

City of Guadalupe

Guadalupe, California

Single Audit Reports

For the year ended June 30, 2021



City of Guadalupe
Single Audit Reports
For the 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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Guadalupe, California (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 March 31, 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 the City's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and responses, we did identify certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2021-01 to be a material weakness. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2021-002, to be a significant deficiency.

To the Honorable Mayor and Members of the City Council
of the City of Guadalupe
Guadalupe, California
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Compliance and Other Matters

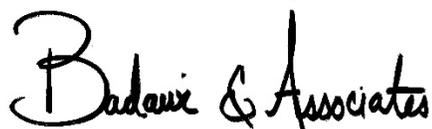
As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect 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 of Guadalupe's Response to Findings

City's response to the findings 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 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 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 cursive script that reads "Badawi & Associates".

Badawi & Associates, CPAs
Berkeley, California
March 31, 2022



**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH THE UNIFORM GUIDANCE
AND ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

INDEPENDENT AUDITOR'S REPORT

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

Report on Compliance for Each Major Federal Program

We have audited the City of Guadalupe, California (City)'s 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 the 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, 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 the 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.

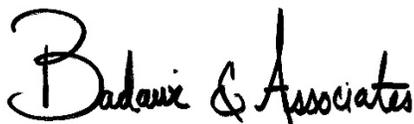
Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

To the Honorable Mayor and Members of the City Council
of the City of Guadalupe
Guadalupe, California
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Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, 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. We issued our report thereon dated March 31, 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. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

A handwritten signature in black ink that reads "Badawi & Associates". The signature is written in a cursive, flowing style.

Badawi & Associates, CPAs
Berkeley, California
March 31, 2022

City of Guadalupe
Schedule of Expenditures of Federal Awards
For the year ended June 30, 2021

Grantor Agency and Grant Title	Federal Catalog Number	Pass-through Number	Program Expenditures	Subrecipient Payment
U.S. Department of Transportation:				
Formula Grants for Rural Areas and Tribal Transit Program				
COVID19 - Passed through State of California for CARES Act	20.509	64VO20-01062	\$ 133,739	\$ -
Passed through State of California	20.509	64B019-00886	66,992	-
		Subtotal Formula Grants for Rural Areas	200,731	-
Total U.S. Department of Transportation			<u>200,731</u>	<u>-</u>
Department of Housing and Urban Development:				
<i>Passed through State of California</i>				
Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii	14.228	17CDBG12099	3,108,958	111,187
COVID19 - Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii	14.228	20CDBGCV100085	38,156	10,166
Total Department of Housing and Urban Development			<u>3,147,114</u>	<u>121,353</u>
Department of the Treasury:				
<i>Passed through State of California</i>				
COVID19 - Coronavirus Relief Fund	21.019	n/a	99,777	-
Total Department of the Treasury			<u>99,777</u>	<u>-</u>
Total Expenditures of Federal Awards			<u>\$ 3,447,622</u>	<u>\$ 121,353</u>

See accompanying Notes to Schedule of Expenditures of Federal Awards.

City of Guadalupe
Notes to the Schedule of Expenditures of Federal Awards
For the year ended June 30, 2021

A. Reporting Entity

The financial reporting entity consists of (a) the primary government, City of Guadalupe, California (City), (b) organizations for which the primary government is financially accountable, and (c) other organizations for which the primary government is not accountable, but for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The component unit discussed below is included in the reporting entity because of its operational or financial relationships with the City.

- Guadalupe Public Financing Authority

Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. In addition, component units can be other organizations for which the primary government's exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

Separate financial statements for the Guadalupe Financing Authority are not prepared. There are currently no reportable financial transactions of the Authority.

B. Basis of Accounting

Funds received under the various grant programs have been recorded within the general, special revenue, and capital projects funds of the City. The City utilizes the modified accrual basis of accounting for the general, special revenue, and capital projects funds. Expenditures of federal awards reported on the Schedule of Expenditures of Federal Awards (Schedule) are recognized when incurred.

C. Relationship of Schedule of Expenditures of Federal Awards to Financial Statements

The accompanying Schedule presents the activity of all federal financial assistance programs of the City. Federal financial assistance received directly from federal agencies as well as federal financial assistance passed through the State of California is included in the Schedule.

The Schedule was prepared only from the accounts of various grant programs and, therefore, does not present the financial position or results of operations of the City.

D. Pass-Through Entities' Identifying Number

When federal awards were received from a pass-through entity, the Schedule shows, if available, the identifying number assigned by the pass-through entity. When no identifying number is shown, the City determined that no identifying number is assigned for the program or the City was unable to obtain an identifying number from the pass-through entity.

E. Indirect Costs

The City did not elect to use the 10% de minimis indirect cost rate.

City of Guadalupe
Schedule of Findings and Questioned Costs
For the year ended June 30, 2021

Section I - Summary of Auditor's Results

Financial Statements

Types of auditors' report issued on whether financial statements audited were prepared in accordance with GAAP: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? Yes
- Significant deficiency(ies) identified? Yes

Any noncompliance material to the financial statements noted No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? No
- Significant deficiency(ies) identified? None noted

Type of auditor's report issued on compliance for major programs Unmodified

Any audit findings disclosed that are required to be reported in accordance with section 200.516(a) No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster	Expenditures
14.228	Community Development Block Grant	\$ 3,147,114
	Total Expenditures of All Major Federal Programs	\$ 3,147,114
	Total Expenditures of Federal Awards	\$ 3,447,622
	Percentage of Total Expenditures of Federal Awards	91.3%

Dollar threshold used to distinguish between type A and type B program \$750,000

Auditee qualified as low-risk auditee under section 200.520? No

City of Guadalupe
Schedule of Findings and Questioned Costs, Continued
For the year ended June 30, 2021

Section II - Current Year Findings

A. Financial Statement Audit

2021-001 - Insufficient Fund Balance in the General Fund and the Ability of the City to Continue As a Going Concern (Material Weakness)

Criteria:

General-purpose local governments, regardless of size, at a minimum should maintain an unrestricted budgetary fund balance in the general fund no less than 2 months of regular general fund operating revenues or regular general fund operating expenditures.

Condition:

The General Fund did not maintain a sufficient or adequate fund balance level to ensure continuity of operations as of June 30, 2021. The General Fund finished the year with a fund balance of \$370,356 compared to a fund balance of \$485,622 in the prior fiscal year. This balance represents 28 days of operating revenues and 25 days of operating expenditures. The fund balance in spendable form is \$27,757. As of June 30, 2021 the General Fund owed internally to the Lighting and Assessment Fund and the Water Fund the amounts of \$240,000 and \$368,996, respectively. These interfund loans were made so that the General Fund could sustain its basic operations.

The aforementioned conditions have raised doubt about the City's ability to continue as a going concern, as described further in Note 15 of the Basic Financial Statements.

Cause:

The City has either overspent its budget in the past or the budget was not balanced which led to overspending and the insufficient fund balance situation.

Effect:

Insufficient fund balances and decrease in revenues in the past have created a budget shortfall that requires continued cost cutting measures to reach a budget that will increase the fund balance to an acceptable level as well as provide the necessary revenues and financing for continued operations of the City. In addition, an insufficient General Fund balance puts the City in a vulnerable position in times of economic stress.

Recommendation:

We recommend the City continue to analyze all potential cost cutting measures and revenue sources, and review options to adhere to a budget plan for the General Fund and other funds to increase the fund balance, as well as provide continued financing for City operations.

Management Response:

In fiscal year 2019-20, the General fund increased from prior year's negative fund balance, ending the year at \$485,622, from a negative \$15,325. In fiscal year 2020-21, the fund balance decreased about \$115,000. The primary goal is to preserve reserves and accumulate reserves. The City's revenue continues to increase as the Pasadera Development adds additional homes this fiscal year. The Escalante Meadows Development is also expected to increase Building Permit and related construction fee revenues by fiscal year 2022. Other revenues showing steady increases are Sales Tax with the new Measure N that was passed with the November 2020 election, Property Tax with new development,

City of Guadalupe
Schedule of Findings and Questioned Costs, Continued
For the year ended June 30, 2021

Section II - Current Year Findings, continued

A. Financial Statement Audit, continued

2021-001 - Insufficient Fund Balance in the General Fund and the Ability of the City to Continue As a Going Concern (Material Weakness), Continued

Management Response (continued):

Business License, Utility Users Tax and Franchise Fees. In addition, City Council is currently working on bringing Cannabis to the City in the near future. The City has received \$99,777 from the CARES Act in fiscal year 2021 and will receive American Rescue Plan funds in fiscal year 2022. Amid the pandemic, the City still needs to look at finding alternatives to sustain recurring revenue streams for the future in order to build strong reserves and to continue to provide residents with current services.

2021-002 - Control Over Journal Entries and Financial Reporting (Significant Deficiency)

Criteria:

A good internal control system over financial reporting requires that certain tasks such as creating journal entries and reviewing journal entries be segregated and not performed by the same individual.

Condition:

During our audit we noted that there was mainly one person who was responsible for creating journal entries with no independent review of those entries by an independent person. We also noted multiple journal entry errors that were both corrected and uncorrected.

Cause:

Duties in the financial reporting system are not properly segregated to ensure good checks and balances are in place.

Effect:

Journal entries amounts may be misstated due to errors not detected during the self-review process. In addition, unauthorized entries may be posted and not detected timely.

Recommendation:

We recommend that the City improve and strengthen its procedures for review and reconciliation to ensure that journal entries are properly reviewed and reconciled by an independent person and there is adequate segregation of duties in place.

Management Response:

Finance Director proposes journal entries and Business Manager reviews and enters the journal entries. The City will review and set up controls to ensure approval controls of journal entries takes place for all changes to the accounting records. City Staff is hopeful that the new accounting software will accommodate workflow and authorization parameters to improve our controls and segregation of duties. In addition, the finance department will propose that the City Administrator review journal entries prior to posting.

City of Guadalupe
Schedule of Findings and Questioned Costs, Continued
For the year ended June 30, 2021

Section II - Current Year Findings, continued

B. Federal Award Program Audit

No current year federal award program audit findings.

Section III- Prior Year Findings

A. Financial Statement Audit

2020-001 - Insufficient Fund Balance in the General Fund and the Ability of the City to Continue As a Going Concern (Material Weakness)

Criteria:

General-purpose local governments, regardless of size, at a minimum should maintain an unrestricted budgetary fund balance in the general fund no less than 2 months of regular general fund operating revenues or regular general fund operating expenditures.

Condition:

The General Fund did not maintain a sufficient or adequate fund balance level to ensure continuity of operations as of June 30, 2020. The General Fund finished the year with a fund balance of \$485,622 compared to a fund balance of \$15,325 in the prior fiscal year. This balance represents 38 days of operating revenues and 38 days of operating expenditures. The fund balance in spendable form is \$343,261. As of June 30, 2020 the General Fund owed internally to the Lighting and Assessment Fund and the Water Fund the amounts of \$282,500 and \$433,830, respectively. These interfund loans were made so that the General Fund could sustain its basic operations.

The aforementioned conditions have raised doubt about the City's ability to continue as a going concern, as described further in Note 14.

Cause:

The City has either overspent its budget in the past or the budget was not balanced which led to overspending and the insufficient fund balance situation.

Effect:

Insufficient fund balances and decrease in revenues in the past have created a budget shortfall that requires continued cost cutting measures to reach a budget that will increase the fund balance to an acceptable level as well as provide the necessary revenues and financing for continued operations of the City. In addition, an insufficient General Fund balance puts the City in a vulnerable position in times of economic stress.

Recommendation:

We recommend the City continue to analyze all potential cost cutting measures and revenue sources, and review options to adhere to a budget plan for the General Fund and other funds to increase the fund balance, as well as provide continued financing for City operations.

City of Guadalupe
Schedule of Findings and Questioned Costs, Continued
For the year ended June 30, 2021

Section III – Prior Year Findings, continued

A. Financial Statement Audit, continued

2020-001 – Insufficient Fund Balance in the General Fund and the Ability of the City to Continue As a Going Concern (Material Weakness), Continued

Management Response:

General Fund: The City has a positive fund balance currently as of November 2020. The City’s goal is to maintain a positive fund balance and the preservation of future reserves. The City adopted Financial Policies with its 2019-2021 Budget that target the establishment of reserve funds at optimum levels. However, the City of Guadalupe declared a local state of Emergency in March 2020 due to the COVID19 pandemic. Although the pandemic brings much uncertainty, the City expects sales tax revenue, along with business licenses, property tax and local streets and roads funding to not be significantly impacted. City staff will monitor the financial situation and impact of the pandemic on a monthly basis for the remainder of fiscal year 2021 and into fiscal year 2022. Amid the pandemic, building Permit and related construction fee revenues have helped the City’s cash flow as the Pasadera development continues construction. Other development projects are expected at the end of fiscal year 2021. The City is also working with FEMA to obtain reimbursement for COVID19 related expenses. The City received \$99,777 from the CARES Act to offset the impact of the pandemic. The City is looking to sustain recurring revenue streams for the future including a new sales tax measure effective April 2021 and continuation of increase of water and wastewater rates. In addition, Users Tax, Franchise Fees and Property taxes are expected to rise over time as a positive long-term outcome of the new development.

2020-002 – Control Over Journal Entries and Financial Reporting (Significant Deficiency)

Criteria:

A good internal control system over financial reporting requires that certain tasks such as creating journal entries and reviewing journal entries be segregated and not performed by the same individual.

Condition:

During our audit we noted that there was mainly one person who was responsible for creating journal entries with no independent review of those entries by an independent person. We also noted multiple journal entry errors that were both corrected and uncorrected.

Cause:

Duties in the financial reporting system are not properly segregated to ensure good checks and balances are in place.

Effect:

Journal entries amounts may be misstated due to errors not detected during the self-review process. In addition, unauthorized entries may be posted and not detected timely.

Recommendation:

We recommend that the City improve and strengthen its procedures for review and reconciliation to ensure that journal entries are properly reviewed and reconciled by an independent person and there is adequate segregation of duties in place.

City of Guadalupe
Schedule of Findings and Questioned Costs, Continued
For the year ended June 30, 2021

Section III - Prior Year Findings, continued

A. Financial Statement Audit, continued

**2020-002 - Control Over Journal Entries and Financial Reporting (Significant Deficiency),
Continued**

Management Response:

Finance Director proposes journal entries and Business Manager reviews and enters the journal entries. The City will review and set up controls to ensure approval controls of journal entries takes place for all changes to the accounting records. City Staff is hopeful that the new accounting software will accommodate workflow and authorization parameters to improve our controls and segregation of duties. In addition, the finance department will propose that the City Administrator review journal entries prior to posting.

B. Federal Award Program Audit

No prior year federal award program audit findings.