

CITY OF FOUNTAIN VALLEY

**Single Audit Report on
Federal Awards**

Year Ended June 30, 2023

CITY OF FOUNTAIN VALLEY
Single Audit Report on Federal Awards
Year Ended June 30, 2023

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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

City Council
City of Fountain Valley
Fountain Valley, California

Independent Auditor's Report

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 Fountain Valley (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, and have issued our report thereon dated January 26, 2024.

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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 internal control, described in the accompanying schedule of findings and questioned costs as items 2023-001 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 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*.

City's Response to Finding

Government Auditing Standards requires the auditor to perform limited procedures on the City's response to the finding identified in our audit and 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 the financial statements and, accordingly, we express no opinion on the response.

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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in blue ink that reads "Davis Fan" followed by a stylized flourish.

Irvine, California
January 26, 2024

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

City Council
City of Fountain Valley
Fountain Valley, California

Independent Auditor's Report

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited the City of Fountain Valley'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, 2023. 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, 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 (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.

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 Uniform Guidance

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon, dated January 26, 2024, 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.



Irvine, California
March 27, 2024 except for our report on the Schedule of Expenditures of Federal Awards, for which the date is January 26, 2024

CITY OF FOUNTAIN VALLEY
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2023

Federal Grantor Program Title	Catalog of Federal Domestic Assistance Number	Program Identification Number	Federal Expenditures	Subrecipient Expenditures
United States Department of Housing and Urban Development				
Direct assistance:				
Community Development Block Grant Cluster:				
Community Development Block Grant / Entitlement Grant	14.218	B-20-MC-06-0550	\$ <u>434,392</u>	<u>81,332</u>
Total U.S. Department of Housing and Urban Development			<u>434,392</u>	<u>81,332</u>
United States Department of Transportation				
Passed through State of California:				
Minimum Penalties for Repeat Offenders of Driving While Intoxicated	20.608	PT21172	<u>28,005</u>	<u>-</u>
Minimum Penalties for Repeat Offenders of Driving While Intoxicated	20.608	PT23030	<u>32,127</u>	<u>-</u>
Passed-through California Department of Transportation:				
Highway Planning and Construction Cluster:				
Highway Planning and Construction Cluster	20.205	HSIPL-5341(033)	<u>2,387,969</u>	<u>-</u>
Total U.S. Department of Transportation			<u>2,448,101</u>	<u>-</u>
United States Department of Homeland Security				
Passed through California Governor's Office of Emergency:				
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	FEMA-4482-DR-CA CAL OES ID: 059-25380	<u>119,799</u>	<u>-</u>
Passed through County of Orange				
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	FEMA-4482-DR-CA CAL OES ID: 0529-00000	<u>29,314</u>	<u>-</u>
Total U.S. Department of Homeland Security			<u>149,113</u>	<u>-</u>
United States Department of Treasury				
Passed through County of Orange:				
COVID-19 Coronavirus State and Local Fiscal Recovery Funds	21.027	CA3010069	<u>9,125</u>	<u>-</u>
Total U.S. Department of Treasury			<u>9,125</u>	<u>-</u>
Total Federal Expenditures			<u>\$ 3,040,731</u>	<u>81,332</u>

See accompanying notes to the schedule of expenditures of federal awards.

CITY OF FOUNTAIN VALLEY

Notes to the Schedule of Expenditures of Federal Awards

Year Ended June 30, 2023

(1) Summary of Significant Accounting Policies Applicable to the Schedule of Expenditures of Federal Awards

(a) Scope of Presentation

The accompanying schedule presents only the expenditures incurred by the City of Fountain Valley (the City) that are reimbursable by agencies providing federal assistance. For the purposes of this schedule, federal financial assistance includes both federal financial assistance received directly from a federal agency, as well as federal funds received indirectly from a non-federal agency or other organization. Only the portion of program expenditures reimbursable with such federal funds are reported in the accompanying schedule. Program expenditures in excess of the maximum federal reimbursement authorized or the portion of the program expenditures that were funded with state, local or other non-federal funds are excluded from the accompanying schedule. The City did not use the 10% de minimis indirect cost rate covered in section 200.414 of the Uniform Guidance.

(b) Basis of Accounting

The expenditures included in the accompanying schedule were reported on the accrual basis of accounting. Under the accrual basis of accounting, expenditures are recognized when incurred. Expenditures reported include any property or equipment acquisitions incurred under the federal program.

(c) Subrecipients

For the fiscal year ended June 30, 2023, payments to subrecipients consisted of the following:

Community Development Block Grant

B-20-MC-06-0550	<u>\$ 81,332</u>
Total	<u>\$ 81,332</u>

CITY OF FOUNTAIN VALLEY

Schedule of Findings and Questioned Costs

Year Ended June 30, 2023

Section I - Summary of Auditor's Results

Financial Statements

- | | |
|---|------------|
| 1. Type of auditor's report issued on whether the financial statements audited were prepared in accordance with GAAP: | Unmodified |
| 2. Internal control over financial reporting: | |
| a. Material weakness(es) identified? | No |
| b. Significant deficiency(ies) identified? | 2023-001 |
| 3. Noncompliance material to the financial statements noted? | No |

Federal Awards

- | | |
|--|------------|
| 1. Internal control over major programs: | |
| a. Material weakness(es) identified? | No |
| b. Significant deficiency(ies) identified? | None noted |
| 2. Type of auditor's report issued on compliance for major programs: | Unmodified |
| 3. Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516 (a)? | No |

4. Identification of major programs:

CFDA Number

20.205

Name of Federal Program or Cluster

Highway Planning and Construction

- | | |
|---|-----------|
| 5. Dollar threshold used to distinguish between Type A and Type B programs: | \$750,000 |
| 6. Auditee qualified as a low-risk auditee? | Yes |

CITY OF FOUNTAIN VALLEY

Schedule of Findings and Questioned Costs

Year Ended June 30, 2023

Section II - Financial Statement Findings

2023-001: Journal Entries Detected During the Audit

As a result of audit procedures performed for the fiscal year ended June 30, 2023, we identified three projects placed in service that were reported as construction in progress. All three projects should have been moved to a depreciable asset category. This resulted in a material adjustment to correct construction in progress and accumulated depreciation.

We also detected material misstatements in OPEB beginning balance resulting in a journal entry to agree the balance to the actuarial report resulting in a journal entry to correct OPEB expense and deferred outflow of resources.

Recommendation

We recommend the City Finance Department and Public Works department communicate about the status of projects throughout the year and review all open projects at the end of the year to determine when projects are complete or otherwise should be moved out of construction in progress. The City should also revise OPEB beginning balances against their actuarial report.

Management's Comments Regarding Corrective Actions Planned

Management concurs and has taken steps to improve communications between Finance and Public Works regarding the status of ongoing projects to ensure that projects are moved out of construction in progress when placed into service. Management has also incorporated more in-depth communications about the CIP program into mid-year and annual budget discussions, facilitating clarification about project status and addressing budgetary needs. The City will also revise the beginning OPEB balances to agree with the actuarial report.

CITY OF FOUNTAIN VALLEY
Schedule of Findings and Questioned Costs
Year Ended June 30, 2023

Section III - Federal Award Findings and Questioned Costs

There were no matters reported.

CITY OF FOUNTAIN VALLEY
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2023

Status of Prior Year Audit Findings

2022-001: Journal Entries Detected During the Audit

This finding has been repeated as item 2023-001.