

CITY OF TUSTIN
Single Audit Report
Fiscal Year Ended June 30, 2022

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Fiscal Year Ended June 30, 2022

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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*

Independent Auditor's Report

The Honorable Mayor and City Council
City of Tustin, 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 Tustin, as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the City of Tustin's basic financial statements, and have issued our report thereon dated December 9, 2022.

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 City's internal control. Accordingly, we do not express an opinion on the effectiveness of 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 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*.

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 blue ink that reads "Davis Fan" followed by a stylized flourish.

Irvine, California
December 9, 2022

**Independent Auditors' Report on Compliance for Each Major Federal Program;
Report on Internal Control Over Compliance; and Report on Schedule of
Expenditures of Federal Awards Required by the Uniform Guidance**

Independent Auditor's Report

The Honorable Mayor and City Council
City of Tustin, California

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited the City of Tustin's compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City of Tustin's major federal programs for the year ended June 30, 2022. The City of Tustin'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 of Tustin complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2022.

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 of Tustin 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 of Tustin'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 of Tustin'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 of Tustin'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 of Tustin's compliance with the requirements of each major federal program as a whole.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the City of Tustin'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 of Tustin'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 of Tustin'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

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.

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 above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

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.

Report on Schedule of Expenditures of Federal Awards Required by Uniform Guidance

We have audited the financial statements of the City of Tustin as of and for the year ended June 30, 2022, and have issued our report thereon dated December 9, 2022, which contained an unmodified opinion on those financial statements. Our audit was performed 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.

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.

A handwritten signature in blue ink that reads "Davis Fan" followed by a stylized flourish.

Irvine, California

February 23, 2023, except for the Schedule of Expenditures of Federal Awards dated December 9, 2022

CITY OF TUSTIN
Schedule of Expenditures of Federal Awards
Fiscal Year Ended June 30, 2022

Federal Grantor / Pass - Through Grantor / Program / Cluster Title	Catalog of Federal Domestic Assistance Number	Pass-Through Entity Identifying Number	Federal Expenditures	Passed Through to Subrecipients
<u>United States Department of Housing and Urban Development</u>				
Direct Assistance:				
Community Development Block Grant - Entitlement Grants Cluster				
Community Development Block Grant	14.218		\$ 262,222	136,945
COVID-19 - Community Development Block Grant	14.218		1,189,819	6,663
Total United States Department of Housing and Urban Development			1,452,041	143,608
<u>United States Department of Justice</u>				
Direct Assistance:				
Bulletproof Vest Partnership	16.607	15077602	18,239	-
Total United States Department of Justice			18,239	-
<u>United States Department of Transportation</u>				
Passed through State of California Office of Traffic Safety:				
Highway Safety Cluster:				
State and Community Highway Safety	20.600	PT21159	3,232	-
State and Community Highway Safety	20.600	PT22093	33,162	-
Subtotal State and Community Highway Safety			36,394	-
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	PT21159	29,057	-
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	PT22093	41,541	-
Total United States Department of Transportation			106,992	-
<u>United States Department of Treasury</u>				
Passed Through the County of Orange:				
Coronavirus State and Local Fiscal Recovery Funds	21.027	N/A	255,316	77,257
Passed Through the State of California Water Resources Control Board:				
Coronavirus State and Local Fiscal Recovery Funds	21.027	CA 3010046	48,914	-
Direct Assistance:				
Coronavirus State and Local Fiscal Recovery Funds	21.027		6,359,132	-
Total United States Department of Treasury			6,663,362	77,257
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 8,240,634	220,865

N/A - No pass-through entity identifying number was provided

See accompanying notes to schedule of expenditures of federal awards

CITY OF TUSTIN

Notes to the Schedule of Expenditures of Federal Awards

Fiscal Year Ended June 30, 2022

(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 (the Schedule) includes the federal grant activity of the City of Tustin (the City) under programs of the federal government for the year ended June 30, 2022. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards. Because the Schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position, changes in net assets or cash flows of the City.

(b) Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the modified-accrual basis of accounting for governmental funds and the accrual basis for proprietary funds, which is described in Note 1 of the notes to the City's financial statements. Such expenditures are recognized following the cost principles contained in the Uniform Guidance for all awards.

(c) Indirect Cost Rate

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

CITY OF TUSTIN

Summary of Findings and Questioned Costs

Fiscal Year Ended June 30, 2022

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?	No
• Significant deficiency(ies) identified not considered to be material weaknesses?	None Reported
Noncompliance material to financial statements noted?	No

Federal Awards:

Internal control over major programs:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified not considered to be material weaknesses?	None Reported
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 Uniform Guidance?	No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
14.218	Community Development Block Grant/Entitlement Grants
21.027	Coronavirus State and Local Fiscal Recovery Funds

Dollar threshold used to distinguish between Type A and Type B programs:	\$750,000
Auditee qualified as a low-risk auditee?	Yes

CITY OF TUSTIN
SUMMARY OF FINDINGS AND QUESTIONED COSTS

Fiscal Year Ended June 30, 2022

(Continued)

Section II – Findings Relating to the Basic Financial Statements Reported in Accordance with *Government Auditing Standards*

There were no findings required to be reported in accordance with GAGAS.

CITY OF TUSTIN

Summary of Findings and Questioned Costs

Fiscal Year Ended June 30, 2022

(Continued)

Section III – Federal Award Findings and Questioned Costs

None noted.

CITY OF TUSTIN

Status of Prior Audit Findings

Fiscal Year Ended June 30, 2022

Reference Number: 2021-001

Prior Period Restatements

Auditing standards suggest that the presence of a material prior period adjustment to correct the prior year financial statements is an indication of an internal control weakness that existed in prior periods. During the fiscal year ended June 30, 2021, City staff identified this risk of potential prior period misstatement and conducted a comprehensive review of land held for resale and determined that land had been legally transferred to the City in 2010 and 2012. However, these land transfers had not been recorded in the City's accounting records in prior years. Therefore, an adjustment was initiated by staff to correct the City's accounting records, which resulted in an increase in the value of land held by the City and was properly recorded as a prior period restatement.

Additionally, during the audit, it was discovered that affordable housing loans to home buyers had been legally transferred in prior years to the Housing Authority, which serves as the Housing Successor Agency to the former Tustin Community Redevelopment Agency. However, the housing loans receivable were not recorded in the Housing Authority's accounting records in prior years. Therefore, an adjustment was made to properly record the housing loans, which resulted in a prior period restatement.

Status of Corrective Action

This finding has been resolved.