

**CITY OF PLACENTIA, CALIFORNIA**  
**SINGLE AUDIT OF FEDERALLY ASSISTED**  
**GRANT PROGRAMS**  
**YEAR ENDED JUNE 30, 2023**



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**INDEPENDENT AUDITORS' 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**

Members of the City Council  
City of Placentia  
Placentia, 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 City of Placentia (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 April 30, 2024.

***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.

Our consideration of internal control 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 were not identified. However, as described in the accompanying schedule of findings and questioned costs we identified 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. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2023-001 to be a material weakness.

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 2023-002 to be a significant deficiency.

**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 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 Placentia's Response to Findings**

*Government Auditing Standards* requires the auditor to perform limited procedures on the City's response to the findings identified in our audit and described in the accompanying schedule of findings and responses. 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 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.



**CliftonLarsonAllen LLP**

Irvine, California  
April 30, 2024



**INDEPENDENT AUDITORS' 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**

Members of the City Council  
City of Placentia  
Placentia, California

**Report on Compliance for Each Major Federal Program**

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

We have audited the City of Placentia's (the 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 auditors' 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; 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 Auditors' 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.

***Auditors' 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.

### **Other Matters**

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as 2023-004 through 2023-007. Our opinion on each major federal program is not modified with respect to these matters.

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

### **Report on Internal Control Over Compliance**

Our consideration of internal control over compliance was for the limited purpose described in the Auditors' 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. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be material weaknesses and 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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2023-004, 2023-005 and 2023-007 to be material weaknesses.

*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 2023-003 and 2023-006 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 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, 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 have issued our report thereon, dated April 30, 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. 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.



**CliftonLarsonAllen LLP**

Irvine, California  
September 3, 2024

**CITY OF PLACENTIA  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2023**

Federal Grantor/Pass-Through Grantor/ Program/Cluster Title/Project	Federal Assistance Listing Number	Pass-Through Entity Identifying Number	Federal Expenditures	Passed- Through to Subrecipients
<b>U.S. Department of Housing and Urban Development</b>				
Passed-through the County of Orange:				
Community Development Block Grants/ Entitlement Grants Cluster:				
Community Development Block Grant	14.218	22-23-0018-HCD	\$ 284,767	\$ -
COVID-19 - Community Development Block Grant	14.218	012-23010698-CV	100,000	-
Total Community Development Block Grants/ Entitlement Grants Cluster and U.S. Department of Housing and Urban Development			384,767	-
<b>U.S. Department of Transportation</b>				
Highway Planning and Construction Cluster:				
Passed-Through the California Department of Transportation:				
Highway Planning and Construction	20.205	HSIPL-2569(028)	734,365	-
Passed-Through the Orange County Transportation Authority:				
Highway Planning and Construction	20.205	ORA190913	55,486	-
Total Highway Planning and Construction Cluster/ U.S. Department of Transportation			789,851	-
<b>U.S. Department of Treasury</b>				
Direct Assistance:				
COVID-19 - Coronavirus State and Local Fiscal Recovery Funds	21.027	N/A	6,824,192	-
Passed-through the County of Orange:				
COVID-19 - Coronavirus State and Local Fiscal Recovery Funds	21.027	SLFRP1607	300,000	-
Total U.S. Department of Treasury			7,124,192	-
<b>U.S. Department of Justice</b>				
Direct Assistance:				
Equitable Sharing Program	16.922	N/A	153,916	-
Bulletproof Vest Partnership Program	16.607	N/A	6,321	-
Passed-through The Children's Initiative:				
Project Safe Neighborhoods	16.609	2019-GP-BX-0134	443,852	-
Passed-through The Orange County Sheriff's Department:				
Edward Byrne Memorial Justice Assistance Grant Program	16.738	15PBJA-21-GG- 01188-JAGX	5,830	-
Edward Byrne Memorial Justice Assistance Grant Program	16.738	15PBJA-22-GG- 02074-JAGX	12,515	-
Total Edward Byrne Memorial Justice Assistance Grant Program			18,345	-
Total U.S. Department of Justice			622,434	-
Total Expenditures of Federal Awards			\$ 8,921,244	\$ -

**CITY OF PLACENTIA**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**JUNE 30, 2023**

**NOTE 1 BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of the City of Placentia (the City) under programs of the federal government as well as federal financial assistance passed through other government agencies 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 statements of the City. The City's reporting entity is defined in Note 1 of the notes to the City's financial statements.

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting for governmental funds and the accrual basis for proprietary funds, which is described in Note 1 of the notes to the City's financial statements. Such expenditures are recognized following the cost principles contained in the Uniform Guidance for all awards, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

**NOTE 3 INDIRECT COST RATE**

The City has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

**CITY OF PLACENTIA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2023**

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**Section I – Summary of Auditors’ Results**

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**Financial Statements**

1. Type of auditors’ report issued: Unmodified
2. Internal control over financial reporting:
- Material weakness(es) identified?     x     yes            no
  - Significant deficiency(ies) identified?     x     yes            none reported
3. Noncompliance material to financial statements noted?            yes     x     no

**Federal Awards**

1. Internal control over major federal programs:
- Material weakness(es) identified?     x     yes            no
  - Significant deficiency(ies) identified?     x     yes            none reported
2. Type of auditors’ report issued on compliance for major federal programs: Unmodified
3. Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?     x     yes            no

**Identification of Major Federal Programs**

<b>Assistance Listing Number(s)</b>	<b>Name of Federal Program or Cluster</b>
14.218	Community Development Block Grant - Entitlement Grants Cluster
21.027	Coronavirus State and Local Fiscal Recovery Funds

- Dollar threshold used to distinguish between Type A and Type B programs: \$     750,000
- Auditee qualified as low-risk auditee?            yes     x     no

**CITY OF PLACENTIA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2023**

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***Section II – Financial Statement Findings***

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**2023 – 001: OPEB Trust Contribution**

**Type of Finding:** Material Weakness in Internal Control over Financial Reporting

**Condition:** A contribution of \$1,706,825 to the City's newly-created post-employment benefits section 115 trust for the purpose of providing other postemployment benefits (OPEB) was recorded as an asset in the general fund instead of an OPEB contribution expenditure.

**Criteria or specific requirement:** Employer contributions to a trust in which employer OPEB contributions and earnings are irrevocable, OPEB plan assets are dedicated to providing OPEB to plan members in accordance with benefit terms, and OPEB plan assets are legally protected from creditors of the employer, the OPEB plan administrator and plan members, should be reported as an expenditure in the year that the contribution is made.

**Effect:** The condition noted above resulted in an overstatement of assets and an understatement of expenditures of \$1,706,825 in the general fund and an overstatement of assets in the governmental activities.

**Cause:** Confusion resulted due to a timing difference. The net OPEB liability measurement date is one year prior to reporting date and the \$1,706,825 was a contribution to a new trust set up for OPEB after the measurement date. Also, the newly established trust involved subaccounts which were separately dedicated for either pension or OPEB benefits. Reporting of trusts for purposes of pensions and OPEB can be different.

**Recommendation:** We recommend that the City review the relevant accounting standards and seek guidance if necessary on the proper accounting treatment of transactions which are not common or are new to the City.

**Views of responsible officials and planned corrective actions:** City staff agrees there was confusion on how to record this transaction. Moving forward this will no longer be an issue as it is now understood.

**CITY OF PLACENTIA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2023**

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***Section II – Financial Statement Findings (Continued)***

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**2023 – 002: GASB 87 Lease Implementation**

**Type of Finding:** Significant Deficiency in Internal Control over Financial Reporting

**Condition:** Assets and liabilities for 12 vehicles were not properly identified for recording as leases in the prior year when the City implemented GASB 87, *Leases*. Additionally, leases receivable and deferred inflow of resources for one lease receivable was understated due to the option periods of the lease not being properly identified when recording the lease when the City implemented GASB 87, *Leases*. Also, the City did not identify one short-term lease for equipment that was modified in March 2023, and became subject to reporting as a right-to-use asset and lease liability, until one year after the modification occurred.

**Criteria or specific requirement:** All lease assets that meet the criteria for recording of under GASB Statement No. 87, *Leases*, should have been recorded in the year of implementation. All option periods for lease receivables should be included in the calculation of the present value of lease receivables. Any modifications to a lease arrangement should be reassessed to determine the appropriate reporting changes.

**Effect:** On the prior period's financial statements, assets were understated by \$4,972,742, liabilities were understated by \$345,526, and deferred inflow of resources was understated by \$4,627,216. The City's net position on the prior period's financial statements was overstated by approximately \$59,000.

**Cause:** The City did not properly identify, in a timely manner, the fleet vehicle leases for recording as right-to-use assets and lease liabilities, the option period for a lease receivable, and a modification to a short-term lease that resulted in the recording of a new right-to-use asset and lease liability.

**Recommendation:** We recommend that the City review its internal control policies and procedures over the identification, review and recording of contracts that could be subject to reporting in accordance with GASB Statement No. 87, *Leases*. We also recommend that the process developed by the City should be done at regular intervals throughout the year based on the expected volume of potential transactions so that contracts subject to the standard are reported and accounted for in a timely manner.

**Views of responsible officials and planned corrective actions:** The City of Placentia contracted with DebtBook to assist in the implementation of GASB 87 by analyzing all leases. To being the implementation the city turned over all lease related documents to DebtBook for implementation. After they inputted all contracts. DebtBook sent over a list of all GASB 87 and non-GASB 87 lease in which this list did not have the missing Enterprise leases on it. The City didn't compare this list to the original lease contracts that were sent over leading to these leases being left off. Moving forward this has been corrected and will not happen in the future as staff now enters all new leases.

**CITY OF PLACENTIA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2023**

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***Section III – Findings and Questioned Costs – Major Federal Programs***

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**2023-003: Suspension and Debarment**

**Federal Agency:** U.S. Department of Treasury

**Federal Program Title:** Coronavirus State and Local Fiscal Recovery Funds

**Assistance Listing Number:** 21.027

**Federal Award Identification Number and Year:** SLFRP3788 - 2021

**Award Period:** July 1, 2022, to June 30, 2023

**Type of Finding:** Significant Deficiency in Internal Control over Compliance

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

**Condition:** The City was unable to provide evidence that suspension and debarment verification was performed.

**Questioned Costs:** None.

**Context:** There were five vendors selected for suspension and debarment testing. For four of the five vendors tested, the City did not retain evidence that the suspension and debarment verification for these vendors was performed and/or certification from the vendor that they were not suspended or debarred was obtained.

**Cause:** Procedures were not in place to retain evidence of suspension and debarment status check.

**Effect:** The City is unable to prove that internal control procedures over suspension and debarment compliance were performed in a timely manner.

**Repeat Finding:** Yes, this is a repeat finding of finding number 2022-003. Due to the timing of when this prior year finding was identified and communicated, the City did not have sufficient time to implement corrective actions for FY 22-23. Subsequently the City has added a section to its vendor contract templates where vendors will certify that they are not debarred or suspended.

**Recommendation:** We recommend that management use the newly drafted templates for contracts with vendors, which includes a section for the vendor to certify that they are not suspended or debarred.

**Views of responsible officials and planned corrective actions:** Once made aware, the City immediately modified its contract template to include certification by vendors and contractors that they are not suspended or debarred.

**CITY OF PLACENTIA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2023**

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***Section III – Findings and Questioned Costs – Major Federal Programs (Continued)***

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**2023-004: Procurement**

**Federal Agency:** U.S. Department of Treasury

**Federal Program Title:** Coronavirus State and Local Fiscal Recovery Funds

**Assistance Listing Number:** 21.027

**Federal Award Identification Number and Year:** SLFRP3788 - 2021

**Award Period:** July 1, 2022, to June 30, 2023

**Type of Finding:** Material Weakness in Internal Control over Compliance and Other Matter

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

*Sole Source Purchases*

The City's procurement policies indicate that "Commodities and services which can be obtained from only one vendor are exempt from competitive bidding. Sole source purchases may include proprietary items sold directly from the manufacturer, items that have only one distributor authorized to sell in this area, or a certain product has been proven to be the only product that has proven to be acceptable. All sole source purchases requests shall be submitted to the Finance Department using the sole source purchasing approval form. Final determination that an item is a valid sole source purchase will be made by the Purchasing Agent."

*Emergency Purchases*

The City's policies for emergency purchases allow for procurement without competitive bidding to take place when time is of the essence, only for the following reasons:

- (1) To preserve or protect life, health, or property
- (2) Upon natural disaster
- (3) To forestall a shutdown of essential public services

Additionally, the policy indicates that "A completed purchase requisition shall be submitted to the Finance Department within two working days, or as soon as the information is available."

**Condition:**

*Sole Source Purchase*

City staff indicated that the justification for a sole source purchase was that the electric vehicle purchased was the only option at the time with sufficient mileage range, yet no support could be provided to support the range requirements of the procurement. Additionally, the City's procurement policy specifies that a particular form be used to document single source procurements. The required form was not used.

**CITY OF PLACENTIA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2023**

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***Section III – Findings and Questioned Costs – Major Federal Programs (Continued)***

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**2023-004: Procurement (Continued)**

*Emergency Purchase*

The justification documented for an emergency procurement of repair services did not fall within any of the three reasons allowed for by the City's purchasing policy.

Additionally, the purchase request was completed 138 days after the procurement took place, which is outside of the "two working days, or as soon as the information is available" requirements of the City's purchasing policy for emergency purchases.

**Questioned Costs:** None.

**Context:** 2 of 6 non-micro purchases tested were noncompetitive procurements. Both noncompetitive procurements tested were not completed in accordance with the City's procurement policy.

**Cause:** The City's purchasing policy was not followed.

**Effect:** Procurement of goods and services were completed without going through a competitive procurement process, possibly causing costs to be higher than if a competitive procurement process was completed.

**Repeat Finding:** No

**Recommendation:** We recommend that management and governance review the City's controls over noncompetitive procurement procedures to determine how controls should be adjusted to ensure compliance with the City's procurement policy.

**Views of responsible officials and planned corrective actions:**

*Sole Source Purchase*

The City thoroughly explored the possibility of a pilot program incorporating electric vehicles into the Police patrol fleet. After researching the unique needs of the Police department and discussions with other policing agencies, it was determined that the Tesla platform was the only electric vehicle being utilized by policing agencies for patrol purposes throughout the United States. Subsequently, the City selected Tesla as the vehicle of choice for the pilot program based upon size, range, performance and through reference checks with other policing agencies. The program was ultimately put on hold due to a lack of level 3 charging capacity at the Police Department as well as the City was continuing to finalize plans related to the City Hall/Police Station modernization project. When the deposit for the Tesla vehicle was made, it was during the height of the COVID pandemic and there were significant supply chain issues resulting in vehicle deliveries of a year or more. This fact combined with staff turnover resulted in the sole source form being omitted in the purchasing process. Going forward, all vehicle purchases will require proof of competitive bidding and/ or sole source justification and documentation.

**CITY OF PLACENTIA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2023**

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***Section III – Findings and Questioned Costs – Major Federal Programs (Continued)***

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**2023-004: Procurement (Continued)**

*Emergency Purchase*

The City has conducted a citywide budget and procurement training highlighting requirements for competitive bidding and the requirements of the City's procurement policy including the narrow definition of an emergency purchase and the proper process for making purchases under this clause.

**2023-005: Allowable Costs**

**Federal Agency:** U.S. Department of Housing and Urban Development

**Federal Program Title:** Community Development Block Grant - Entitlement Grants Cluster

**Federal Award Identification Number:** B-21-UC-06-0504

**Pass-Through Agency:** County of Orange, California

**Pass-Through Entity Identifying Number:** 22-23-0018-HCD

**Assistance Listing Number:** 14.218

**Award Period:** July 1, 2022, to June 30, 2023

**Type of Finding:** Material Weakness in Internal Control over Compliance and Other Matter

**Criteria or Specific Requirement:** 2 CFR Part 200 *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Award* requires compliance with the provisions of compensation for personal services. The City should have internal controls designed to ensure compliance with those provisions. Specifically, § 200.430, Compensation – personal services, (i)(1)(viii), indicates that budget estimates alone do not qualify as support for charges to Federal awards.

**Condition:** While management believes that actual time spent supporting the grant's program would exceed amounts budgeted for the grant's programs, expenditures for salaries and benefits were charged to the grant based on the grant's budget for personal services.

**Questioned Costs:** None.

**Context:** For the four items tested, expenditures for salaries and benefits were charged to the grant based on the grant's budget. Per inquiry with City staff, all the \$90,815 recorded as personal service expenditures for the award period were charged based on the grant's budget.

**Cause:** While timecards for employees working to support grant programs were kept, the employees' worked programs that were supported by both Federal and non-Federal sources, and the timecards did not differentiate their time spent working on the Federal programs. In addition, City did not have a system for establishing estimates to produce a reasonable approximation of the activity actually performed.

**Effect:** Expenditures for salaries and benefits could be inaccurately charged to Federal grant programs.

**Repeat Finding:** No

**CITY OF PLACENTIA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2023**

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***Section III – Findings and Questioned Costs – Major Federal Programs (Continued)***

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**2023-005: Allowable Costs (Continued)**

**Recommendation:** We recommend that timecards be modified to identify when time worked is spent supporting Federal grant programs or that an alternative time tracking mechanism be implemented whereby a reasonable approximation of the salaries and benefits costs associated with federal grant programs can be determined.

**Views of responsible officials and planned corrective actions:** In FY22/23, the City's timekeeping system was entirely paper based and lacked capability to accurately capture the difference in hours worked in support of Federal or non-Federal sources. In addition, the lack of any timekeeping reporting capabilities would have made estimating employees time spent on Federal sources too great of an administrative burden, which is why budgeted salaries were used. The City has since implemented a new, online timekeeping system in FY23/24 that enables each employee to select the various programs they work on by the hour, and also features robust reporting capabilities which will enable the City to accurately track and differentiate all hours spent working in support of Federal sources vs. non-Federal sources going forward.

**2023-006: Reporting**

**Federal Agency:** U.S. Department of Housing and Urban Development

**Federal Program Title:** Community Development Block Grant - Entitlement Grants Cluster

**Federal Award Identification Number:** B-21-UC-06-0504

**Pass-Through Agency:** County of Orange, California

**Pass-Through Entity Identifying Numbers:** 22-23-0018-HCD & 012-23010698-CV

**Assistance Listing Number:** 14.218

**Award Period:** July 1, 2022, to June 30, 2023

**Type of Finding:** Significant Deficiency in Internal Control over Compliance and Other Matter

**Criteria or Specific Requirement:** Contract No. 22-23-0018-HCD with the County of Orange includes a quarterly reporting requirement. Contract No. 012-23010698-CV with the County of Orange includes a monthly reporting requirement.

**Condition:** Reports under both contract No. 22-23-0018-HCD and 012-23010698-CV were only prepared and submitted at the end of the fiscal year ended June 30, 2023.

**Questioned Costs:** None.

**Context:** No discrepancies were noted in the reports submitted at the end of the fiscal year, yet the frequency of reporting required by the contracts was not followed.

**Cause:** City staff indicated that they had a verbal agreement with the County of Orange that only annual reporting would be required. Upon inquiry with the County of Orange during audit procedures, the County staff could not verify this agreement and referred City staff to the award contracts.

**Effect:** Quarterly and monthly reporting required by the respective grant agreements were not completed. Only reporting at the end of the fiscal year took place.

**CITY OF PLACENTIA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2023**

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***Section III – Findings and Questioned Costs – Major Federal Programs (Continued)***

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**2023-006: Reporting (Continued)**

**Repeat Finding:** No

**Recommendation:** We recommend that City staff review award contracts in detail to identify all compliance requirements, and that any direction to deviate from the requirements of an award contract be received in writing from the funding agency and retained as evidence of the deviation.

**Views of responsible officials and planned corrective actions:** For several years, the City has only submitted annual reports based upon guidance from the contracting authority (County of Orange). At no time through administering the contract or via audit did the County notify the City that it was out of compliance with its contract. The City will begin submitting reports quarterly and/ or monthly depending on what is required by the agreements.

**2023-007: Wage Rate Requirements**

**Federal Agency:** U.S. Department of Housing and Urban Development

**Federal Program Title:** Community Development Block Grant - Entitlement Grants Cluster

**Federal Award Identification Number:** B-21-UC-06-0504

**Pass-Through Agency:** County of Orange, California

**Pass-Through Entity Identifying Numbers:** 22-23-0018-HCD

**Assistance Listing Number:** 14.218

**Award Period:** July 1, 2022, to June 30, 2023

**Type of Finding:** Material Weakness in Internal Control over Compliance and Other Matter

**Criteria or Specific Requirement:** All laborers and mechanics employed by contractors or subcontractors to work on construction contracts in excess of \$2,000 financed by federal assistance funds must be paid wages not less than those established for the locality of the project (prevailing wage rates) by the Department of Labor (DOL) (40 USC 3141–3144, 3146, and 3147).

**Condition:** Contractors were paid without wage-rate provisions being considered.

**Questioned Costs:** None.

**Context:** There was \$277,239 of expenditures in FY 22-23 paid to contractors that was not related rehabilitation of residential structures.

**Cause:** City staff misinterpreted guidance from HUD that "Davis-Bacon does not apply to the rehabilitation of residential structures containing less than eight units or force account labor" as meaning that wage rate requirements (Davis-Bacon) were not applicable for all construction funded by CDBG.

**Effect:** The City was not in compliance with wage rate requirements.

**Repeat Finding:** No

**CITY OF PLACENTIA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2023**

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***Section III – Findings and Questioned Costs – Major Federal Programs (Continued)***

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**2023-007: Wage Rate Requirements (Continued)**

**Recommendation:** We recommend that, in addition to reviewing award contracts in detail to identify all compliance requirements, City staff annually review the compliance supplement issued by the Office of Management and Budget (OMB) to ensure compliance with grant requirements. In addition, we recommend requesting the payroll information from the vendors supporting their invoices for the year and performing procedures to ensure that wage rate requirements have been met. Finally, we recommend establishing procedures to ensure that monitoring of wage rate requirements is done prior to making payments to contractors working on federally-funded construction projects.

**Views of responsible officials and planned corrective actions:** As a metro city, the City allocates a portion of the funding from CDBG to the County for administration and oversight of the program. The City originally received guidance from the County indicating that Davis-Bacon does not apply to the façade improvements supported by CDBG, with the County later indicating that had been a mistake. The City is now aware of this requirement for non-residential construction and will incorporate a process of verification of contractor's payroll into its procurement and accounts payable process, specifically for federally funded projects. In addition, review of the Office of Management and Budget's (OMB) compliance guidelines will be added to the internal Finance calendar so it's conducted each year.

**CITY OF PLACENTIA  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
YEAR ENDED JUNE 30, 2023**

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***Financial Statement Findings***

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**2022– 001: Accounting for Long-term Liabilities**

**Condition:** During testing on the City’s accounts we noted the following:

1. A payment plan to pay for firefighter pension unfunded accrued liability totaling approximately \$1,432,000 at June 30, 2021, was not included in the City’s financial statements.
2. Included in the compensated absences liability balance at June 30, 2021 was approximately \$1,494,000 in Fair Labor Standards Act (FLSA) benefits dollar value that were for tracking purposes only that will not be paid out upon termination of service, and therefore, should not have been included.
3. Redevelopment Property Tax Trust Fund payment of approximately \$640,000, was recorded as unearned revenue in the prior year though it had been received and available.
4. A bond payable in a governmental fund totaling approximately \$51,890,000 at June 30, 2022 was incorrectly recorded on the full accrual basis of accounting.

**Status:** Corrective actions were taken

**2022– 002: Accounting for Retentions Payable**

**Condition:** During testing on the City’s accounting for long-term liabilities we noted that the City was not accounting for retentions payable for most of its construction projects.

**Status:** Corrective actions were taken

**CITY OF PLACENTIA  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
YEAR ENDED JUNE 30, 2023**

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***Federal Program Award Findings***

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**2022-003: Suspension and Debarment for Coronavirus State and Local Fiscal Recovery Funds**

**Federal Agency:** U.S. Department of Treasury

**Federal Program Title:** Coronavirus State and Local Fiscal Recovery Funds

**Assistance Listing Number:** 21.027

**Award Period:** July 1, 2021, to June 30, 2022

**Type of Finding:** Significant Deficiency in Internal Control over Compliance

**Condition:** During our testing, the City was unable to provide evidence that suspension and debarment verification was performed.

**Status:** Due to the timing of when this finding was reported to the City, corrective actions could not be taken for FY 22-23. See finding 2023-003 in the schedule of findings and questioned costs section.

**2022-004: Reporting for Coronavirus State and Local Fiscal Recovery Funds**

**Federal Agency:** U.S. Department of Treasury

**Federal Program Title:** Coronavirus State and Local Fiscal Recovery Funds

**Assistance Listing Number:** 21.027

**Award Period:** July 1, 2021, to June 30, 2022

**Type of Finding:** Significant Deficiency in Internal Control over Compliance and Other Matter

**Condition:** During our testing, we noted the City's submitted Project and Expenditure Report for the quarter ended December 31, 2021, included inaccurate information.

**Status:** Corrective actions were taken



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