

**CITY OF COSTA MESA
Costa Mesa, California**

**SINGLE AUDIT REPORT ON EXPENDITURES
OF FEDERAL AWARDS**

Year ended June 30, 2021

CITY OF COSTA MESA
SINGLE AUDIT REPORT ON EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2021

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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 Costa Mesa, 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, each major fund, and the aggregate remaining fund information of the City of Costa Mesa ("City"), as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 17, 2021.

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 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. We did identify one deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2021-001 that we consider to be a significant deficiency.

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 determination of financial statement amounts. 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

The City's response to the finding identified in our audit is noted in the accompanying schedule of findings and questioned costs. The response was not subjected to the 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 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 communication is not suitable for any other purpose.

A handwritten signature in blue ink that reads "Davis Fan UP". The signature is written in a cursive, flowing style.

Irvine, California
December 17, 2021

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 Costa Mesa, California

Report on Compliance for Each Major Federal Program

We have audited the City of Costa Mesa's ("City") 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, 2021. 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.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. 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). Those standards and Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City of Costa Mesa 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, 2021.

Report on Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's 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 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 first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 Uniform Guidance. Accordingly, this report is not suitable for any other purpose.


Other Matters

The results of our auditing procedures disclosed an issue required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as Finding 2021-002. Our opinion on each major federal program is not modified with respect to this matter.

The City's response to the matter identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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

We have audited the financial statements of the City of Costa Mesa as of and for the year ended June 30, 2021 and have issued our report thereon dated December 17, 2021 which contained an unmodified opinion on those financial statements. Our audit was conducted 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.

A handwritten signature in blue ink that reads "Davis Fan CP". The signature is written in a cursive, flowing style.

Irvine, California

March 31, 2022, except for our report on the Schedule of Expenditures of Federal Awards, for which the date is December 17, 2021

CITY OF COSTA MESA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2021

Federal Grantor / Pass - Through Grantor / Program / Cluster Title	Catalog of Federal Domestic Assistance Number	Program Identification Number	Federal Expenditures	Amount Provided to Subrecipients
<u>United States Department of Housing and Urban Development</u>				
Direct Assistance:				
Community Development Block Grant	14.218	B-20-MC-06-0503	\$ 1,845,791	1,495,541
COVID-19 Community Development Block Grant	14.218	B-20-MW-06-0503	194,088	-
COVID-19 Community Development Block Grant	14.218	B-20-MW-06-0503	149,156	-
Total CDBG Cluster			2,189,035	1,495,541
HOME Investment Partnerships Program	14.239	M-18-MC-06-0507	7,947	-
HOME Investment Partnerships Program	14.239	M-19-MC-06-0507	12,673	-
HOME Investment Partnerships Program	14.239	M-19-MC-06-0507	15,394	-
HOME Investment Partnerships Program	14.239	M-19-MC-06-0507	3,913	-
HOME Investment Partnerships Program		Program income	153,164	-
Total HOME Investment Partnerships Program			193,091	-
Total United States Department of Housing and Urban Development			2,382,126	1,495,541
<u>United States Department of Justice</u>				
Direct Assistance:				
Bulletproof Vest Partnership	16.607	n/a	1,995	-
Total United States Department of Justice			1,995	-
<u>United States Department of Treasury</u>				
Direct Assistance:				
Equitable Sharing	21.016	n/a	18,072	-
Passed through the County of Orange:				
COVID-19 Coronavirus Relief Fund	21.019	CARES Act	375,000	-
COVID-19 Coronavirus Relief Fund (motels for homeless individuals)	21.019	CARES Act	418,904	-
COVID-19 Coronavirus Relief Fund (small business grants)	21.019	CARES Act	2,746,469	-
Passed through the State of California:				
COVID-19 Coronavirus Relief Fund	21.019	CARES Act	1,417,180	-
Total Coronavirus Relief Fund			4,957,553	-
Direct Assistance:				
COVID-19 Coronavirus State and Local Fiscal Recovery Funds	21.027	n/a	13,113,845	-
Total United States Department of Treasury			18,089,470	-
<u>United States Department of Health and Human Services</u>				
Direct Assistance:				
Provider Relief Fund	93.498	n/a	32,297	-
Total United States Department of Health and Human Services			32,297	-
<u>United States Department of Homeland Security</u>				
Passed through the County of Orange:				
Emergency Management Performance Grants	97.042	2019-003	14,620	-
Passed through the Federal Emergency Management Agency:				
Hazard Mitigation Grant	97.039	HMG#4344-105-118P (Supplement#26)	57,555	-
Passed through the Federal Emergency Management Agency:				
COVID-19 Fire Management Assistance Grant	97.044	EMW-2020-FG-00484	78,928	-
Passed through the Governor's Office of Emergency Services:				
Fire Management Assistance Grant	97.046	Cal OES-CAL FIRE-USFS -BLM-NPS-FWS-BIA	295,949	-
Total United States Department of Homeland Security			447,052	-
<u>United States Department of Transportation</u>				
Passed through California Department of Transportation:				
Adams at Pine Creek Improvement	20.205	CML-5312(104)	15,209	-
Fairview Road from Baker to Adams	20.205	HSIPL-5312(102)	303,143	-
Total Highway Planning and Construction Cluster			318,352	-
Passed through California Office of Traffic Safety:				
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	PT20032	85,221	-
	20.608	PT21024	111,345	-
Total Minimum Penalties for Repeat Offenders for Driving While Intoxicated			196,566	-
Passed through California Office of Traffic Safety:				
State and Community Highway Safety	20.600	PT20032	6,830	-
State and Community Highway Safety	20.600	PT21024	69,987	-
Total Highway Safety Cluster			76,817	-
Total United States Department of Transportation			591,735	-
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 21,544,675	1,495,541

See accompanying notes to schedule of expenditures of federal awards

CITY OF COSTA MESA

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year ended June 30, 2021

(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 Costa Mesa (the City) under programs of the federal government for the year ended June 30, 2021. 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. The City did not use the 10% de minimis indirect cost rate as covered in section 200.414 of the Uniform Guidance.

(b) Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the modified-accrual basis of accounting for those grants that were recorded in governmental funds, and on the accrual basis of accounting for those grants that were recorded in proprietary funds. Such expenditures for part of the year are recognized following the cost principles contained in OMB Circular 87, Cost Principles for State, Local, and Indian Tribal Governments, and for part of the year contained in Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

(c) Subrecipients

For the fiscal year ended June 30, 2021, payments to subrecipients consisted of the following:

Community Development Block Grant

B-19-MC-06-0503	<u>\$ 1,495,541</u>
Total	<u>\$ 1,495,541</u>

CITY OF COSTA MESA
SUMMARY OF FINDINGS AND QUESTIONED COSTS
Year ended June 30, 2021

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?	2021-001
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?	2021-002
Identification of major programs:	

Assistance Listing

Name of Federal Program or Cluster

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 COSTA MESA
SUMMARY OF FINDINGS AND QUESTIONED COSTS

Year ended June 30, 2021

(Continued)

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

2021-001: Audit Adjustments Recorded During the Audit Process

As a result of audit procedures performed for the fiscal year ended June 30, 2021, we detected and recorded material adjustments to reduce claims payable and to correct balances in fiduciary funds related to the implementation of GASB 84. Additionally, we detected and recorded several immaterial misstatements.

Recommendation

To minimize adjustments detected through the year end process, the City should enhance year end closing procedures to ensure all adjustments are made prior to the start of the audit. We recognize that it is not always possible to detect errors prior to the close of the fiscal year and, on occasion, the City’s internal controls may identify adjustment in subsequent periods.

Management’s Comments Regarding Corrective Actions Planned

FY2020-21 was the City’s first full fiscal year engulfed in the pandemic. This included the implementation of work from home options, while continuing to provide City services to the public. With the onset of new waves of infection throughout the last two years, municipal professionals had to quickly pivot and reimagine service deliveries and continue working the emergency.

Furthermore, with the distribution of County, State and Federal emergency funds to local cities during the crisis, Costa Mesa, along with numerous other cities provided fiscal support to local businesses and vulnerable populations. As the country and region stabilize after the impact of the pandemic, the City will be in a better position to minimize adjustments prior to the start of the audit.

Section III – Federal Award Findings and Questioned Costs

2021-002: Federal Awards – Reporting

Federal Agency: U.S. Department of Treasury
CFDA No.: 21.027
Federal Program: Coronavirus State and Local Fiscal Recovery Funds
Federal Award Year: 2021
Control Category: Reporting
Questioned Costs: \$0

CITY OF COSTA MESA
SUMMARY OF FINDINGS AND QUESTIONED COSTS

Year ended June 30, 2021

(Continued)

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

Condition

The City submitted their Interim Report of Coronavirus State and Local Fiscal Recovery Funds (“CSLFRF”) for the period March 3, 2021 through July 31, 2021. The City reported expenditures of \$4,200,298. However, based on changes in the Treasury guidelines, the City subsequently modified the use of the funding adding additional costs of \$8,913,547 in costs for the period March 3, 2021 through June 30, 2021. These additional costs were not reported on the Interim Report.

Criteria

2 CFR 200.302, Financial Management, states, in part:

“...(b) The financial management system of each non-Federal entity must provide for the following:

Accurate, current, and complete disclosure of the financial results of each Federal award or program in accordance with the reporting requirements set forth in §§ 200.328 and 200.329. If a Federal awarding agency requires reporting on an accrual basis from a recipient that maintains its records on other than an accrual basis, the recipient must not be required to establish an accrual accounting system. This recipient may develop accrual data for its reports on the basis of an analysis of the documentation on hand. Similarly, a pass-through entity must not require a subrecipient to establish an accrual accounting system and must allow the subrecipient to develop accrual data for its reports on the basis of an analysis of the documentation on hand.”

Cause

The City correctly applied eligible costs through July 31, 2021 and reported the amount in the Interim Report to meet the reporting deadline to the Treasury Department by August 31, 2021. Because the Treasury Department updated the CSLFRF compliance and reporting guidelines after the Interim Report due date, the City revised its application of the CSLFRF, and included additional eligible costs, resulting in under reporting eligible costs on the Interim Report.

Effect

The Interim Report, as it is currently stated, doesn’t represent the actual costs that the City used the funding on.

Questioned Costs

There were no questioned costs.

Recommendation

We recommend that the City reflect revised cost information on subsequent Project and Expenditure Reports.

CITY OF COSTA MESA
SUMMARY OF FINDINGS AND QUESTIONED COSTS

Year ended June 30, 2021

(Continued)

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

Management’s Response Regarding Corrective Action Taken or Planned

The ARPA Report due January 31, 2022 reflects revised cost information, which includes expenditures reported in the 2021 Annual Comprehensive Financial Report for the fiscal year ended June 30, 2021.

CITY OF COSTA MESA
STATUS OF PRIOR AUDIT FINDINGS

Year ended June 30, 2021

There was one finding reported in the Single Audit Report for fiscal year ended June 30, 2021. The status of the finding is as follows:

Reference Number: **2020-001**

Financial Health and Deficit Fund Equity

During the fiscal year ended June 30, 2021, the City reported a gain in Net Position of Governmental Activities in the amount of \$15,294,884 where a loss was reported in the previous year. Additionally, the City's Self Insurance Worker's Compensation and General Liability Internal Service Fund reported a gain in Net Position of \$2,388,671 which significantly reduced the deficit in the fund. As a result, we consider this issue resolved.