

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

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

**Year ended June 30, 2022**

**CITY OF COSTA MESA**  
**SINGLE AUDIT REPORT ON EXPENDITURES OF FEDERAL AWARDS**  
**Year ended June 30, 2022**

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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 (the City), as of and for the year ended June 30, 2022, 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 30, 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 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 identified two deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2022-001 and 2022-002 that we consider to be significant deficiencies.

**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 Responses to Findings**

*Government Auditing Standards* requires the auditor to perform limited procedures on the City's responses to the findings identified in our audit and described in the accompany schedule of findings and questioned costs. The City'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 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" followed by a stylized flourish.

Irvine, California  
December 30, 2022

**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**

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

We have audited the City of Costa Mesa's (City) 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's major federal programs for the year ended June 30, 2022. 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, 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 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**

*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 governmental activities, each major fund, and the aggregate remaining fund information of the City of Costa Mesa as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon, dated December 30, 2022, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements 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.

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.



Irvine, California

March 24, 2023, except for our report on the Schedule of Expenditures of Federal Awards, for which the date is December 30, 2022

**CITY OF COSTA MESA**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**Year Ended June 30, 2022**

Federal Grantor / Pass - Through Grantor / Program / Cluster Title	Catalog of Federal Domestic Assistance Number	Program Identification Number	Federal Expenditures	Amount Provided to Subrecipients
<b><u>United States Department of Housing and Urban Development</u></b>				
Direct Assistance:				
Community Development Block Grant	14.218	B-20-MC-06-0503	\$ 594,256	\$ 152,334
COVID-19 Community Development Block Grant	14.218	B-20-MW-06-0503	761,899	-
Total CDBG Entitlement Grants Cluster			<u>1,356,155</u>	<u>152,334</u>
HOME Investment Partnerships Program	14.239	M-21-MC-06-0507	43,742	-
HOME Investment Partnerships Program	14.239	Program income	37,774	-
Total HOME Investment Partnerships Program			<u>81,516</u>	<u>-</u>
Total United States Department of Housing and Urban Development			<u>1,437,671</u>	<u>152,334</u>
<b><u>United States Department of Justice</u></b>				
Direct Assistance:				
Bulletproof Vest Partnership	16.607	n/a	5,905	-
Total United States Department of Justice			<u>5,905</u>	<u>-</u>
<b><u>United States Department of Treasury</u></b>				
Passed through the County of Orange:				
Coronavirus State and Local Fiscal Recovery Funds	21.027	n/a	199,999	-
Total United States Department of Treasury			<u>199,999</u>	<u>-</u>
<b><u>United States Department of Homeland Security</u></b>				
Passed through the County of Orange:				
Emergency Management Performance Grants	97.042	ALN 21.027	21,371	-
Passed through the Federal Emergency Management Agency:				
Hazard Mitigation Grant	97.039	HMGP#4344-105-118P (Supplement#26)	24,255	-
Passed through the Federal Emergency Management Agency:				
Assistance to Firefighters Grant	97.044	EMW-2020-FG-15200	730,005	-
Total United States Department of Homeland Security			<u>775,631</u>	<u>-</u>
<b><u>United States Department of Transportation</u></b>				
Passed through California Department of Transportation:				
Highway Planning and Construction	20.205	CML-5312(104)	72,848	-
Highway Planning and Construction	20.205	HSIPL-5312(102)	177,274	-
Total Highway Planning and Construction Cluster			<u>250,122</u>	<u>-</u>
Passed through California Office of Traffic Safety:				
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	164AL-21	46,943	-
	20.608	164AL-22	65,113	-
Total Minimum Penalties for Repeat Offenders for Driving While Intoxicated			<u>112,056</u>	<u>-</u>
Passed through California Office of Traffic Safety:				
State and Community Highway Safety	20.600	402PT-21	5,405	-
State and Community Highway Safety	20.600	402PT-22	52,165	-
Total Highway Safety Cluster			<u>57,570</u>	<u>-</u>
Total United States Department of Transportation			<u>419,748</u>	<u>-</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 2,838,954</u>	<u>\$ 152,334</u>

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, 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 Costa Mesa (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. 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, 2022, payments to subrecipients consisted of the following:

<u>Community Development Block Grant</u>	
B-19-MC-06-0503	<u>\$ 152,334</u>
Total	<u>\$ 152,334</u>

**CITY OF COSTA MESA**  
**SUMMARY OF FINDINGS AND QUESTIONED COSTS**  
**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?	2022-001 2022-002
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:	

**CFDA Number**

**Name of Federal Program or Cluster**

14.218

CDBG Entitlement Grants Cluster

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, 2022**

**(Continued)**

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

**2022-001: Financial Health and Deficit Fund Equity**

For the fiscal year ended June 30, 2022, the City reported a positive net position of \$51,627,098. However, after removing amounts that are restricted for specific purposes or invested in capital assets, the City reported a deficit unrestricted net position of (\$225,702,393). The unrestricted net position deficit is largely the result of the recent accounting standards that required the City to report net pension liabilities and total Other Post Employment Benefit liabilities. As of June 30, 2022, the City's net pension liability and total OPEB liability were \$229,609,213 and \$66,254,495, respectively.

Recommendation

We recommend the City continue to evaluate solutions for improving the overall Unrestricted Net Position deficit caused by the pension and OPEB liabilities.

Management's Comments Regarding Corrective Actions Planned

The City concurs with the auditor's recommendation and continues to work on a funding plan to address the city-wide long-term obligations such as pensions and OPEB. The funding plan includes depositing \$1.5 million in the City's Section 115 Trust Plan; prepaying pension obligations annually, which saves the City approximately \$1.0 million; and depositing an additional \$500,000 annually towards the unfunded pension liability in the Fire Side Fund.

The City also strives to manage its pension liability through workforce recruitment. The City implemented tier 2 pension formulas for classic employees in addition to the Public Employees' Pension Reform Act (PEPRA) formulas established statewide. These new formulas aim to reduce long-term pension liability as the City recruits new talents.

Fiscal year 2021-22 marked the second full year of the economic impacts of the pandemic. At the onset of the pandemic, the City Council and management quickly implemented a comprehensive cost containment plan to reduce significant operating expenses. As a result of fiscal prudence and controls on spending, the City has not used reserves through the pandemic.

Furthermore, Standard and & Poor's (S&P) reaffirmed the City's lease revenue bonds AA+ rating in December 2020 based on a very strong and diverse economy, very strong management and financial practices, and strong liquidity and debt position.

**CITY OF COSTA MESA**  
**SUMMARY OF FINDINGS AND QUESTIONED COSTS**

**Year ended June 30, 2022**

**(Continued)**

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

The City remains committed to addressing its long-term pension and OPEB obligations through its proven ability to manage the City's finances.

**2022-002: Audit Adjustments Recorded During the Audit Process**

As a result of audit procedures performed for the fiscal year ended June 30, 2022, we detected and recorded material adjustments to capitalize construction in progress for completed projects, to record unavailable revenue for receivables not received within the availability period, to reduce claims liability due to excess of self-insurance retention amounts, and to segregate revenue and expenditures for fiduciary funds. Additionally, we detected and recorded several immaterial misstatements.

**Recommendation**

We recommend all year end journal entries are recorded prior to the start of the annual audit. If additional time is needed to close the books, we recommend starting the annual audit at a later date to ensure the numbers are accurate and able to be audited during the scheduled audit timeline.

**Management's Comments Regarding Corrective Actions Planned**

The City concurs with the auditor's recommendation. City staff has implemented new procedures to minimize the number of journal entries at fiscal year-end. Additionally, staff compiled a list of journal entries recorded after start of the audit in preparation for next year's audit to ensure the books are adequately closed prior to the start of the audit.

**CITY OF COSTA MESA**  
**SUMMARY OF FINDINGS AND QUESTIONED COSTS**

**Year ended June 30, 2022**

**(Continued)**

**Section III – Federal Award Findings and Questioned Costs**

There were no matters reported.

**CITY OF COSTA MESA**  
**STATUS OF PRIOR AUDIT FINDINGS**

**Year ended June 30, 2022**

There were two findings reported in the Single Audit Report for fiscal year ended June 30, 2022. The status of the findings are as follows:

**Reference Number: 2021-001**

***Audit Adjustments Recorded During the Audit Process***

During the fiscal year ended June 30, 2022, we detected and recorded several material adjustments and immaterial misstatements. This issue has not been resolved this fiscal year and is a repeated finding in Section II.

**Reference Number: 2021-002**

***Federal Awards - Reporting***

During the fiscal year ended June 30, 2021, the City submitted their Interim Report of Coronavirus State and Local Fiscal Recovery. The City 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. The revised cost information was reflected on the subsequent report. As a result, we consider this issued resolved.