

**CITY OF TURLOCK, CALIFORNIA**  
**SINGLE AUDIT REPORTS**  
**FOR THE YEAR ENDED**  
**JUNE 30, 2023**

**CITY OF TURLOCK, CALIFORNIA  
SINGLE AUDIT REPORTS  
FOR THE YEAR ENDED JUNE 30, 2023**

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**INDEPENDENT AUDITOR'S 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**

To the Honorable Members of the City Council  
City of Turlock, 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 Turlock, California (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, and have issued our report thereon dated January 21, 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.

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 City's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We consider the deficiency as listed on the Schedule of Material Weakness included as part of our separately issued Memorandum on Internal Control dated January 21, 2025, to be a material weakness, which is an integral part of our audit and should be read in conjunction with this report.

## **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*.

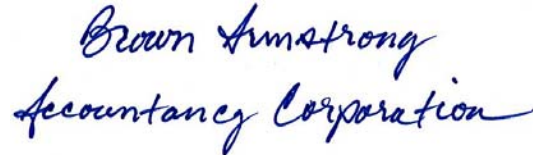
## **City's Response to Findings**

*Government Auditing Standards* requires the auditor to perform limited procedures on the City's response to the findings identified in our audit and described in our separately issued Memorandum on Internal Control dated January 21, 2025, which is an integral part of our audit and should be read in conjunction with this report. The city's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

BROWN ARMSTRONG  
ACCOUNTANCY CORPORATION

A handwritten signature in blue ink that reads "Brown Armstrong" on the first line and "Accountancy Corporation" on the second line.

Bakersfield, California  
January 21, 2025

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR  
EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL  
OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

To the Honorable Members of the City Council  
City of Turlock, California

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

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

We have audited the City of Turlock's (the City) compliance with the types of compliance requirements identified as subject to audit in the U.S. Office of Management and Budget (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 types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs 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; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (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 the City's 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 auditing standards generally accepted in the United States of America, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the City's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with auditing standards generally accepted in the United States of America, *Government Auditing Standards*, and the Uniform Guidance, we:

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

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

### ***Other Matters***

The results of our auditing procedures disclosed an instance of noncompliance which is required to be reported in accordance with the Uniform Guidance and which are described in the accompanying Schedule of Findings and Questioned Costs as item SA2023-001. Our opinion on each major federal program is not modified with respect to these matters.

*Government Auditing Standards* requires the auditor to perform limited procedures on the City's response to the noncompliance findings identified in our compliance audit described in the accompanying Schedule of Findings and Questioned Costs. The City's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

### **Report on Internal Control over Compliance**

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

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items SA2023-001 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* require the auditor to perform limited procedures on the City's response to the internal control over compliance finding identified in our audit described in the accompanying Schedule of Findings and Questioned Costs. The City's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

#### **Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance**

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated January 21, 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 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.

BROWN ARMSTRONG  
ACCOUNTANCY CORPORATION

*Brown Armstrong*  
*Accountancy Corporation*

Bakersfield, California  
January 31, 2025

**CITY OF TURLOCK, CALIFORNIA  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2023**

Federal Grantor/ Pass-Through Grantor/ Program Title	Assistance Listing Number	Pass-Through Grant Identifying Number	Passed Through to Subrecipients	Federal Expenditures
<b>U.S. Department of Housing and Urban Development:</b>				
Direct Programs:				
Community Development Block Grants/State's Program				
Program Expenditures	14.228		\$ -	\$ 1,514,523
Program Expenditures (Program Income)	14.228		65,800	772,074
Program Subtotal			65,800	2,286,597
HOME Investment Partnerships Program				
Program Expenditures	14.239		-	110,034
Program Expenditures (Program Income)	14.239		-	560,000
Program Subtotal			-	670,034
Total U.S. Department of Housing and Urban Development			65,800	2,956,631
<b>U.S. Department of Justice:</b>				
Direct Programs:				
Public Safety Partnership and Community Policing Grants	16.710		-	166,667
Edward Byrne Memorial Justice Assistance Grant Program	16.738		-	26,846
<b>Total U.S. Department of Justice</b>			-	193,513
<b>U.S. Department of Transportation:</b>				
Direct Programs:				
Federal Transit Cluster (Note 4)				
Federal Transit - Formula Grants (Urbanized Area Formula Program)	20.507		-	3,124,033
Cluster Subtotal			-	3,124,033
Passed through California Department of Transportation:				
Highway Planning and Construction Cluster				
Highway Planning and Construction (Federal-Aid Highway Program)				
Congestion Mitigation and Air Quality Improvement Program (CMAQ)	20.205	CML-5165	-	810,526
Surface Transportation Program (STP)	20.205	RSTP-5165	-	846,480
Cluster Subtotal			-	1,657,006
Passed through State of California Office of Traffic Safety:				
Highway Safety Cluster				
State and Community Highway Safety				
Selective Traffic Enforcement Program (STEP)	20.600	PT22092	-	6,778
Selective Traffic Enforcement Program (STEP)	20.600	PT23185	-	17,701
Cluster Subtotal			-	24,479

The accompanying notes are an integral part of this schedule.

**CITY OF TURLOCK, CALIFORNIA**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)**  
**FOR THE YEAR ENDED JUNE 30, 2023**

Federal Grantor/ Pass-Through Grantor/ Program Title	Assistance Listing Number	Pass-Through Grant Identifying Number	Passed Through to Subrecipients	Federal Expenditures
<b>U.S. Department of Transportation: (Continued)</b>				
Passed through State of California Office of Traffic Safety: (Continued)				
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	PT22092	-	11,830
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	PT23185	-	7,201
Program Subtotal			-	19,031
Total U.S. Department of Transportation			-	4,824,549
<b>U.S. Department of Treasury</b>				
Direct Program:				
COVID-19: Coronavirus State and Local Fiscal Recovery Funds	21.027		-	2,859,392
Passed through California State Water Resources Control Board COVID-19: Coronavirus State and Local Fiscal Recovery Funds	21.027	266737	-	213,898
Total U.S. Department of Treasury			-	3,073,290
Total Expenditures of Federal Awards			\$ 65,800	\$ 11,047,983

The accompanying notes are an integral part of this schedule.

**CITY OF TURLOCK, CALIFORNIA  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2023**

**NOTE 1 – REPORTING ENTITY**

The Schedule of Expenditure of Federal Awards (the Schedule) includes expenditures of federal awards for the City of Turlock, California, (the City) and its component units as disclosed in the notes to the Basic Financial Statements.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Basis of accounting refers to *when* revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus applied. All governmental funds are accounted for using the modified accrual basis of accounting. All proprietary funds and fiduciary funds are accounted for using the accrual basis of accounting. Expenditures of federal awards reported on the Schedule are recognized when incurred.

**NOTE 3 – INDIRECT COST ELECTION**

The City has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

**CITY OF TURLOCK, CALIFORNIA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
JUNE 30, 2023**

**SECTION I – SUMMARY OF AUDITOR'S RESULTS**

Financial Statements:

Type of auditor's report issued	Unmodified	
Internal control over financial reporting:		
• Material weakness(es) identified?	<u>  X  </u> Yes	<u>      </u> No
• Significant deficiencies identified not considered to be material weaknesses?	<u>      </u> Yes	<u>  X  </u> No
Noncompliance material to financial statements noted?	<u>      </u> Yes	<u>  X  </u> No

Federal Awards:

Internal control over major programs:		
• Material weakness(es) identified?	<u>      </u> Yes	<u>  X  </u> No
• Significant deficiencies identified not considered to be material weaknesses?	<u>  X  </u> Yes	<u>      </u> No

Type of auditor's report issued on compliance for major programs:	Unmodified
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Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance, under 2 CFR §200.516?	<u>      </u> Yes	<u>  X  </u> No
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Identification of major programs:

<u>Assistance Listing Number(s)</u>	<u>Name of Federal Program or Cluster</u>
14.228	Community Development Block Grants/State's Program
21.027	COVID-19: Coronavirus State and Local Fiscal Recovery Funds

Dollar threshold used to distinguish between Type A and Type B programs:	\$750,000
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Auditee qualified as low-risk auditee?	<u>      </u> Yes	<u>  X  </u> No
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## SECTION II – FINANCIAL STATEMENT FINDINGS

Our audit disclosed a material weakness, but no instances of noncompliance material to the basic financial statements. We have also issued a separate Memorandum on Internal Control dated January 21, 2025, which is an integral part of our audits and should be read in conjunction with this report.

## SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

**Finding Reference Number:** SA2023-001 – Suspension and Debarment for Contracts and Subcontracts

**Assistance Listing Numbers:** 21.027

**Assistance Listing Title:** COVID-19 – Coronavirus State and Local Fiscal Recovery Funds

**Name of Federal Agency:** Department of Treasury

**Pass Through Entity:** California State Water Resources Control Board

**Federal Award Identification Number:** SLFRP4371 – 266737

**Criteria:** The Award Terms and Conditions in the City of Turlock's (the City) Coronavirus Local Fiscal Recovery Funds Agreement with the U.S. Department of the Treasury requires that the City comply with Office of Management and Budget (OMB) Guidelines to Agencies on Governmentwide Debarment and Suspension (Nonprocurement), 2 CFR Part 180, including the requirement to include a term or condition in all lower tier covered transactions (contracts and subcontracts described in 2 CFR Part 180, subpart B) that the award is subject to 2 CFR Part 180 and Treasury's implementing regulation at 31 CFR Part 19. In addition, the OMB *Compliance Supplement* requires that prior to entering into subawards and contracts with award funds, recipients must verify that such contractors and subrecipients are not suspended, debarred, or otherwise excluded pursuant to 31 CFR section 19.300.

**Condition:** During the 2021 audit, the auditor selected 19 transactions for testing that included six different vendors where the City did not verify that the vendors were not suspended, debarred, or otherwise excluded prior to entering into the agreements. The auditor verified that City staff determined that as of April 8, 2024, none of the six vendors were on the exclusions list on SAM.gov. The City subsequently has drafted an updated citywide procurement policy that includes the requirement to be compliant with 2 C.F.R Part 180 and was expected to be approved in March 2024 as part of the City's corrective action plan. In conjunction with the updated procurement policy, the purchasing department of the City will check for suspension and debarment for contracts and subcontracts as part of the request for proposal process and notify all departments to check vendors when utilizing Federal funds. However, the updated citywide procurement policy has not been approved as of January 29, 2025.

**Cause:** The delay in approving the updated citywide procurement policy was due to staff turnover issues.

**Identification as a Repeat Finding:** Yes, since 2021.

**Effect:** The City is not in compliance with the grant Award Terms and Conditions.

**Recommendation:** The City should approve and implement the updated citywide procurement policy in accordance with the corrective action plan.

**View of Responsible Officials and Planned Corrective Actions:** Please see Corrective Action Plan separately prepared by the City.

## SECTION IV – STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

### **Finding Reference Number: SA2022-001 – Suspension and Debarment for Contracts and Subcontracts**

**Assistance Listing Numbers:** 21.027

**Assistance Listing Title:** COVID-19 – Coronavirus State and Local Fiscal Recovery Funds

**Name of Federal Agency:** Department of Treasury

**Pass Through Entity:** California State Water Resources Control Board

**Federal Award Identification Number:** SLFRP4371 – 266737

**Criteria:** The Award Terms and Conditions in the City's Coronavirus Local Fiscal Recovery Funds Agreement with the U.S. Department of the Treasury requires that the City comply with OMB Guidelines to Agencies on Governmentwide Debarment and Suspension (Nonprocurement), 2 CFR Part 180, including the requirement to include a term or condition in all lower tier covered transactions (contracts and subcontracts described in 2 CFR Part 180, subpart B) that the award is subject to 2 CFR Part 180 and Treasury's implementing regulation at 31 CFR Part 19. In addition, the OMB Compliance Supplement requires that prior to entering into subawards and contracts with award funds, recipients must verify that such contractors and subrecipients are not suspended, debarred, or otherwise excluded pursuant to 31 CFR section 19.300.

**Condition:** We selected 19 transactions for testing that included six different vendors and understand that the City did not verify that the vendors were not suspended, debarred, or otherwise excluded prior to entering into the agreements. We did note that City staff determined that as of April 8, 2024, none of the six vendors were on the exclusions list on SAM.gov.

**Cause:** We understand that staff are responsible for performing the suspension and debarment reviews are no longer with the City and City staff cannot find documentation that it was performed.

**Identification as a Repeat Finding:** Yes, since 2021.

**Effect:** The City is not in compliance with the grant Award Terms and Conditions.

**Recommendation:** The City should develop procedures to ensure compliance with debarment and suspension provisions of the grant agreement prior to making disbursements to vendors and retain documentation in the grant files.

**View of Responsible Officials and Planned Corrective Actions:** Please see Corrective Action Plan separately prepared by the City.

**Current Year Status:** Partially implemented. Please see current year finding SA2023-001.

### **Finding Reference Number: SA2022-002 – Compliance with Grant Deadlines**

**Assistance Listing Number:** 21.027

**Assistance Listing Title:** COVID-19 – Coronavirus State and Local Fiscal Recovery Funds

**Name of Federal Agency:** Department of Treasury

**Pass Through Entity:** California State Water Resources Control Board

**Federal Award Identification Number:** SLFRP4371 – 266737

**Criteria:** California Water and Wastewater Arrearage Payment Program Guidelines Appendix A, Section 6.2.1, *Notification of Customer Bill Credits*, requires that the City allocate Wastewater Arrearage Program payments as bill credits to customer accounts within 60 days of receiving payment or August 5, 2022.

**Condition:** The City calculated the customer arrearages and credits to be applied as of June 15, 2021, but did not apply the wastewater credits to the customer accounts until November 8, 2022.

**Cause:** We understand that the delay was caused by problems with applying the credits in the City's new utility billing system and technical assistance was needed from the utility billing system vendor to complete the process. However, City staff could not provide documentation that the delay was communicated to the grantor.

**Effect:** The City is not in compliance with the terms and conditions of payment related to the required program deadlines of the California Arrearage Payment Programs. As a result, the City could have been required to return moneys to the grantor.

**Recommendation:** Although it does not appear that the grantor disallowed any of the program costs, the City must develop procedures to ensure compliance with grant award terms and conditions of payment, including timely use of grant funds. In the event the City encounters delays that affect timely compliance, the City should communicate with the grantor and retain documentation of any such communications to show that they occurred timely and the grantor was aware of the delay.

**View of Responsible Officials and Planned Corrective Actions:** Please see Corrective Action Plan separately prepared by the City.

**Current Year Status:** Implemented.

**Finding Reference Number: SA2022-003 – Monitoring CDBG and HOME Program Activities for Compliance with Program Rules and Regulations**

**Assistance Listing Number:** 14.228, 14.239

**Assistance Listing Title:** Community Development Block Grants/State's Program HOME Investment Partnerships Program

**Name of Federal Agency:** Department of Housing and Urban Development

**Federal Award Identification Number:** B-19-MC-06-0039, B-20-MC-06-0039  
M-18-DC-06-0240. M-20-DC-06-0240

**Criteria:** The State CDBG program is subject to Title I of the HCDA (42 USC 5301 et seq.) and implementing regulations at 24 CFR Part 570, Subpart I24, while CFR Part 92 details the various rules and regulations of the HOME Investment Partnerships (HOME) Program. These regulations include specific program requirements for timing of activities, eligible and prohibited activities, project and subrecipient monitoring requirements, as well as other provisions. If the City does not adhere to the requirements of the implementing regulations both before disbursement for eligible activities and on an ongoing basis to ensure continued compliance with the requirements of each program, costs incurred may be deemed ineligible and need to be returned to the grantor.

**Condition:** The City underwent a monitoring review by the grantor during fiscal year 2022 related to the fiscal year 2022 CDBG and HOME Programs, the results of which were issued in August 2022. The monitoring review results included two CDBG findings, four HOME findings and one HOME concern as follows:

- CDBG Findings:
  - Incorrect identification of activity in the Integrated Disbursement & Information System (IDIS), which deemed the activity ineligible unless the City provided justification as necessary costs.
  - Lack of a current Residential Anti-Displacement and Relocation Assistance Plan
- HOME
  - Findings:
    - Absence of dated signatures of all parties on the beneficiary written agreement for the two IDIS projects and a lack of HOME program policies and procedures to ensure written agreements include dated signatures of all parties.
    - The absence of many federally required provisions in the City's loan agreement with a property owner, including five components detailed in the monitoring letter that were missing from the agreement.

- The amount of HOME funds invested in one IDIS project was not at or below the applicable maximum per-unit HOME subsidy limit as required under 24 CFR Section 92.250(a). The limit was exceeded by \$133,625.
- The City does not have comprehensive written policies and procedures as required under HOME regulation 24 CFR Section 92.504(a), including Tenant Selection, Income Determination and Lease Compliance.
- Concern
  - Section 3 Compliance – The City has selected “no” for the question, “Is this Activity Subject to Section 3?” in the IDIS system, although the budgets for many construction and rehabilitation projects exceed the compliance threshold of \$200,000.

In addition, the monitoring review included follow up on prior outstanding findings (two CDBG findings and five HOME findings) that had not yet been implemented and remain outstanding.

**Cause:** The City lacks or has not updated its CDBG and HOME policies and procedures or did not follow those that do meet the requirements.

**Effect:** The City is not in compliance with the policies and procedures documentation and reporting requirements of the CDBG and HOME programs. As a result, the City is required to return \$133,615 to the grant program.

**Questioned Costs:** We question costs in the amount of \$133,615, but those costs were incurred prior to fiscal year 2022.

**Recommendation:** The City must develop the required policies and procedures to ensure that all grant program activities are in compliance with the provisions of 24 CFR Part 570 and 24 CFR Part 92. And, the City should ensure that all outstanding findings and concerns are resolved with the grantor.

**View of Responsible Officials and Planned Corrective Actions:** Please see Corrective Action Plan separately prepared by the City.

**Current Year Status:** Implemented.

#### **Finding Reference Number: SA2022-004 – Documenting Payroll Costs Charged to Grant**

**Assistance Listing Number:** 20.507

**Assistance Listing Title:** COVID-19 – Federal Transit Cluster – Formula Grants (Urbanized Area Formula Program)

**Name of Federal Agency:** Department of Transportation

**Federal Award Identification Number:** CA-2019-111-01, CA-2020-141-00

**Criteria:** 2 CFR Part 200.430(i), “Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards” requires that grantees adhere to the following, “Payroll systems must be based on records that accurately reflect the work performed” and “be supported by a system of internal controls that provides reasonable assurances that charges are accurate, allowable, and properly allocated...” The payroll records must be a part of the official record, reflect the employee’s total activity and show if the specific activity of the person is being paid by more than one federal award.

Section 200.430(i)(viii) indicates that budget estimates (i.e., estimates determined before the services are performed) alone do not qualify as support for charges to Federal awards, but may be used for interim accounting purposes, provided that the system for establishing the estimates produces reasonable approximations of the activity actually performed, among other requirements.

**Condition:** We noted that the payroll costs for two employees were charged to the program based on a flat rate percentage of the payroll and benefits costs, rather than based on the actual hours worked. Although we understand the City started allocating a portion of those employee payroll costs in fourth quarter of fiscal year 2022 (all other employees are fully charged to the program) and the City reviews the

estimates periodically to ensure they were supported and did not need adjustment, there is no formal documentation of the review and conclusions reached. City staff did indicate that the allocations charged are much less than the actual time spent on the program, but again, no documentation was available.

**Cause:** We understand that grant program staff were not aware of the payroll documentation requirement.

**Effect:** The City is not in compliance with the payroll documentation requirements set forth in 2 CFR Part 200.430(i).

**Questioned Costs:** We question costs in the amount of \$11,820, representing the total amount of payroll charged to the grant for the two employees during fiscal year 2022.

**Recommendation:** The City should establish procedures to ensure that payroll costs charged to the program are documented in accordance with 2 CFR Part 200.430 for the federal transit program and all federal grant programs.

**View of Responsible Officials and Planned Corrective Actions:** Please see Corrective Action Plan separately prepared by the City.

**Current Year Status:** Implemented.