

CITY OF TUSTIN
Single Audit Report
Fiscal Year Ended June 30, 2025

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Fiscal Year Ended June 30, 2025

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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

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, 2025, 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 22, 2025.

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs) as item 2025-001 that we consider to be a material weakness.

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*.

Management'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 the accompanying schedule of findings and questioned costs. Management'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 it.

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 22, 2025

Report on Compliance for Each Major Program; Report on Internal Control Over Compliance; In Accordance with 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

We have audited the 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, 2025. 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 of its major federal programs for the year ended June 30, 2025.

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

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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2025-002 to be a material weakness.

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.

Management'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 the accompanying schedule of findings and questioned costs. Management'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 it.

Report on Schedule of Expenditures of Federal Awards Required by 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, 2025, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated December 22, 2025, which contained an unmodified opinion 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 financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Davis Fan LP

Irvine, California
December 22, 2025

CITY OF TUSTIN
Schedule of Expenditures of Federal Awards
Fiscal Year Ended June 30, 2025

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 Defense</u>				
Direct Assistance:				
State Memorandum of Agreement Program for the Reimbursement of Technical Services	12.113	N/A	\$ 32,936,827	-
Total United States Department of Defense			<u>32,936,827</u>	<u>-</u>
<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	N/A	582,712	206,991
Total United States Department of Housing and Urban Development			<u>582,712</u>	<u>206,991</u>
<u>United States Department of Justice</u>				
Direct Assistance:				
Bulletproof Vest Partnership Program	16.607	15077602	11,229	
Justice Administration Grant	16.738	15PBJA-22-GG- 05342-JAGX	9,052	
Total United States Department of Justice			<u>20,281</u>	<u>-</u>
<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	PT24208, PT25084	46,795	-
Subtotal Highway Safety Cluster			<u>46,795</u>	<u>-</u>
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	PT24208, PT25084	85,349	-
Total United States Department of Transportation			<u>132,144</u>	<u>-</u>
<u>United States Department of Treasury</u>				
Direct Assistance:				
COVID 19- American Rescue Plan Act - Local Fiscal Recovery Funds	21.027	N/A	3,215,567	-
Total United States Department of Treasury			<u>3,215,567</u>	<u>-</u>
<u>United States Department of Environmental Protection Agency</u>				
Passed Through the State Water Resources Control Board (SWRCB):				
Drinking Water State Revolving Fund Cluster:				
Drinking Water State Revolving Fund (DWSRF)	66.468	3010046-001C	10,000,000	10,000,000
Subtotal DWSRF Cluster			<u>10,000,000</u>	<u>10,000,000</u>
Total United States Department of Environmental Protection Agency			<u>10,000,000</u>	<u>10,000,000</u>
<u>United States Department of Homeland Security</u>				
Direct Assistance: Federal Emergency Management Agency (FEMA)				
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	DR 4482	45,438	-
Total United States Department of Homeland Security			<u>45,438</u>	<u>-</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 46,932,969</u>	<u>10,206,991</u>

N/A - No pass-through entity

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, 2025

(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, 2025. 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, 2025

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?	Yes 2025-001
• 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?	Yes 2025-002
• 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>
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12.113	State Memorandum of Agreement Program for the Reimbursement of Technical Services
66.468	Drinking Water State Revolving Fund Cluster

Dollar threshold used to distinguish between Type A and Type B programs:	\$1,407,989
Auditee qualified as a low risk auditee?	Yes

CITY OF TUSTIN

Summary of Findings and Questioned Costs

Fiscal Year Ended June 30, 2025

(Continued)

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

2025-001: Identification of Federal Awards & Subawards

Criteria: The City must properly classify all federal awards on their financial statements.

Condition: The City did not identify federal revenues and related expenditures on funds that were passed through to a subrecipient.

Cause: The City required a material adjustment to the financials to properly record federal grant revenue and the related expense.

Effect or Potential Effect: The City's financial statements did not reflect a material federal award.

Recommendation: We recommend that the City properly classify all federal awards and related expenditures as well as their related responsibilities as a pass-through entity detailed further in the federal award findings and questioned costs below.

Management's Comments Regarding Corrective Actions Planned: Management agrees with the finding. This federal grant is unique as the City did not perform any work funded by the grant. The work was performed by a subrecipient under an agreement that predated the federal grant. Revenue was recognized but not as federally funded grant revenue. We will work with internal staff, grantor agencies, and subrecipients to properly identify all federal grants.

Section III – Federal Award Findings and Questioned Costs

2025-002: Subrecipient Monitoring – Subaward Agreement Requirements

Information on the Federal Program: Assistance Listing Number 66.468
Drinking Water State Revolving Fund

Condition: The City entered into a written agreement with a subrecipient; however, the agreement did not include language requiring the subrecipient to compliance with the Uniform Guidance. As a result, the subrecipient was not formally notified of its responsibility to adhere to federal administrative, cost, and audit requirements.

Criteria: 2 CFR §200.332(a) requires pass-through entities to ensure that subaward agreements include all required federal award information and clearly identify applicable federal statutes, regulations, and terms and conditions, including compliance with Uniform Guidance (2 CFR Part 200).

CITY OF TUSTIN

Summary of Findings and Questioned Costs

Fiscal Year Ended June 30, 2025

(Continued)

Section III – Federal Award Findings and Questioned Costs (Continued)

Cause: The City had a preexisting agreement with an entity who later became a subrecipient of federal grant pass-through funds. The City did not amend their agreement to include the required components after receiving the grant nor report the funds as federal revenues or expenditures in the City's financial statements.

Effect or Potential Effect: Without a formal subaward agreement, the pass-through entity lacks assurance that the subrecipient understands and complies with applicable federal requirements, increasing the risk of noncompliance, improper use of federal funds, and questioned costs. The subrecipient may also not be aware of their responsibility to report the related federal expenditures on the subrecipient's schedule of expenditures of federal awards.

Questioned Costs: None.

Recommendation: We recommend that the City identify all federal expenditures and passthrough awards and notify all subrecipients of their receipt of federal awards by identifying the award granted, specific compliance requirements passed-through and other requirements of 2 CFR 200.332.

Management's Comments Regarding Corrective Actions Planned: Management agrees with the finding. The City had a preexisting agreement with the subrecipient for a project that was already in progress when the federal grant was awarded. The subrecipient had in-depth involvement during the federal grant application process and is aware of specific compliance requirements under the Uniform Guidance (2 CFR Part 200). We will make sure that all future subrecipients of pass-through federal grants are notified in writing of the responsibility to adhere to federal administrative, cost, and audit requirements.

CITY OF TUSTIN

Summary of Findings and Questioned Costs

Fiscal Year Ended June 30, 2025

(Continued)

Status of Prior Year Audit Findings:

There were no prior audit findings requiring follow-up from the year ended June 30, 2024.