

LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

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DATE : APRIL 8, 2020
FROM: MICHAEL TUERPE, Senior Analyst 
TO: LOCAL AGENCY FORMATION COMMISSION

SUBJECT: AGENDA ITEM 5: Update on Sustainability of the City of Adelanto, related to LAFCO 3232 - Sphere of Influence Amendment for the City of Adelanto

RECOMMENDATION:

Staff recommends that the Commission:

1. Receive and file this report.
2. Schedule an update for the City for the August 2020 hearing, unless otherwise directed by the Commission.

BACKGROUND:

As an outgrowth from LAFCO's 2017 Countywide Service Review for Water (LAFCO 3187) and its 2018 Countywide Service Review for Wastewater (LAFCO 3190), the Commission initiated a sphere of influence amendment for the City of Adelanto ("City") to determine the appropriate sphere of influence for the City.

At its April 2019 hearing, the Commission reduced the sphere for the City of Adelanto by approximately 8.4 square miles, and directed staff to return with periodic updates on the City's sustainability. The most recent update to the Commission was at its January 2020 meeting.

At the January meeting, the Commission directed staff to provide a more detailed staff report and presentation on the City's finances to include the deficiencies and weaknesses outlined in the audits.

APRIL 2020 UPDATE:

Since the previous Commission update in January 2020, the City has completed the final FY 16-17 City audit and has provided that audit to LAFCO. For this staff report, the City has

provided the information that the Commission previously requested. The City's detailed information includes status of audit completions, internal control findings, financial position, and financial stability measures. The City will present this information to the Commission at this hearing, and the presentation material is included as an attachment to this staff report.

Before the pandemic, it was staff's position that the City was making strides to come into compliance, and that continued monitoring was warranted. Staff has reviewed the City's presentation and has immediate concerns regarding the City's sustainability. Therefore, it is hoped that a frank presentation and discussion results in a good understanding of the City's financial position and sustainability.

At this time, staff recommends that the Commission schedule another update for the City for the August 2020 LAFCO hearing. Staff also reminds the Commission that it can initiate a focused service review for the City at any time.

Attachment



City of Adelanto

State of California

Financial Update to LAFCO

April 15, 2020



Financial Update Overview

“You can’t go back to the beginning, but you can start where you are and change the ending.”

- C.S. Lewis

- Status of City audits
- FY16/17 audit internal control findings
- City’s financial position
- Financial stability measures



Status of City Audits

- City audits 4 years behind by late 2018
- APUA audit 1 year behind by late 2018
- City Manager retained outside consulting firm in September 2018 to address issue
- Progress made/audits completed: FY14/15, FY15/16, FY16/17, FY17/18 (APUA)
- Audits remaining: FY17/18, FY18/19, FY18/19 (APUA)



Status of City Audits (cont.)

- Audit completion timeline:

Entity	Fiscal Year	Start Date	Date Completed	Days to Complete
City	FY14/15	September 12, 2018	June 20, 2019	281
APUA	FY17/18	January 2, 2019	December 4, 2019	336
City	FY15/16	June 20, 2019	December 10, 2019	173
City	FY16/17	October 1, 2019	February 18, 2020	140
City	FY17/18	December 9, 2019	May 31, 2020	174
City	FY18/19	January 6, 2020	June 30, 2020	176
APUA	FY18/19	April 30, 2020	June 30, 2020	61
Total Days				657



FY16/17 Audit Internal Control Findings

- Two types of accounting deficiency findings

- Material Weakness:

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 City's financial statements will not be prevented, or detected and corrected on a timely basis.

- Significant Deficiency:

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.



FY16/17 Audit Internal Control Findings (cont.)

- Identified 5 Material Weaknesses
- Identified 6 Significant Deficiencies
- Corrective measures identified and implemented beginning late 2018
- Findings are historical to FY14/15
 - Will continue to be reported until audits become current



FY16/17 Audit Internal Control Findings (cont.)

Finding:	2017-001 - Financial Close and Reporting Process
Condition:	The City's financial close and reporting process has been behind in preparing year-end reconciliations and adjustments to adequately close the most current fiscal year-end accounting records.
Action:	The Finance Department will use outside accounting consultants in order to work towards timely year-end closings. At such time that the year-end closings are current, the process will be transitioned to City staff.
Status:	The corrective action is ongoing. As each audit is completed, the fiscal year is being closed in the accounting system. Year-end closing reconciliations and adjusting entries for FY18/19 are currently being prepared. This finding will be resolved with the completion of the FY18/19 audit in 2020.



FY16/17 Audit Internal Control Findings (cont.)

Finding:	2017-002 - Formal Written Payroll and Accounting Policies and Procedures Manual
Condition:	There is no formal written payroll and accounting policies and procedures manual.
Action:	The Finance Department has developed and is in the process of developing and implementing formal written payroll and accounting policies as well as a procedures manual.
Status:	The corrective action is ongoing. Five policies have been completed including: cash handling, accounts payable, bank reconciliation, revenue recordation, and unclaimed funds. The policies were presented to the City Council at its August 28, 2019 meeting. Additional policies are currently being drafted. This finding will be resolved with the completion of the FY18/19 audit in 2020.



FY16/17 Audit Internal Control Findings (cont.)

Finding:	2017-003 - Outstanding Checks
Condition:	For the Adelanto Water Authority checking account, the amount of outstanding checks was estimated and there was no detail listing of the outstanding checks on the bank reconciliation.
Action:	The Finance Department is reviewing its bank reconciliation to apply the unclaimed funds policy on outstanding and uncashed checks.
Status:	The corrective action is ongoing. The unclaimed funds policy has been implemented. Finance department staff are currently reviewing the outstanding checks and are applying the unclaimed funds policy as appropriate. This finding will be resolved with the completion of the FY18/19 audit in 2020.



FY16/17 Audit Internal Control Findings (cont.)

Finding:	2017-004 - Bank Accounts Authorized Signers
Condition:	The bank reconciliations are being prepared by an individual who is also an authorized signer for the City's bank accounts.
Action:	The Finance Department has updated its bank account authorized signers which no longer includes the individual preparing the bank reconciliations. Management considers this finding to be closed.
Status:	The corrective action is completed as of January 2019.



FY16/17 Audit Internal Control Findings (cont.)

Finding:	2017-005 - Capital Assets Valuation Report Review and Capital Assets Contributions by Developers.
Condition:	The City had a valuation of its capital assets performed in fiscal year 2016 by an external consultant. This was used as a basis to adjust the capital assets accounts in the City's accounting records for the 2017 fiscal year. However, there doesn't appear to be any comprehensive review or approval of the valuation report. Developer capital contributions also appeared excluded from the valuation report.
Action:	The Finance Department has developed and is in the process of developing policies and procedures to ensure that the capital asset valuation report is reviewed and approved by City management staff and the Finance Director. The Finance Department is also in the process of developing procedures to capture information from capital assets constructed by developers that the City will maintain and include in the City's capital assets.
Status:	The corrective action is ongoing. The capital assets valuation policy is being developed. This finding is expected to be resolved with the completion of the FY18/19 audit in 2020.



FY16/17 Audit Internal Control Findings (cont.)

Finding:	2017-006 - Cash Disbursement and Purchasing Policies
Condition:	The current cash disbursements and purchasing practices of the City do not follow the limits set forth under the City of Adelanto's municipal code.
Action:	The Finance Department is reviewing the outdated cash disbursement and purchasing policies in the municipal code in order to recommend changes that are in line with those used in our software system and present these recommendations to City Council as replacement for the outdated codes.
Status:	The corrective action is ongoing. The cash handling and accounts payable policies have been implemented. The City's purchasing rules, as set forth in the municipal code, are being adhered to. This finding has been resolved; however, it will remain open until the completion of the FY18/19 audit in 2020.



FY16/17 Audit Internal Control Findings (cont.)

Finding:	2017-007 - Bank Reconciliations
Condition:	Bank reconciliations were completed several months after the close of each month.
Action:	The City hired an accountant and outside accounting staff to perform all bank account reconciliations and are now current.
Status:	This finding has been resolved; however, it will remain open until the completion of the FY18/19 audit in 2020.



FY16/17 Audit Internal Control Findings (cont.)

Finding:	2017-008 - Payroll Rate Approvals
Condition:	During our test of payroll controls, there were several personnel action forms that had missing approval signatures.
Action:	The Finance and Human Resource Departments are reviewing payroll policies to ensure payroll rate approvals are properly approved and documented. The departments have implemented a revised Personnel Action Form (PAF), which is reviewed and approved by City management staff. Further, the City has added a Sr. Human Resources Analyst position to the organizational structure in order to ensure personnel policies and procedures are adopted and followed.
Status:	The corrective action is ongoing. Policies and procedures have been implemented along with a revised payroll approval form. City staff are conducting an internal audit of all payroll transactions dating back to calendar year 2012. Corrections are being made as necessary. This finding will be resolved with the completion of the FY18/19 audit in 2020.



FY16/17 Audit Internal Control Findings (cont.)

Finding:	2017-009 - Construction Recycling Deposits
Condition:	The City has construction recycling deposits but there are no formal tracking procedures that keep an updated listing and verification of outstanding deposits.
Action:	The Finance Department has developed and is in the process of developing and implementing formal written policies and procedures to monitor construction recycling deposits as well as the reconciliation of those deposits.
Status:	The corrective action is ongoing. The Finance Department is working with the land use departments to develop policies and procedures to track outstanding deposits. It is anticipated that this finding will be resolved with the completion of the FY18/19 audit in 2020.



FY16/17 Audit Internal Control Findings (cont.)

Finding:	2017-010 - Cash Management
Condition:	There were several adjustments made at the end of the fiscal year to reimburse the General Fund for expenditures from prior years.
Action:	The Finance Department has reviewed its cash management procedures and is updating those procedures to ensure timely transfer of reimbursements between funds.
Status:	The corrective action is ongoing. The cash handling and accounts payable policies have been implemented. Other policies will be implemented outlining the timeframes for proper recordation of transactions. Once the City is current on its audits, procedures will be implemented in order to close prior fiscal years such that additional transactions cannot be recorded. It is anticipated that this finding will be resolved with the completion of the FY18/19 audit in 2020.



FY16/17 Audit Internal Control Findings (cont.)

Finding:	2017-011 - Maintenance of Minutes
Condition:	The City's maintenance of minutes of the public meetings was not prepared in a timely manner.
Action:	The City Clerk Department has outsourced the preparation of public meeting minutes in order to have the minutes in a timely manner and to remain current. Management considers this finding to be closed.
Status:	This finding has been resolved; however, it will remain open until the completion of the FY18/19 audit in 2020.



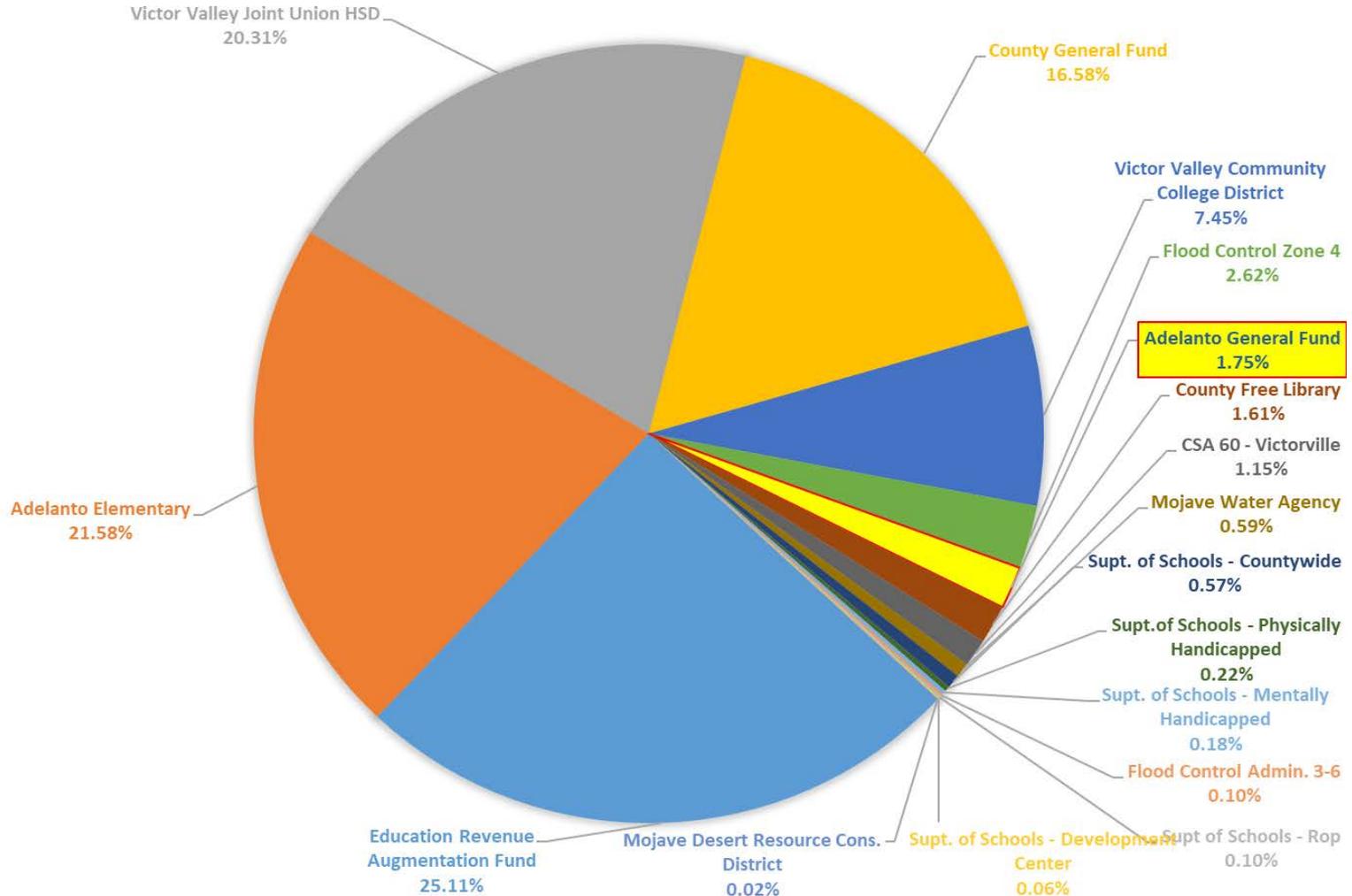
City's Financial Position

- Historical structural deficit
- 1985 Caltrans “freeway agreement” has limited growth on US Highway 395 corridor
- Insufficient tax base
 - Property tax allocation less than 2%
 - Q4 2019 per capita sales \$1,263 (city) vs. \$4,500 (countywide)
 - Per capita sales ranked 495 out of 539 agencies in California
- Estimated impact of coronavirus \$2.3 million reduction in revenue FY20/21

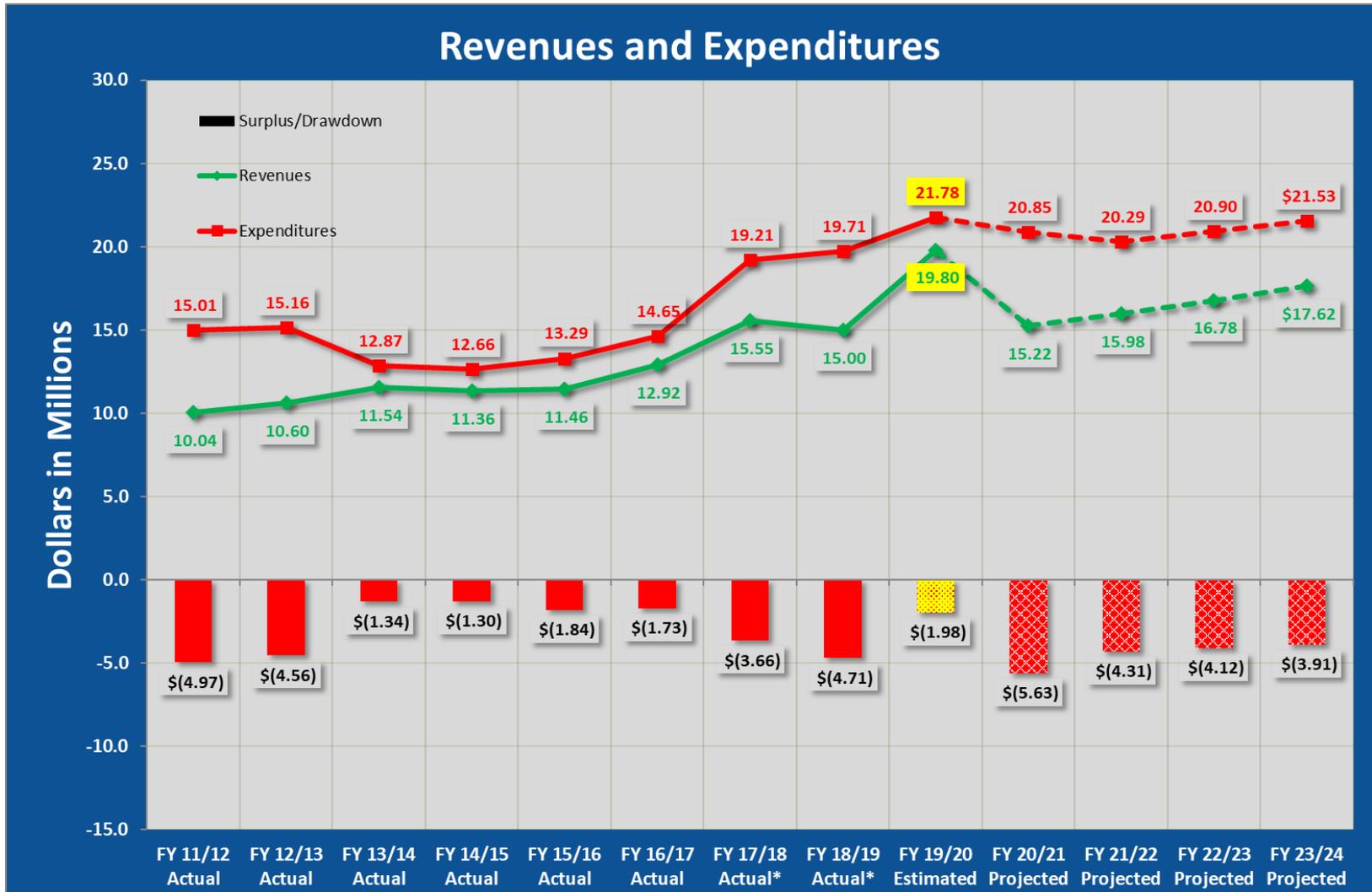


City's Financial Position (cont.)

CITY'S PROPERTY TAX SHARE

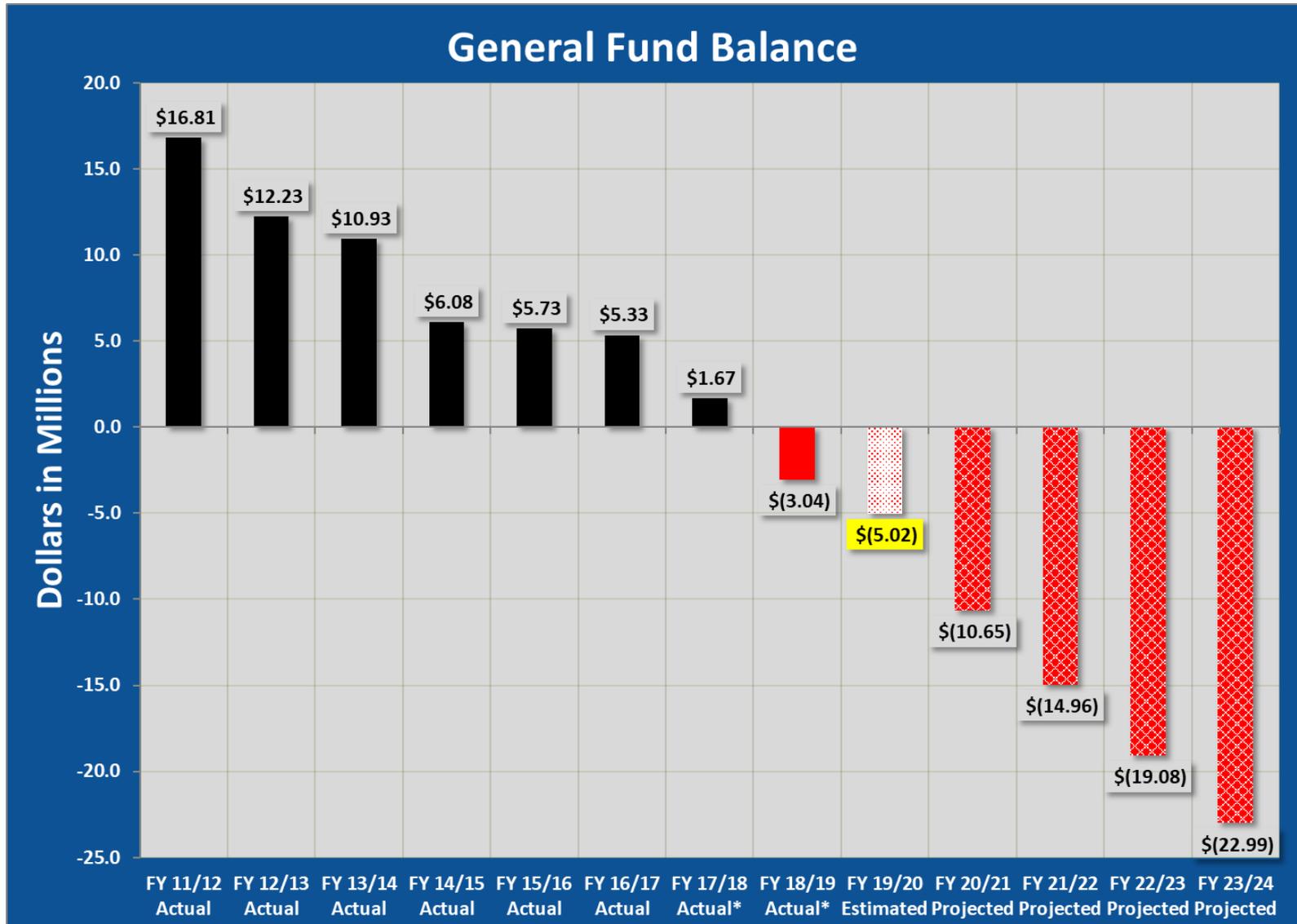


City's Financial Position (cont.)





City's Financial Position (cont.)





Financial Stability Measures

- Revenue enhancements
 - Passed cannabis tax measure = \$1.5 million/yr.
 - Increasing fees = \$0.5 million/yr.
 - Cost allocation plan = \$1.0 million/yr.
- Expense reductions
 - Negotiated labor savings = \$0.950 million/yr.
- Economic development
 - Increase housing/population
 - Broaden tax base

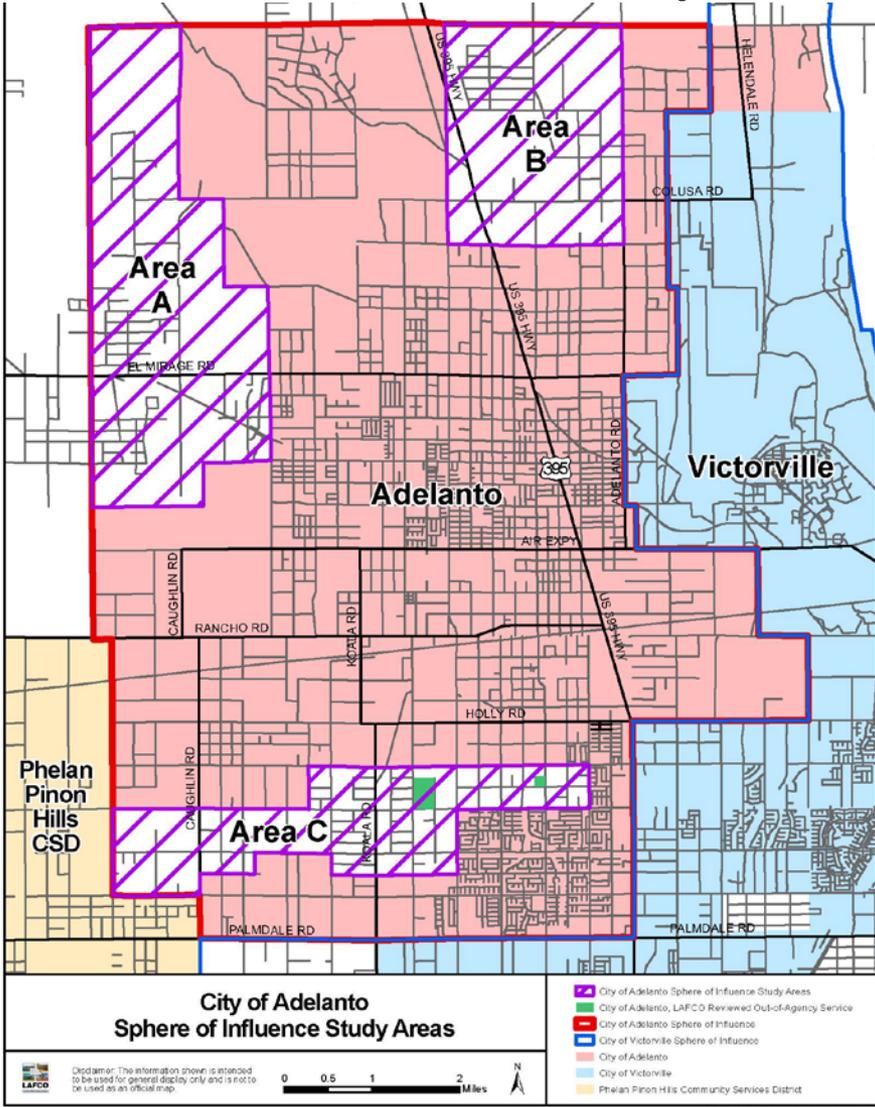


Financial Stability Measures (cont.)

- Tax measures
 - UUT tax measure failed in 2014
 - Cannabis tax measure passed in 2016
 - Vacant land tax = \$3.0 million/yr. (2020 if passed)
- Annex into Fire District w/ FP-5
 - General fund savings \$2.0 million/yr. (2021 if passed)
- Annex LAFCO Area “C”
 - Prime area for housing
 - Increased property tax allocation of 7% min.



Financial Stability Measures (cont.)



Conclusion

- City Council actively implementing public policy to ensure financial stability
- City administration focused on:
 - Policies and procedures
 - Enhancing revenue and controlling expenditures
 - Compliance with public accounting regulations
 - Economic development
- City needs cooperation from Federal, State, and county governments