

**CITY OF COMMERCE  
COMMERCE, CALIFORNIA**

**Single Audit Report on Federal Awards**

**Year ended June 30, 2019**

**CITY OF COMMERCE**  
**Single Audit Report on Federal Awards**  
**Year ended June 30, 2019**

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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 Auditor's Report**

Honorable Mayor and City Council  
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, 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 ("City"), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise City's basic financial statements, and have issued our report thereon dated January 24, 2020.

**Internal Control Over Financial Reporting**

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

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2019-001 and 2019-002 that we consider to be significant deficiencies.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether 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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 2019-003.

## **City's Responses to Findings**

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

## **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 City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Davis Farr LLP*

Irvine, California  
January 24, 2020

**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 Auditor's Report**

Honorable Mayor and City Council  
City of Commerce  
Commerce, California

**Report on Compliance for Each Major Federal Program**

We have audited City of Commerce's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of City's major federal programs for the year ended June 30, 2019. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

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

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the City of Commerce'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 requirement 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 of Commerce's compliance.

### **Opinion on Each Major Federal Program**

In our opinion, the City of Commerce 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, 2019.

### **Report on Internal Control Over Compliance**

Management of the City of Commerce 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 the 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 Expenditures of Federal Awards Required by Uniform Guidance**

We have audited the financial statements of the City of Commerce as of and for the year ended June 30, 2019, and have issued our report thereon dated January 24, 2020, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of

additional analysis as required by the Uniform Guidance and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

*Davis Farr LLP*

Irvine, California

March 20, 2020, except for the Schedule of Expenditures of Federal Awards, as to which the date is January 24, 2020.

**CITY OF COMMERCE**  
**Schedule of Expenditures of Federal Awards**  
**Year ended June 30, 2019**

|   | Federal<br>Domestic<br>Assistance<br><u>Number</u> | Program<br>Identification<br><u>Number</u> | Program<br><u>Expenditures</u> |
|---|--|--|--------------------------------|
| <b><u>U.S. Department of Housing and Urban Development</u></b>          |  |  |                                |
| Pass-through Community Development Commission<br>of Los Angeles County: |  |  |                                |
| CDBG Grants Cluster:  |  |  |                                |
| Community Development Block Grant                                       | 14.218   | 70729                                      | \$ 142,552                     |
| Total U.S. Department of Housing and Urban Development                  |  |  | <u>142,552</u>                 |
| <b><u>U.S. Department of Justice</u></b>                                |  |  |                                |
| Pass-through from the City of Los Angeles:                              |  |  |                                |
| Public Safety Partnership and Community Policing Grants                 | 16.710   | 15-0406-0-1-754                            | <u>89,307</u>                  |
| Total U.S. Department of Justice  |  |  | <u>89,307</u>                  |
| <b><u>U.S. Department of Transportation</u></b>                         |  |  |                                |
| Federal Transit Cluster:  |  |  |                                |
| Federal Transit - Formula Grants  | 20.507   | CA-2017-147-01                             | <u>2,530,000</u>               |
| Total U.S. Department of Transportation                                 |  |  | <u>2,530,000</u>               |
| Total Expenditures of Federal Awards                                    |  |  | <u>\$ 2,761,859</u>            |

See accompanying notes to Schedule of Expenditures of Federal Awards.

## **CITY OF COMMERCE**

### **Notes to Schedule of Expenditures of Federal Awards**

**Year ended June 30, 2019**

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

**(a) Basis of Presentation**

The accompanying Schedule of Expenditures of Federal Awards (Schedule) presents the activity of all federal financial assistance programs of the City of Commerce under programs of the federal government for the year ended June 30, 2019. All financial assistance received directly from federal agencies is included in the accompanying Schedule. The information in the Schedule is presented in accordance with the requirements of and the audit requirement of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). The City did not use the 10% de minimis indirect cost rate as covered in section 200.414 of the Uniform Guidance.

**(b) Basis of Accounting**

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

**(c) Subrecipients**

During the fiscal year ended June 30, 2019 there were no disbursements to subrecipients.

**CITY OF COMMERCE**  
**Schedule of Findings and Questioned Costs**  
**Year ended June 30, 2019**

**Section I - Summary of Auditor's Results**

**Financial Statements**

- |   |                    |
|---|--------------------|
| 1. Type of auditor's report issued on whether the financial statements audited were prepared in accordance with GAAP: | Unmodified         |
| 2. Internal control over financial reporting:   |                    |
| a. Material weakness(es) identified?  | No                 |
| b. Significant deficiency(ies) identified?  | 2019-001, 2019-002 |
| 3. Noncompliance material to the financial statements noted?  | 2019-003           |

**Federal Awards**

- |  |  |
|--|--|
| 1. Internal control over major programs:   |  |
| a. Material weakness(es) identified?   | No   |
| b. Significant deficiency(ies) identified?   | None Reported  |
| 2. Type of auditors' report issued on compliance for major programs:                                   | Unmodified   |
| 3. Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516 (a)? | No   |
| 4. Identification of major programs:   |  |
| <u>CFDA Number</u><br>20.507   | <u>Name of Federal Program or Cluster</u><br>U.S. Department of Transportation Federal Transit Cluster |
| 5. Dollar threshold used to distinguish between Type A and Type B programs:                            | \$750,000  |
| 6. Auditee qualified as a low-risk auditee?  | No   |

## **CITY OF COMMERCE**

### **Schedule of Findings and Questioned Costs**

**(Continued)**

#### **Section II - Financial Statement Findings**

There were three financial statement findings noted during the year under audit:

##### **2019-001 Adjustments Detected by the Audit Process**

Auditing Standards require that the auditor include material adjustments detected by the audit process in the report on internal control. During the audit, we detected the following material adjustments.

- A prior period adjustment to reduce investment in joint venture related to the Commerce Refuse to Energy Authority (CREA) and to also record amounts due to the CREA that were incurred in prior years.
- Adjustment to the General Fund to reflect a current year payment to a pension trust account as restricted cash and not as a current year expense.

##### **Recommendation**

An important element of controls over financial reporting is for management to identify adjustments necessary for financial statements to be fairly stated. Whenever possible, adjustments should be reflected in the accounting records prior to the start of the audit. When this is not possible, management should identify and communicate to the auditors the potential areas of adjustment that may need to be addressed during the audit process. This is an important element of internal control to reduce the risk of material misstatement.

##### **Management's Corrective Action Planned or Taken**

Staff will continue to work towards improving the City's books and records and ensuring that all material adjustments are detected and communicated to our auditors in the future.

##### **2019-002 Evaluation of Fund Deficits**

The City's Capital Projects Fund is the fund typically used to record capital projects. During the fiscal year ended June 30, 2019 the fund had a cumulative fund deficit of (\$4,109,980). While we acknowledge the City is working on plans to recover funds expended, the City may ultimately need to transfer resources from other funds to cover this deficit. The City's Transit Fund, Water Fund, Capital Projects Fund and CDBG Fund also report deficits at June 30, 2019.

## **CITY OF COMMERCE**

### **Schedule of Findings and Questioned Costs**

**(Continued)**

#### 2019-002 Evaluation of Fund Deficits (continued)

##### Recommendation

We recommend the City evaluate all funds with deficits and determine how the deficits will be balanced. Each year, the City should strive to perform this analysis prior to year-end and transfer resources from the General Fund or other allowable sources to make each fund whole. This will also help the City evaluate whether there are any unbilled grants or errors in accounting that led to the deficit.

##### Management's Corrective Action Planned or Taken

Staff will evaluate all fund deficits and develop a plan to balance the deficits.

#### 2019-003 Land Held for Resale

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 recommend the City have policy 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.

##### Management's Corrective Action Planned or Taken

Staff will review the land held for resale in the Low and Moderate Income Housing fund and develop a plan to sell or develop those properties accordingly.

**CITY OF COMMERCE**  
**Schedule of Findings and Questioned Costs**  
**(Continued)**

**Section III - Federal Award Findings and Questioned Costs**

There were no federal award findings noted during the year under audit.

**CITY OF COMMERCE**  
**Summary Schedule of Prior Audit Findings**  
**Year ended June 30, 2019**

(2018-001) Adjustments Detected by Audit Process

This item has been repeated as 2019-001.

(2018-002) Evaluation of Fund Deficits

This item has been repeated as 2019-002.

(2018-003) Payroll Segregation of Duties

This item has been resolved.

(2018-004) Offsite Cash Receipting

This item has been resolved.

(2018-005) Bank Reconciliation

This item has been resolved.

(2018-006) Land Held for Resale

This item has been repeated as 2019-003.