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CITY OF AUBURN  
SINGLE AUDIT AND RELATED REPORTS  
FOR THE YEAR ENDED  
JUNE 30, 2023

DRAFT

**CITY OF AUBURN  
SINGLE AUDIT AND RELATED REPORTS  
FOR THE YEAR ENDED JUNE 30, 2023**

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**DRAFT**

**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 City Council  
City of Auburn, 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 Auburn, California, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the City of Auburn's basic financial statements, and have issued our report thereon dated **May 10, 2024**.

**Report on Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the City of Auburn'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 of Auburn's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Auburn's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2023-001 to be a material weakness.

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2023-002 to be a significant deficiency.

**Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City of Auburn'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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 2023-003.

### **City of Auburn's Response to Finding**

*Government Auditing Standards* requires the auditor to perform limited procedures on the City of Auburn's response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. City of Auburn's responses were not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

### **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.

Sacramento, California

May 10, 2024

DRAFT

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

To the City Council  
City of Auburn, California

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

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

We have audited the City of Auburn'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 Auburn's major federal programs for the year ended June 30, 2023. City of Auburn'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 Auburn, 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 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 City of Auburn 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 City of Auburn'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 requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to City of Auburn'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 City of Auburn'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 generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect a 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 Auburn's compliance with the requirements of each major federal program.

In performing an audit in accordance with generally accepted auditing standards, *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 City of Auburn'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 City of Auburn'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 Auburn'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 instances of noncompliance which are 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 2023-003. Our opinion on each major federal program is not modified with respect to this matter.

*Government Auditing Standards* requires the auditor to perform limited procedures on City of Auburn's response to the noncompliance finding identified in our compliance audit described in the accompanying schedule of findings and questioned costs. City of Auburn'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**

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.

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 of Auburn, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the City of Auburn's basic financial statements. We issued our report thereon dated **May 10, 2024**, which contained unmodified opinions on those financial statements. Our audit was performed 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.

Sacramento, California

**May 10, 2024**

**DRAFT**

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

Federal Grantor/Pass-Through Grantor Program	Federal Assistance Listing (AL) Number	Pass-Through Entity Identifying Number/Grant Number	Federal Expenditures
<b>U.S. Department of Housing and Urban Development</b>			
Pass-Through State of California Department of Housing and Community Development:			
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	Beginning Loan Balance	\$ 235,294
Home Investment Partnerships Program	14.239	Beginning Loan Balance	<u>1,933,277</u>
Total U.S. Department of Housing and Urban Development			<u>2,168,571</u>
<b>U.S. Department of Transportation</b>			
Pass-Through State of California Department of Transportation:			
Airport Improvement Program, COVID-19 Airports Programs, and Infrastructure Investment and Jobs Act Programs	20.106	03-06-0012-012-2018	858,748
Airport Improvement Program, COVID-19 Airports Programs, and Infrastructure Investment and Jobs Act Programs - CARES Act	20.106	03-06-0012-019-2021	59,000
Airport Improvement Program, COVID-19 Airports Programs, and Infrastructure Investment and Jobs Act Programs - ARPA	20.106	03-06-0012-020-2021	<u>23,000</u>
Total Airport Improvement Program, COVID-19 Airports Programs, and Infrastructure Investment and Jobs Act Programs			<u>940,748</u>
Formula Grants for Rural Areas and Tribal Transit Program	20.509	None	<u>60,378</u>
Total U.S. Department of Transportation			<u>1,001,126</u>
<b>U.S. Department of Treasury</b>			
Pass-Through State Department of Finance:			
COVID-19 - Coronavirus State and Local Fiscal Recovery Funds	21.027	ARPA	<u>456,366</u>
Total U.S. Department of Treasury			<u>456,366</u>
<b>Total Expenditures of Federal Awards</b>			<b><u>\$ 3,626,063</u></b>

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

**NOTE 1: REPORTING ENTITY**

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal financial assistance programs of the City of Auburn. The City of Auburn reporting entity is defined in Note 1 of the City's Annual Comprehensive Financial Report. All federal awards received directly from federal agencies as well as federal awards passed through other government agencies are included on the schedule. When federal awards were received from a pass-through entity, the Schedule of Expenditures of Federal Awards shows, if available, the identifying number assigned by the pass-through entity.

**NOTE 2: BASIS OF ACCOUNTING**

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the City and is presented on accounting principles generally accepted in the United States of America. The information in this schedule is presented on the accrual basis of accounting and in accordance with 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).

**NOTE 3: RELATIONSHIP TO FINANCIAL STATEMENTS**

The amounts reported in the accompanying Schedule of Expenditures of Federal Awards agree, in all material respects, to amounts reported within the City's basic financial statements. Federal award revenues are reported principally in the City's financial statements as intergovernmental revenues in the governmental funds.

**NOTE 4: CLAIMS**

The City has received federal grants for specific purposes that are subject to review and audit by the Federal Government pass-through entity. Although such audits could result in expenditure disallowance under grant terms, any required reimbursements are not expected to be material which have not already been recorded.

**NOTE 5: LOANS OUTSTANDING**

The programs listed below had the following aggregate federally funded loans outstanding at June 30, 2023:

<u>Federal AL Number</u>	<u>Program Title</u>	<u>Amount Outstanding</u>
14.228	Community Development Block Grants/State's Program and Non-entitlement Grants in Hawaii	\$ 211,000
14.239	Home Investment Partnerships Program	<u>1,950,914</u>
	Total Loans Outstanding	\$ <u>2,161,914</u>

**NOTE 6: INDIRECT COSTS**

The City elected not to use the 10% de minimis indirect cost rate, and did not charge indirect costs to federal grants during the year ended June 30, 2023.

**CITY OF AUBURN  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED 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?	Yes
Significant deficiency(ies) identified	Yes
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	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 section 200.516 of the Uniform Guidance	Yes
Identification of Major Programs:	
Airport Improvement Program, COVID-19 Airports Programs, and Infrastructure Investment and Jobs Act Programs, 20.106	
HOME Investment Partnership Program, 14.239	
Dollar threshold used to distinguish between type A and type B programs:	\$750,000
Auditee qualified as low-risk auditee?	No

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

## **SECTION II: FINANCIAL STATEMENT FINDINGS**

Findings relating to the financial statements which are required to be reported in accordance with Generally Accepted Government Auditing Standards.

### **Finding 2023-001 Financial Close & Financial Reporting (Material Weakness)**

#### **Criteria**

An effective internal control system and timely financial reporting provides reasonable assurance for the safeguarding of assets, the reliability of financial information, and compliance with laws and regulations.

#### **Condition**

During the performance of the audit, processes utilized for the closing and reporting of financial activity for the fiscal year were not effective, which contributed to the delayed accounting close of the City's trial balances. Approximately 20 journal entries related to numerous audit areas were proposed and posted to the trial balance for audit. Specific financial statement areas that required adjustment(s) as well as breakdown in controls included:

- There was a failure to accurately and timely perform monthly bank reconciliations. Two out of four months selected for testing had errors. In addition, the November 2022 LAIF bank reconciliation and the May 2023 POB bank reconciliations were not signed and reviewed.
- Of the City's bank accounts, there are two accounts that are being held for restricted purposes, CDBG funds and recology solid waste surcharge revenue. Upon review of the City's pooled cash, we noted the City includes these funds as part of the City's unrestricted pooled cash balances. In addition, we noted that the restricted cash balances in both of these funds did not agree to the balances held in their respective bank accounts. Upon review of the bank reconciliations, we noted no outstanding items that would be considered as appropriate reconciling items between the bank balance and restricted book balance. Further, the recology bank account which is property of the City, was not in the City's name.
- The City had incorrectly recorded adjustments directly to fund balance in seven separate funds totaling over \$750,000. Three of the seven fund equity adjustments were incorrectly posted during the transition to the new general ledger system. In addition, a 2022 proposed adjusting entry totaling \$513,000 was posted to the incorrect period.
- Two out of twenty-six invoices selected for testing totaling approximately \$145,000 had not been properly accrued.
- Eleven liability accounts in the Payroll Clearing Fund totaling approximately \$42,000 had debit balances and the City did not have reconciliations for these accounts.
- The City double posted a CalPERs payment totaling \$62,000 to the payroll cash account and related expense accounts.
- The City incorrectly accrued an additional \$64,000 in salaries & benefits payable, related to expenditures in the prior payroll period.
- As noted in bullet point #2 above, funds for maintaining the Auburn Closed Landfill were incorrectly held by Recology and not returned to the City. In addition, the associated revenues and expenses related to these funds were initially not properly recorded by the City.

#### **Cause**

Due to the implementation of a new accounting system during the year and limited Finance Department staff, the City did not have adequate internal controls and processes in place to ensure the accounting records were closed timely and accurately.

#### **Effect**

The financial statements as presented to the auditors contained material misstatements that required adjustment.

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

**Recommendation**

We recommend the City institute a program to methodically identify and document its significant operation and accounting processes and develop checklists or other guidance documents over the City's closing process to ensure all closing entries are captured in the City's general ledger in a timely manner, and supporting schedules agree and reconcile to the respective account balances prior to the trial balance being provided for the audit. In addition, we recommend the City identify all restricted cash balances and ensure these cash balances are reported in the proper funds and not included with unrestricted pooled cash that is allocated amongst the funds.

**Views of Responsible Officials**

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

**Finding 2023-002 Grant Accounting (Significant Deficiency)**

**Criteria**

Certain deficiencies in the internal control system over financial reporting could adversely affect an entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

**Condition**

The City did not have procedures in place to properly reconcile grant revenues, expenditures, receivables, and unearned revenue for financial reporting purposes at year-end. Noted approximately \$82,000 of expenditures included on the SEFA were due to expenditures from FY 2021/22 that had not been billed or collected. Noted grant receivable of approximately \$406,000 related to reimbursable expenditures incurred during the fiscal year was not properly recorded.

**Cause**

It appears there is not enough formalized communication between the various department who manage grants and the Finance Department who is responsible for financial reporting at year-end. A formal reconciliation of grants was not being performed.

**Effect**

There were errors identified to properly match grant revenues, expenditures, unearned revenue, and receivables within a fiscal year.

**Recommendation**

We recommend the City implement a grants administration policy. With assistance from department heads/grant managers, summarized grant information and program information should be provided to the Finance Department such as:

- Copies of grant agreements and budgets
- Copies of material expenditures with proper approvals of coding and application
- Copies of reimbursement requests submitted
- Monitoring of grant cash flow
- 

The Finance Department should then be able to prepare a reconciliation of grant revenues, expenditures, unearned revenue, cash received, and receivables for fiscal year-end.

**Views of Responsible Officials**

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

**SECTION III: FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

Findings and questioned costs for Federal Awards, which includes audit findings defined in section 200.516 of the Uniform Guidance.

**Finding 2023-003 Financial Reporting Timeliness (Uniform Guidance Compliance)**

**Criteria**

In accordance with CFR section 200.512 of the Uniform Guidance, the audit must be completed and the data collection form and reporting package must be submitted to the Federal Audit Clearinghouse within the earlier of 30 calendar days after receipt of the auditor's report(s), or nine months after the end of the audit period.

**Condition**

The 2022 Single Audit reporting package and data collection form were not submitted to the Federal Audit Clearinghouse by the deadline of March 31, 2023.

**Cause**

There were various issues including implementation of GASB Statement No. 87, *Leases*, which caused delays in the completion of the 2022 audit.

**Effect**

The filing of the Single Audit reporting package and data collection form was past the due date.

**Recommendation**

We recommend the City strive to close the year-end with properly prepared reconciliations within 3 - 4 months after year-end in order to complete the annual financial audit timely.

**Views of Responsible Officials**

**CITY OF AUBURN  
SCHEDULE OF PRIOR YEAR FINDINGS  
JUNE 30, 2023**

**None**

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