

City of Ontario

Ontario, California

Single Audit Report

For the year ended June 30, 2023

City of Ontario
Single Audit Report
For the year ended June 30, 2023

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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

To the Honorable Mayor and Members of the City Council
of the City of Ontario
Ontario, 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 Ontario, California (City), as of and for the year ended June 30, 2023, 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 20, 2024.

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 preceding 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. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2023-001 that we consider to be a material weakness.

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

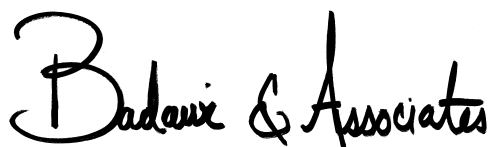
As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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*.

City's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the City's response to findings identified in our engagement 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 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 "Badawi & Associates". The signature is written in a cursive, flowing style.

Badawi & Associates, CPAs
Berkeley, California
June 20, 2024

**REPORT ON COMPLIANCE FOR EACH FEDERAL PROGRAM AND REPORT ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH THE UNIFORM GUIDANCE
AND ON THE SCHEDULE OF FEDERAL EXPENDITURES OF FEDERAL AWARDS**

Independent Auditor's Report

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

Report on Compliance for Each Major Federal Program

Opinion on Compliance for Each Major Federal Program

We have audited the City of Ontario (City)'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 the City's major federal programs for the year ended June 30, 2023. 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.

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 major federal program for the year ended June 30, 2023.

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 Auditor's 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 each of the City's major federal programs.

Auditor's 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.

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 Auditor's 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 below. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

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.

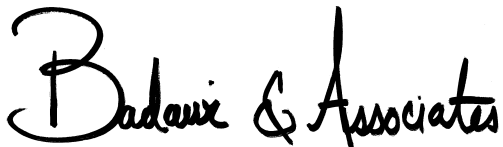
Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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.

To the Honorable Mayor and Members
of the City Council of the City of Ontario
Ontario, California
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Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated June 20, 2024, 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 the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.



Badawi & Associates, CPAs
Berkeley, California
June 20, 2024

City of Ontario
Single Audit Report
Schedule of Expenditures of Federal Awards
For the year ended June 30, 2023

Grantor Agency and Grant Title	Federal Catalog Number	Grantor/ Pass-through Number	FY 2023 Program Expenditures	Passed through to Subrecipients
<u>U.S. Department of Housing and Urban Development:</u>				
<i>CDBG Entitlement Grants Cluster</i>				
<i>Direct Program:</i>				
Community Devt Block Grant	14.218	B16MC060537	\$ 3,523	\$ -
Community Devt Block Grant	14.218	B19MC060537	125,000	-
Community Devt Block Grant - CV	14.218	B20MW060537	406,615	-
Community Devt Block Grant	14.218	B20MC060537	871,511	-
Community Devt Block Grant	14.218	B21MC060537	595,883	-
Community Devt Block Grant	14.218	B22MC060537	1,319,788	-
		Program subtotal	3,322,320	-
		CDBG Entitlement Grants Cluster total	3,322,320	-
<i>Direct Program:</i>				
<i>Emergency Solutions Grant Program</i>				
Emergency Shelter Grant	14.231	E20MC060537	5,757	-
Emergency Shelter Grant - CV	14.231	E20MW060537	1,163,106	-
Emergency Shelter Grant	14.231	E21MC060537	5,757	-
Emergency Shelter Grant - CV	14.231	E22MC060537	147,124	-
		Program subtotal	1,321,744	-
<i>Direct Program:</i>				
<i>Home Investment Partnerships Program</i>				
Home Investment Partnership Act Program	14.239	M17MC060524	284,839	-
Home Investment Partnership Act Program	14.239	M18MC060524	169,808	-
Home Investment Partnership Act Program	14.239	M19MC060524	173,791	-
Home Investment Partnership Act Program	14.239	M20MC060524	85,975	-
Home Investment Partnership ARP Program (HOME-ARP)	14.239	M21MP060524	17,488	-
		Program subtotal	731,901	-
		Total U.S. Department of Housing and Urban Development	5,375,965	-
<u>U.S. Department of Justice</u>				
<i>Direct Program:</i>				
Bulletproof Vest Partnership Program	16.607	Unavailable	2,575	-
<i>Passed through the County of San Bernardino</i>				
Edward Byrne Memorial Justice Assistance Grant Program	16.738	JAG FY17	5,275	-
Edward Byrne Memorial Justice Assistance Grant Program	16.738	JAG FY18	37,180	-
Edward Byrne Memorial Justice Assistance Grant Program	16.738	JAG FY19	39,542	-
Edward Byrne Memorial Justice Assistance Grant Program	16.738	JAG FY20	27,936	-
		Program subtotal	109,933	-
<i>Direct Program:</i>				
Equitable Sharing Program				
DOJ Asset Seizure	16.922	N/A	87,770	-
		Total U.S. Department of Justice	200,278	-

City of Ontario
Single Audit Report
Schedule of Expenditures of Federal Awards
For the year ended June 30, 2023

Grantor Agency and Grant Title	Federal Catalog Number	Grantor/ Pass-through Number	FY 2023 Program Expenditures	Passed through to Subrecipients
<u>U.S. Department of Transportation</u>				
<i>Highway Safety Cluster</i>				
<i>Passed through the State of California Office of Traffic Safety</i>				
OTS STEP FY22	20.600	2022 OTS	106,838	-
OTS STEP FY23	20.600	2023 OTS	472,559	-
OTS Ride to Live--NHTSA/OTS	20.616	NHTSA/OTS	10,832	-
		Program subtotal	590,229	-
		Highway Safety Cluster total	590,229	-
Total U.S. Department of Transportation			590,229	-
<u>U.S. Department of the Treasury</u>				
<i>Direct Program:</i>				
Treasury Asset Seizure	21.016	N/A	7,844	-
<i>Direct Program:</i>				
American Rescue Plan Act - CSLFRF - COVID-19	21.027	N/A	6,228,568	-
<i>Passed through the County of San Bernardino</i>				
American Rescue Plan Act - CSLFRF - COVID-19	21.027	N/A	152,911	-
		Program subtotal	6,381,479	-
Total U.S. Department of the Treasury			6,389,323	-
<u>National Endowment for the Humanities</u>				
<i>Direct Program:</i>				
Museums for America	45.301	MA-10-18-0394-18	105,069	-
Total National Endowment for the Humanities			105,069	-
<u>Corporation for National and Community Service</u>				
<i>Passed through the State of California - Volunteers</i>				
Corporation for National and Community Service				
AmeriCorps State - Ontario Promise Corps	94.006	Unavailable	55,975	-
AmeriCorps State - Ontario Promise Corps	94.006	Unavailable	272,480	-
Total Corporation for National and Community Service			328,455	-
<u>U.S. Department of Homeland Security</u>				
<i>Passed through the County of San Bernardino</i>				
Hazard Mitigation Grant	97.039	HMPG-22	53,657	-
Emergency Management Performance Grants	97.042	EMPG-21	28,571	-
<i>Passed through the City of Riverside</i>				
Urban Areas Security Initiative -- FY2020 FD	97.067	Unavailable	31,218	-
Urban Areas Security Initiative -- FY2020 PD	97.067	Unavailable	37,073	-
Urban Areas Security Initiative -- FY2021 FD	97.067	Unavailable	21,206	-
Total U.S. Department of Homeland Security			171,725	-
Total Federal Expenditures			\$ 13,161,044	\$ -

See accompanying Notes to Schedule of Expenditures of Federal Awards

City of Ontario

Notes to the Schedule of Expenditures of Federal Awards

For the year ended June 30, 2023

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES APPLICABLE TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

A. *Scope of Presentation*

The accompanying schedule presents only the expenditures incurred by the City of Ontario, California, that are reimbursable under federal programs of federal financial assistance. For the purposes of this schedule, federal awards include both federal financial assistance received directly from a federal agency, as well as federal funds received indirectly by the City from a non-federal agency or other organization. Only the portion of program expenditures reimbursable with such federal funds is reported in the accompanying schedule. Program expenditures in excess of the maximum federal reimbursement authorized or the portion of the program expenditures that were funded with state, local or other non-federal funds are excluded from the accompanying schedule.

B. *Basis of Accounting*

The expenditures included in the accompanying schedule were reported on the modified accrual basis of accounting. Under the modified accrual basis of accounting, expenditures are incurred when the City becomes obligated for payment as a result of the receipt of the related goods and services. Expenditures reported included any property or equipment acquisitions incurred under the federal program. The City has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

2. LOAN PROGRAMS AND CONTINUING COMPLIANCE REQUIREMENTS

The City participates in certain federal award programs that sponsor revolving loan programs, which are administered by the City. These programs required servicing arrangements with the City. The funds are returned to the programs upon repayment of the principal and interest. Current year transactions relating to these programs are included in the Schedule of Expenditures of Federal Awards. In accordance with 2 CFR section 200.502(b), the balance of loan program outstanding June 30, 2023, are as follows:

Assistance Listing Numbers	Program Name	Outstanding Balance at June 30, 2023
14.218	CDBG Loans	\$ 850,026
14.239	HOME Loans	9,495,989
	Total Loans Outstanding	<u>\$ 10,346,015</u>

City of Ontario
Schedule of Findings and Questioned Costs
For the year ended June 30, 2023

Section I - Summary of Auditor's Results

Financial Statements

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

Internal control over financial reporting:

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

Any noncompliance material to the financial statements noted No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? No
- Significant deficiency(ies) identified? None noted

Type of auditor's report issued on compliance for major programs Unmodified

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

Identification of major programs:

<u>Assistance Listing Numbers</u>	<u>Name of Federal Program or Cluster</u>	<u>Expenditures</u>
21.027	American Rescue Plan Act - CSLFRF - COVID-19	\$ 6,381,479
	Total Expenditures of All Major Federal Programs	\$ 6,381,479
	Total Expenditures of Federal Awards	\$ 13,161,044
	Percentage of Total Expenditures of Federal Awards	48.5%

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

Auditee qualified as low-risk auditee under section 200.520? No

City of Ontario
Schedule of Findings and Questioned Costs
For the year ended June 30, 2023

Section II – Current Year Findings

A. Financial Statement Audit

2023-001: Year-End Closing and Review, and Restatements (Material Weakness)

Criteria

The City is responsible for fair presentation of the financial statements in conformity with accounting principles generally accepted in the United States of America. In addition, the City is responsible for the accuracy and completeness of all information provided and maintaining adequate records for the audit.

Condition

The City restated its previously issued financial statements to correct several prior year accounting errors related to capital assets, inventory, property held for resale, and other liabilities. Additionally, during the course of the audit, significant adjustments were identified that required adjustment to the City's accounting records. Listed below are some of those significant adjustments identified during the audit:

- To correct cash and investments
- To correct accounts receivable
- To record property acquisition and related debt
- To reverse prior year accrued payroll and interest payable
- To correct employer pension contributions
- To correct opening fund balance

Cause

The City's internal controls over financial reporting did not identify the misstatements in a timely manner resulting in restatements. Additionally, closing procedures performed were not adequate to ensure all transactions were properly recorded and accounted for.

Effect

The City's previously issued financial statements were not fairly stated in conformity with accounting principles generally accepted in the United States of America, and the City's accounting records needed significant adjustments after the closing of the books and during the audit.

Recommendation

We recommend that the City enhance its internal control over financial reporting to ensure the appropriate accounting standards are applied and transactions are accounted for in the proper period. In addition, we recommend that the City update its closing procedures to ensure all transactions and adjustments are accounted for and reviewed before the start of the audit.

City of Ontario
Schedule of Findings and Questioned Costs
For the year ended June 30, 2023

Section II – Current Year Findings, Continued

A. Financial Statement Audit, Continued

Management Response

Management acknowledges the audit finding. With the City's recent implementation of a new financial system in Fiscal Year 2022-23, the prior challenges of an aging obsolete financial system, multiple subsidiary system integrations, and manual processes are being resolved with a modern robust system that has streamlined and improved accounting processes, as well as enhanced internal controls that are an integral part of the system. Management will continue to review and refine the processes and procedures that support the reporting of financial data to ensure internal controls are being adhered to.

City of Ontario
Schedule of Findings and Questioned Costs
For the year ended June 30, 2023

Section II - Current Year Findings, Continued

B. Federal Award Program Audit

No current year federal award program audit findings.

City of Ontario
Schedule of Findings and Questioned Costs
For the year ended June 30, 2023

Section II – Prior Year Findings

A. Financial Statement Audit

2022-001: Restatements (Material Weakness)

Criteria

The City is responsible for the fair presentation of the financial statements in conformity with accounting principles generally accepted in the United States of America.

Condition

The City recorded prior period adjustments to correct various accounting errors including corrections of the allocation of OPEB amounts to enterprise and internal service funds, accumulated depreciation, prior year CERBT contribution, deposits payable, recording of land purchased in prior year not recorded with land inventory, and other account balances.

Cause

The City's internal controls over financial reporting did not identify the misstatements in a timely manner resulting in restatements.

Effect

The City's previously issued financial statements were not fairly stated in conformity with accounting principles generally accepted in the United States of America.

Recommendation

We recommend that the City enhance its internal control over financial reporting to ensure complete and accurate financial reporting. The City can accomplish this by expanding its year-end closing procedures to ensure that all non-routine and nonsystematic transactions are accounted for, the appropriate accounting standards are applied, and transactions are accounted for in the proper period.

Management Response

The restatements were due to the turnover of the Ontario accounting section in fiscal year 2021 as a result of COVID and the early retirement incentive program. However, the City has enhanced its year-end procedures and ensured the completeness and accuracy of the financial data. Accumulated depreciation, deposits payable, recording of land purchase, and CERBT contribution restatements were identified by the City during year-end procedures as a result of enhanced internal control and extensive year-end review and were corrected to reflect their proper amounts for the current year.

Current Status

Not implemented – see current year finding 2023-001.

City of Ontario
Schedule of Findings and Questioned Costs
For the year ended June 30, 2023

Section II - Prior Year Findings, Continued

B. Federal Award Program Audit

No prior year federal award program audit findings.