



Federal Awards Reports in Accordance
with the Uniform Guidance
Fiscal Year Ended June 30, 2023

City of Walnut, California

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Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

To the Honorable Mayor and Members of City Council
City of Walnut, California

We have audited, in accordance with 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 Walnut, California (City), as of and for the year then ended June 30, 2023, 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 8, 2023.

Report on 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 the City's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on 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 statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Eide Sully LLP". The signature is written in a cursive, flowing style.

Rancho Cucamonga, California
December 8, 2023



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

To the Honorable Mayor and Members of the City Council
City of Walnut, California

Report on Compliance for the Major Federal Program

Opinion on the Major Federal Program

We have audited the City of Walnut, California'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 the City's major federal program for the year ended June 30, 2023. The City's major federal program is 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, 2023.

Basis for Opinion on the 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 the 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 program.

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 the 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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2023-001 and 2023-002 to be significant deficiencies.

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.

Government Auditing Standards requires the auditor to perform limited procedures on the City's response to the internal control over compliance findings identified in our compliance audit described in the accompanying schedule of findings and questioned costs. The City'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.

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, each major fund, and the aggregate remaining fund information of the City as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated December 8, 2023, 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. The information has been subjected to the auditing procedures applied in the audit of 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.



Rancho Cucamonga, California
February 29, 2024

City of Walnut, California
Schedule of Expenditures of Federal Awards
Fiscal Year Ended June 30, 2023

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal Financial Assistance Listing	Pass-through Entity Identifying Number	Expenditures
U.S. Department of Housing and Urban Development			
Passed through Los Angeles County Development Authority			
Community Development Block Grants/Entitlement Grants	14.218	D99589-22	\$ 107,333
Community Development Block Grants/Entitlement Grants	14.218	600804-22	<u>22,789</u>
Total Community Development Block Grants/Entitlement Grants Cluster			<u>130,122</u>
Total U.S Department of Housing and Urban Development			<u>130,122</u>
U.S. Department of the Treasury			
Passed through the State of California			
COVID-19 Coronavirus State and Local Fiscal Recovery Funds	21.027	N/A*	<u>1,324,271</u>
Total U.S. Department of the Treasury			<u>1,324,271</u>
Total Federal Financial Assistance			<u>\$ 1,454,393</u>

*N/A - Not available.

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of the City of Walnut, California (City) under programs of the federal government for the year ended June 30, 2023. 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* (Uniform Guidance). 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 or changes in net position or fund balance.

Note 2 - Summary of Significant Accounting Policies

Expenditures reported in the Schedule are reported on the modified accrual basis of accounting. When applicable, such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as reimbursement. No federal assistance has been provided to a subrecipient.

Note 3 - Indirect Cost Rate

The City does not draw for indirect administrative expenses and has not elected to use the 10% de minimis cost rate.

Section I – Summary of Auditor’s Results

FINANCIAL STATEMENTS

Type of auditor's report issued	Unmodified
Internal control over financial reporting:	
Material weaknesses identified	No
Significant deficiencies identified not considered to be material weaknesses	None Reported
Noncompliance material to financial statements noted?	No

FEDERAL AWARDS

Internal control over major program:	
Material weaknesses identified	No
Significant deficiencies identified not considered to be material weaknesses	Yes
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 2 CFR 200.516(a):	Yes

Identification of major programs:

<u>Name of Federal Program</u>	<u>Federal Financial Assistance Listing</u>
COVID-19 Coronavirus State and Local Fiscal Recovery Funds	21.027
Dollar threshold used to distinguish between type A and type B programs:	\$750,000
Auditee qualified as low-risk auditee?	No

Section II – Financial Statement Findings

None noted.

Section III – Federal Award Findings and Questioned Costs

2023-001 **Program:** COVID-19 – Coronavirus State and Local Fiscal Recovery Funds
Financial Assistance Listing Number: 21.027
Federal Agency: U.S. Department of Treasury
Award Year: 2021
Grant Award Number: N/A
Compliance Requirement: Reporting
Type of Finding: Significant Deficiency in Internal Control Over Compliance

Criteria:

In accordance with the Coronavirus State and Local Fiscal Recovery Funds Compliance and Reporting Guidance, the City is required to submit an annual Project and Expenditure Report annually. The City is required to appropriately maintain accounting records for compiling and reporting accurate, compliance financial data, in accordance with appropriate accounting standards and principles.

Condition:

The City's reporting requirements include submitting an annual Project and Expenditure Report. We noted no evidence of review prior to the submission of the report to the U.S. Treasury's reporting portal.

Cause:

Management did not have established policies and procedures in place for the preparation and review of the Project and Expenditure.

Questioned Costs:

None

Effect:

The City's internal control environment is not operating effectively.

Context/Sampling:

We noted that due to the City's specific reporting requirements, only one (1) annual report is required to be submitted to the U.S. Treasury. As such, the entire population was tested.

Repeat Finding from the Prior Year(s):

No.

Recommendation:

We recommend the City implement formal policies and procedures for the reporting of Coronavirus State and Local Fiscal Recovery Funds. Internal controls should be established to create appropriate segregation of duties over the preparation and approval of reports to ensure the timely and accurate submission of all mandatory program reporting.

Views of Responsible Official and Planned Corrective Actions:

See separate corrective action plan.

2023-002

Program: COVID-19 – Coronavirus State and Local Fiscal Recovery Funds

Financial Assistance Listing Number: 21.027

Federal Agency: U.S. Department of Treasury

Award Year: 2021

Grant Award Number: N/A

Compliance Requirement: Suspension and Debarment

Type of Finding: Significant Deficiency in Internal Control Over Compliance

Criteria:

2 CFR Part 200 Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Award requires compliance with the provisions of suspension and debarment. The City should have internal controls designed to ensure compliance with those provisions.

Condition:

The City was not able to provide supporting documentation that the City verified the vendor was not suspended or debarred prior to entering the transaction.

Cause:

The City did not maintain supporting documentation that the verification of suspension or debarment was performed prior to entering into a contract.

Questioned Costs:

None

Effect:

We noted no instances of noncompliance with the provisions of suspension and debarment. However, we were not able to verify that the City followed their internal controls to ensure the vendor was not suspended or debarred prior to entering the transaction.

Context:

A nonstatistical sample of three (3) out of (13) vendor contracts were tested. Documentation to support that the City performed the verification of suspension or debarment could not be provided.

Repeat Finding from Prior Year(s):

No.

Recommendation:

We recommend the City implement procedures to ensure that verification documentation for suspension and debarment is maintained to support the City's internal control over compliance.

Views of Responsible Officials:

See separate corrective action plan.

Financial Statement Findings

None reported.

Federal Award Findings

None reported.