal Awards

Internal control over major federal programs:

- Material weakness(es) identified? 2024-006 to 2024-007
- Significant deficiency(ies) identified? 2024-005

Type of auditors’ 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:

Assistance Listing Number	Name of Federal Program or Cluster	Federal Expenditures
20.507	Federal Transit Cluster	\$ 1,848,333
	Total Expenditures of All Major Federal Programs	\$ 1,848,333
	Total Expenditures of Federal Awards	\$ 2,190,973
	Percentage of Total Expenditures of Federal Awards	84.36%

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 Commerce
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2024

Section II – Financial Statement Findings

A. Current Year Findings – Financial Statements

Finding 2024-001 Deficit Net Position and Expenditures Exceeding Appropriation

Criteria:

A sound government should adopt rigorous policies, for all operating funds, aimed at achieving and maintaining a structurally balanced budget and avoid operating deficit for each fund. The policy should include parameters for achieving and maintaining structural balance where recurring revenues are equal to recurring expenditures.

Enterprise funds should be used exclusively to account for operations where goods or services are provided to external customers or other departments on a user-fee basis, ensuring that fees are set at a level that supports the full cost of services provided. These funds must be managed in a manner that prevents ongoing operating deficits and maintains financial sustainability.

Condition:

The Business-type activities reported an unrestricted deficit of \$(20,595,645). This deficit came primarily from the Transit Enterprise Fund where unrestricted deficit was in the amount of \$(24,786,713). During the year ended June 30, 2024, the Transit Enterprise Fund had operating loss in the amount of \$4,029,797. In addition, the final budget was in the amount of \$5,640,347 while the actual operating expense was in the amount of \$10,904,732.

Furthermore, 7 governmental funds, including General Fund, had expenditures exceeding the appropriation as described in Note 16 to the basic financial statements.

Cause:

Inadequate budgetary control to monitor expenditures not to exceed appropriations. In addition, there are several special revenue funds without adopted and/or budget adjustment to account for anticipated activities.

Effect and Potential Effect:

The Transit Enterprise Fund's operating may require support from the General Fund while it should be generating sufficient operating revenues to cover operating expenses or operating within budget. In addition, the expenditures exceeding the appropriations from any fund could burden the General Fund when there are no sufficient revenues or reserve to cover the fund's operation.

Recommendation:

We recommend that the City continue to strengthen oversight of its Transit Enterprise Fund and closely monitor expenses incurred. We also recommend the City implement stronger budgetary controls, including adopting budgets for all funds, timely budget amendments, and regular variance reviews.

City of Commerce
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2024

Section II – Financial Statement Findings (Continued)

A. Current Year Findings – Financial Statements (Continued)

Finding 2024-001 Deficit Net Position and Expenditures Exceeding Appropriation (Continued)

Views of Responsible Officials:

The City of Commerce recently filled the Director of Finance position starting in the late fiscal year 2024-2025. During this time, the Director of Finance has introduced budgetary changes beginning in late FY2024-2025 to promote transparency and accountability. This includes holding departments accountable for expenditures and program oversight using budget appropriation forms, following a defined process of Council authorization, system entry of appropriations, and ongoing expenditure monitoring against approved budgets. Future plans include implementing quarterly meetings relating to budgetary variance reviews, adopting budgets for all funds, and timely budget amendments.

City of Commerce
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2024

Section II – Financial Statement Findings (Continued)

A. Current Year Findings – Financial Statement (Continued)

Finding 2024-002 Internal Control over Financial Reporting and SEFA Preparation

Criteria:

Management is responsible for the preparation and fair presentation 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, management should ensure a complete accurate and timely year-end closing and reconciliation.

Generally accepted auditing standards defined internal control as a process – affected by the Members of City Council, management, and other personnel – designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

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

In essence, accounting policies and procedures would aid the Finance Department in providing training for accounting personnel, communicating and providing.

The Uniform Guidance requires that entities receiving federal awards establish internal controls over the preparation of the Schedule of Expenditures of Federal Awards (“SEFA”) to ensure accurate, complete, and timely reporting.

Condition:

During our audit, we identified deficiencies in the City’s internal controls over financial reporting and several material audit adjustments (See Note 17 to the financial statements):

- Payroll processing lacked proper oversight as timecards were not consistently approved by supervisors, and Personnel Action Forms (“PAFs”) were not maintained and only prepared for full-time employees.
- Several invoices and warrants tested missing proper approvals.
- Capital assets, specifically construction-in-progress and leases, were not accurately reported.
- Loans receivable was incorrectly calculated, failing to capture all outstanding loans and improperly calculating interest.
- Claims liabilities were not reported.
- Settlement liabilities and pollution remediation obligation were not reported in the Successor Agency Private Purpose Trust Fund.
- Lease receivable and related deferred inflows of resources were not reported corrected in the Successor Agency Private Purpose Trust Fund.
- SEFA preparation lacked a formal review and tracking process resulting in inaccurate grant numbers and amounts.

City of Commerce
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2024

Section II – Financial Statement Findings (Continued)

A. Current Year Findings – Financial Statement (Continued)

Finding 2024-002 Internal Control over Financial Reporting and SEFA Preparation (Continued)

Cause:

There are inadequate controls over communication within the City's decentralized organizational structure, where the departments manage financial transactions, operating activities, and federal programs independently. This lack of centralized oversight, combined with inadequate training and insufficient review procedures, resulted in errors in financial reporting and material audit adjustments.

Effect or Potential Effect:

The deficiencies identified increased the risk of material misstatements for financial statements, including SEFA reporting. This led to 23 audit adjusting entries, of which 7 of these entries resulted in prior period restatements to the financial statements. Further, the under-market lease agreements may have resulted in a loss of approximately \$1.1 million in rental revenue for the City.

Recommendation:

We recommend that the City enhance its internal control system by strengthening communication and coordination between departments and the Finance Department, aligning with the COSO framework. This includes ensuring that the annual comprehensive financial report is presented to the City Council for approval annually, implementing a standardized payroll review process with supervisor approval for all timecards, and requiring Personnel Action Forms for all employees, including part-time staff. We further recommended the City adopt a formal policy relating to monitoring, reviewing, and approval for all invoices and warrants. Procedures should be established to ensure accurate reporting of loans receivables, lease receivable, capital assets, and long-term liabilities, including claims payable, settlement liabilities and pollution remediation obligation.

For SEFA, the City should implement a centralized grant management process for tracking and reconciling grant revenues and expenditures, with a review process to ensure accuracy before submission.

Views of Responsible Officials:

The Assistant City Manager was filling in the role of Director of Finance during FY2022-2023 through the latter part of FY2024-2025. Now that the Director of Finance role has been filled in the latter part of FY2024-2025, prioritizing the review of internal controls and the implementation of policies is a key focus. The human resources department will be notified on the matter of following procedures on timecard approvals and personnel action forms to keep documentation accurate and transparent. The City will follow other recommendations regarding adopting formal policies relating to invoices and warrants and procedures to improve financial reporting and SEFA preparation. Management will work on implementing procedures on the matter of loans receivables, lease receivables, capital assets, and long-term liabilities, including claims payable, settlement liabilities, and pollution remediation obligation during FY2025-2026.

City of Commerce
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2024

Section II – Financial Statement Findings (Continued)

A. Current Year Findings – Financial Statement (Continued)

Finding 2024-003 Internal Control and Compliance Over Conflict of Interest

Criteria:

The Political Reform Act (the “Act”) prohibits a public official from using his or her official position to influence a governmental decision in which he or she has a financial interest. Every state and local agency must adopt a conflict-of-interest code that identifies all officials and employees within the agency who make governmental decisions based on the positions they hold. The individuals in the designed positions must disclose their financial interests as specified in the agency’s conflict of interest code. It is essential and legally required that an agency’s conflict of interest code reflects the current structure of the agency and properly identifies all officials and employees who should be filing a Form 700. To ensure the codes remain current and accurate, each agency is required to review its conflict-of-interest code at least every other year.

Furthermore, the City’s Fraud Policy commits to protecting its revenue, property, information and other assets from any attempt, either by members of the public, contractors, vendors, or its own employees, to gain by deceit, financial or other benefits at the expense of City taxpayers. City officials and employees must, at all times, comply with all applicable laws and regulations.

Condition:

During the audit we noted the City did not formally review its conflict-of-interest policy bi-annually. In addition, we were made aware that the former City manager pleaded guilty to federal bribery during the year ended June 30, 2024, and separated from the City. We also noted seven lease agreements for the City’s rental properties were terminated as result of below market value rent due to alleged kickbacks with monthly rental rates ranging from \$1,500 to \$13,300. The City subsequently terminated five of these leases and renegotiated the remaining two, increasing the monthly rates from \$5,000 to \$25,000 and from \$13,300 to \$85,000, respectively.

Cause:

The control environment did not set the overall tone and establishes the foundation for the internal control system. There were inadequate monitoring activities to ensure legally required conflict of interest code was reviewed and adopted bi-annually. In addition, the City did not have formal policies and procedures in evaluating the rational and reasonableness of rent revenue to be collected. There was also lack of oversight over agreements entered by the City, especially related to rental properties.

Effect or Potential Effect:

The City was not in compliance with the legal requirement to adopt a conflict-of-interest code bi-annually. In addition, the City lost revenues due to leasing these properties at below market value.

Recommendation:

The City also needs to strengthen its control environment and ensure policies and procedures are being followed. We recommended the City improve its monitoring control to ensure timely adoption of conflict-of-interest code. In addition, the City should have policy and procedures to evaluate the rental market in the City and leases out its property at fair value or if at below fair value, properly justified and documented with reasonable cause.

City of Commerce
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2024

Section II – Financial Statement Findings (Continued)

A. Current Year Findings – Financial Statement (Continued)

Finding 2024-003 Internal Control and Compliance Over Conflict of Interest (Continued)

View of Responsible Officials:

The City will follow recommendations and ensure timely adoption of its conflict-of-interest code on a biennial basis. Management will develop policies and procedures governing City leases, including the establishment of rental rates based on market analysis and compliance requirements. This will also include strengthening internal controls and oversight of the City's lease agreements.

City of Commerce
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2024

Section II – Financial Statement Findings (Continued)

A. Current Year Findings – Financial Statement (Continued)

Finding 2024-004 Internal Control and Compliance Over Property Held for Resale

Criteria:

Pursuant to California Health and Safety Code (“HSC”) section 33334.16, each interest in real property acquired using moneys from the Low and Moderate Income Housing Fund, the redevelopment agency shall, within five years from the date it first acquires the property interest for the development of housing affordable to persons and families of low and moderate income, initiate activities consistent with the development of the property for that purpose.

After the dissolution of the redevelopment agency, HSC section 34176.1 only exclude real property acquired on or after February 1, 2012. With respect to interests in real property acquired by the former redevelopment agency prior to February 1, 2012, the time periods described in Section 33334.16 shall be deemed to have commenced on the date that the California Department of Finance approved the property as a housing asset.

HSC Section 34191.5 requires a long-range property management plan that address the disposition and use of the real properties of the former redevelopment agency. The plan addresses the use or disposition of all of the properties in the trust. Permissible uses include the retention of property for government use, the retention of the property for future development, the sale of the property, or the use of the property to fulfill an enforceable obligation. The plan shall separately identify and list properties in the trust dedicated to governmental use purposes and properties retained for purposes of fulfilling an enforceable obligation

Condition:

During our review of property held for resale under the Housing Special Revenue Fund and Successor Agency Private Purpose Trust Fund, we noted there has not been much movement for most of the properties since the dissolution of the former Commerce Community Development Commission. The Housing Special Revenue Fund and the Successor Agency Private Purpose Trust Fund reported property held for resale in the amounts of \$726,000 and \$44,407,092 at June 30, 2024, respectively. We also noted the City did not monitor the use or disposition of the properties in accordance with the City’s long-range property management plan.

Cause:

The City experiences turnover in the Economic Development and Planning Department. In addition, monitoring controls are inadequate in overseeing the compliance of Housing Special Revenue Fund properties in accordance with HSC 33334.16 and Successor Agency Private Purpose Trust Fund properties in accordance with the City’s long-range property management plan.

Effect or Potential Effect:

The City is not in compliance with the California Health and Safety Code Sections 33334.16 and 34191.5.

Recommendation:

We recommend the City have policies and procedures in place to review properties held for resale to ensure that land is sold or developed within five years for Housing properties or in accordance with the approved long-range property management plan for Successor Agency properties.

City of Commerce
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2024

Section II – Financial Statement Findings (Continued)

A. Current Year Findings – Financial Statement (Continued)

Finding 2024-004 Internal Control and Compliance Over Property Held for Resale (Continued)

View of Responsible Officials:

During fiscal year FY2022-2023, the Director of Economic Development and Planning left the position, and communication was lost concerning policies and procedures regarding land held for resale. The Director of Economic Development is currently filled as of FY2024-2025, and the City will follow recommendations on having policies and procedures in place for land held for resale.

City of Commerce
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2024

Section II – Financial Statement Findings (Continued)

B. Prior Year Findings – Financial Statements

Finding 2023-001 Internal Control Over Capital Assets

Condition:

During our audit for the year ended June 30, 2023, we noted that the City's policies and procedures were not effective in properly capturing and recording the City's assets, including its construction-in-progress, resulting in a (\$313,749) restatement of depreciable and amortizable assets. Furthermore, the City's absence of proper policies and procedures for accounting for construction-in-progress led to the City inaccurately documenting and reporting their construction-in-progress resulting in a restatement to construction-in-progress of \$253,949 and an adjustment of \$2,961,900.

Recommendation:

We recommended the City establish policies and procedures for monitoring all capital assets and construction-in-progress and recording capital asset and construction-in-progress transactions in the general ledger in order to maintain proper records of assets or potential assets belonging to the City.

Status:

Not implemented. See finding 2024-002.

Finding 2023-002 Internal Control over Financial Reporting – Year-End Closing and Reconciliation

Condition:

During testing of payroll internal controls, we noted the personnel actions forms and timecards were not properly approved and filled out or updated. Further, we noted that there is no formal review of payroll records before payroll is processed.

Recommendation:

We recommended the City evaluate its staff size for Finance Department. We further recommended the City adopt a formal policy relating to monitoring, reviewing, and approval of the bank reconciliations and payroll processes, including timesheet approval and payroll change review. The City should also review all personnel action forms for accuracy based on the comprehensive pay scale, bargaining units and/or contracts, and review them against pay rates in the payroll system to ensure accuracy of the payroll and related expenditures.

Status:

Not implemented. See finding 2024-002.

City of Commerce
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2024

Section II – Financial Statement Findings (Continued)

B. Prior Year Findings – Financial Statements (Continued)

Finding 2023-003 Internal Control and Compliance Over Stormwater Management Fund Reporting

Condition:

During our audit for the years ended June 30, 2023 and 2022, we noted the following late reporting.

<u>Required Report</u>	<u>Frequency</u>	<u>Period End</u>	<u>Deadline</u>	<u>Date Submitted</u>
<i>Municipal Program:</i>				
Annual Progress/Expenditure Report	Annual	June 30, 2022	December 31, 2022	March 8, 2024
Annual Progress/Expenditure Report	Annual	June 30, 2023	December 31, 2023	March 14, 2024

Recommendation:

We recommended the City establish policies and procedures to ensure timely submission of the annual spending plans and the reports.

Status:

Finding was resolved during the year ended June 30, 2024.

Finding 2023-004 Internal Control and Compliance Over Land Held for Resale

Condition:

During our review of Land Held for Resale, we noted certain properties purchased prior to February 1, 2012. As per California Health and Safety Code Section 33334.16, for each interest in real property acquired using moneys from the Low and Moderate-Income Housing Fund, the agency shall, within five years from the date it first acquires the property interest for the development of housing affordable to persons and families of low and moderate income, initiate activities consistent with the development of the property for that purpose.

Recommendation:

We recommended the City have policies and procedures in place to review land held for resale to ensure that land is sold or developed within five years. We also recommend that the City implement a plan to sell and develop land that have exceeded the five-year deadline.

Status:

Not implemented. See finding 2024-004.

City of Commerce
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2024

Section III – Federal Award Findings and Questioned Costs

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

Finding 2024-005 Internal Control over Cash Management

Identification of the Federal Program:

Assistance Listing Number:	20.507
Assistance Listing Title:	Federal Transit Cluster
Federal Agency:	U.S. Department of Transportation
Federal Award Identification Number:	CA-2020-191; CA-2021-018; CA-2021-115; CA-2022-135; CA-2023-034

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

In accordance Uniform Guidance, recipients of federal funds must establish and maintain effective internal controls over cash management to ensure that federal funds are properly drawn down, and expenditures are accurately recorded and reported. Cash drawdowns should be supported by accurate documentation, authorized by appropriate officials, and reconciled to grant expenditures. A strong internal control environment should include formal policies and procedures for cash management, clear communication between departments involved in grant management, and a system for tracking grant expenditures and drawdowns.

Condition:

During the audit of cash management procedures for the Federal Transit Cluster, we noted that one out of six drawdown submitted for reimbursement was not consistently reviewed or approved by the City Manager prior to submission. Additionally, three out of six drawdowns contained corrections to the amounts being charged to the grants due to errors identified after submission.

Cause:

The City lacks formal policies and procedures governing the review, approval, and reconciliation of cash management for federal grants. Furthermore, there is no formal process for tracking grant expenditures and drawdowns, and insufficient communication exists between the Transit Department and the Finance Department, leading to correction in drawdown requests.

Effect or Potential Effect:

The absence of formal cash management procedures and ineffective communication between departments increase the risk of inaccurate drawdowns, which may result in overdrawn funds, questioned costs, or noncompliance with federal requirements. Additionally, not properly reviewing and approving all drawdowns increases the risk of errors or unauthorized drawdowns.

Questioned Costs:

None noted.

Context:

See condition above for the context of the cash management finding.

City of Commerce
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2024

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

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

Finding 2024-005 Internal Control over Cash Management (Continued)

Identification as a Repeat Finding, If Applicable:

Not applicable.

Recommendation:

We recommend the City develop and implement formal policies and procedures for cash management of federal grants, including establishing a clear process for preparing, reviewing, and approving grant drawdowns, ensuring that all drawdowns are reviewed and authorized by a designated official, such as the City Manager, prior to submission. Further, we recommend the City implement a tracking system for grant expenditures and drawdowns to ensure accuracy and compliance with grant requirements and enhance communication between the Transportation Department and Finance Department to ensure that all grant expenditures are accurately recorded and reported. We also recommend the City provide training to staff involved in grant management to ensure a clear understanding of federal cash management requirements and internal control procedures.

Views of Responsible Officials:

Management concurs with the finding and agrees to implement necessary corrective procedures.

City of Commerce
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2024

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

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

Finding 2024-006 Internal Control and Compliance over Payroll Expenditures

Identification of the Federal Program:

Assistance Listing Number:	20.507
Assistance Listing Title:	Federal Transit Cluster
Federal Agency:	U.S. Department of Transportation
Federal Award Identification Number:	CA-2020-191; CA-2021-018; CA-2021-115; CA-2021-239; CA-2022-135; CA-2023-034

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

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:

During our audit, we noted that 27 out of 40 timecards were not consistently reviewed and approved by supervisors or department heads prior to payroll processing. Additionally, Personnel Action Forms (PAFs) were not maintained for all employees, only full-time employees had PAFs on file, and several PAFs did not reflect current salary step information. These deficiencies led to instances where 4 employees were paid incorrect wages and subsequently had to be issued retroactive pay adjustments.

Cause:

The City did not adhere to its established policies and procedures for supervisory review and approval of timecards for all employees. Furthermore, there is no policy mandating the preparation and maintenance of PAFs for part-time or temporary employees, and no systematic process to update PAFs for salary changes or step increases.

City of Commerce
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2024

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

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

Finding 2024-006 Internal Control and Compliance over Payroll Expenditures (Continued)

Effect or Potential Effect:

Lack of appropriate review and documentation increases the risk of payroll errors, noncompliance with federal cost principles, and misallocation of federal funds. In this case, 4 employees were underpaid due to inaccurate salary records and had to receive retroactive pay, resulting in potential risk of unallowable costs being charged to federal programs.

Questioned Costs:

None noted.

Context:

See condition above for the context of the payroll finding.

Identification as a Repeat Finding, If Applicable:

Not applicable.

Recommendation:

We recommend the City enhance its internal controls over payroll processes to ensure that all timecards are reviewed and approved by the appropriate supervisor prior to processing. Additionally, PAFs should be prepared and maintained for all employees, regardless of employment status, and should be regularly updated to reflect salary step adjustments or other compensation changes. The City should also consider periodic internal reviews of payroll records to identify and correct discrepancies in a timely manner and ensure compliance with federal cost principles.

Views of Responsible Officials:

Management concurs with the finding and agrees to implement necessary corrective procedures.

City of Commerce
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2024

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

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

Finding 2024-007 Internal Control over Procurement and Suspension and Debarment

Identification of the Federal Program:

Assistance Listing Number:	20.507
Assistance Listing Title:	Federal Transit Cluster
Federal Agency:	U.S. Department of Transportation
Federal Award Identification Number:	CA-2020-191; CA-2021-018; CA-2021-115; CA-2021-239; CA-2022-135; CA-2023-034

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

In accordance with Uniform Guidance, recipients of federal funds must ensure that contractors and subcontractors receiving federal funds are not suspended, debarred, or otherwise excluded from participating in federally funded projects. This verification must be conducted prior to awarding a contract and may be fulfilled by reviewing the System for Award Management (“SAM”) database or obtaining a vendor certification. Proper documentation of this verification process must be retained as evidence of compliance. Additionally, all procurement contracts must be maintained in an up-to-date and legally valid form to ensure enforceability and compliance with federal requirements.

Condition:

During the audit over suspension and debarment, we noted all six Federal Transit Cluster vendors selected for testing, did not have documentation proof of a suspension and debarment verification check through the SAM database.

Cause:

Control activities and monitoring controls are inadequate to follow the City’s adopted Federal Transit Procurement Policy.

Effect or Potential Effect:

Without verifying whether vendors are suspended or debarred from working on federally-funded projects prior to the contract being awarded, the City could be contracting with vendors that are prohibited from working on federally funded projects and incurring potentially disallowed costs. Furthermore, the continued use of an expired contract exposes the City to legal risks, including the inability to enforce contract terms or resolve disputes.

Questioned Costs:

None noted.

City of Commerce
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2024

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

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

Finding 2024-007 Internal Control over Procurement and Suspension and Debarment (Continued)

Context:

See condition above for the context of the procurement finding.

Identification as a Repeat Finding, If Applicable:

Repeat Finding from 2023-005.

Recommendation:

We recommended the City update its purchasing policies and related procedures and to follow the new policies and procedures to be in compliance with Uniform Guidance related to procurement, suspension and debarment and improve its documentation on RFQ evaluation and suspension and debarment check.

Views of Responsible Officials:

Management concurs with the finding and agrees to implement necessary corrective procedures.

City of Commerce
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2024

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

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

Finding 2023-005 Internal Control over Suspension and Debarment

Identification of the Federal Program:

Assistance Listing Number:	20.507
Assistance Listing Title:	Federal Transit Cluster
Federal Agency:	U.S. Department of Transportation
Federal Award Identification Number:	CA-1650-2020-2; CA-2021-115-00; CA-2022-135-00; CA-2023-034-00; CA-2023-167-00

Condition:

During the audit over suspension and debarment, we noted that there was no documentation on whether the vendors were checked against the SAM database or obtained required certifications before contract awards.

Recommendation:

We recommended the City update its purchasing policies and related procedures and to follow the new policies and procedures to be in compliance with Uniform Guidance related to procurement, suspension and debarment and improve its documentation on RFQ evaluation and suspension and debarment check.

Status:

Not implemented. See finding 2024-007.