



May 18, 2023

To the City Council and Management of the
City of Monterey
Monterey, California

We have audited the financial statements of the City of Monterey, California (City) as of and for the year ended June 30, 2022 and have issued our report thereon dated April 28, 2023. We have also provided our communication in accordance with professional standards on the audit of the financial statements in our letter dated May 18, 2023. Professional standards require that we advise you of the following matters relating to our audit of compliance under the Uniform Guidance.

Our Responsibility in Relation to the Financial Statement Audit under Generally Accepted Auditing Standards and *Government Auditing Standards* and our Compliance Audit under the Uniform Guidance

As communicated in our letter dated October 28, 2022, our responsibility, as described by professional standards, is to form and express an opinion about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America and to express an opinion on whether the City complied 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. Our audit of the financial statements and major program compliance does not relieve you or management of its respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, as part of our audit, we considered the internal controls of the City solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

Our responsibility, as prescribed by professional standards as it relates to the audit of the City's major federal program compliance, is to express an opinion on the compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. An audit of major program compliance includes consideration of internal control over compliance with the types of compliance requirements referred to above as a basis for designing 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 internal control over compliance. Accordingly, as a part of our major program compliance audit, we considered internal control over compliance for these purposes and not to provide any assurance on the effectiveness of the City's internal control over compliance.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

We have provided our comments regarding internal controls during our audit in our Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* date April 28, 2023. We have also provided our comments regarding compliance with the types of compliance requirements referred to above and internal controls over compliance during our audit in our Independent Auditor’s Report on Compliance with Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance May 18, 2023.

Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, as appropriate, our firm, and other firms utilized in the engagement, if applicable, have complied with all relevant ethical requirements regarding independence.

Significant Risks Identified

As stated in our auditor’s report, professional standards require us to design our audit to provide reasonable assurance that the financial statements are free of material misstatement whether caused by fraud or error. In designing our audit procedures, professional standards require us to evaluate the financial statements and assess the risk that a material misstatement could occur. Areas that are potentially more susceptible to misstatements, and thereby require special audit considerations, are designated as “significant risks”. We have identified the following as significant risks.

- Management Override of Controls – professional standards require auditors to address the possibility of management overriding controls. Accordingly, as part of our normal audit procedures, we identified as a significant risk that management of the organization may have the ability to override controls that the organization has implemented.
- Improper Revenue Recognition – professional standards require auditors to presume that revenue recognition is a risk.

Qualitative Aspects of the Entity’s Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the City is included in Note 1 to the financial statements. The City adopted the provision of GASB Statement No. 87, *Leases*. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

The most sensitive accounting estimates affecting the financial statements are related to the City Pension, Other Postemployment Benefits (OPEB), lease accounting discount rates and claims liabilities.

Management's estimate of the City Pension, OPEB and insurance liabilities is based on actuarial estimated performed by management specialists. Management's estimate of the lease accounting discount rates is based the Treasury SLGS rates over the period of lease agreements with adjustment for the City's risk profile.

We evaluated the key factors and assumptions used to develop the management estimates and determined that they are reasonable in relation to the basic financial statements taken as a whole.

Financial Statement Disclosures

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the City's financial statements relate to the following:

- Note 1 summarizes the City's accounting policies and describes significant changes in accounting policies due to the implementation of new accounting standards about leases. The effect of the restatement is further described at Note 15.
- Note 8 describes the valuation of the City's net pension liability and related deferred outflows and inflows of resources. Such amounts are sensitive to the underlying actuarial assumptions used including, but not limited to, the investment rate of return and discount rate. As disclosed, a one percent increase or decrease in the discount rate has a material effect on the City's net pension liability.
- Note 9 describes the City's postemployment benefits liability and related deferred outflows and inflows of resources are sensitive to the underlying actuarial assumptions used including, but not limited to, the discount rate and healthcare cost trend rate. As disclosed, a one percent increase or decrease in the discount rate or the healthcare cost trend rate has a material effect on the City's net post-employment benefits liability.

Significant Difficulties Encountered during the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole. Uncorrected misstatements or matters underlying those uncorrected misstatements could potentially cause future-period financial statements to be materially misstated, even though the uncorrected misstatements are immaterial to the financial statements currently under audit.

The following misstatements that we identified as a result of our audit procedures were brought to the attention of, and corrected by, management:

Certain revenues reported within the Presidio of Monterey Public Work fund in the amount of \$11,130,750 did not meet the 60 availability criteria and therefore an adjustment was necessary to correct the grant revenues reported in that fund by reducing those revenues and increasing the deferred inflows of resources related to unavailable revenue by \$11,130,750.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to the financial statements or the auditor's report. No such disagreements arose during the course of the audit.

Circumstances that Affect the Form and Content of the Auditor's Report

For purposes of this letter, professional standards require that we communicate any circumstances that affect the form and content of our auditor's report. The following emphasis of matter was included in our report:

Adoption of New Accounting Standard

As discussed in Note 15 to the financial statements, the City has adopted the provisions of Government Accounting Standards Board (GASB) Statement No. 87, *Leases*, for the year ended June 30, 2022. Accordingly, a restatement has been made to the governmental activities and business-type activities and the Marina, Parking and Cemetery funds' net position as of July 1, 2021, to restate beginning net position and a restatement as of July 1, 2021, to the fund balances in the General Fund, the Community Development Block Grant Fund, the Tidelands Fund and the State/Federal Grants fund to restate beginning net position. Our opinions are not modified with respect to this matter.

Correction of Errors

As discussed in Note 15 to the financial statements, adjustments to the beginning balance of net position and fund balance were made by management for the correction of errors in the previously issued financial statements.

Our Report on Compliance for Each Major Federal Program included an other matter paragraph related to Community Development Block Grants program as follows:

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2022-002. Our opinion on each major federal program is not modified with respect to these matters.

In addition with respect to the same program, our Report on Internal Control Over Compliance included a significant deficiency in internal control over compliance as follows:

We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2022-002 to be a significant deficiency.

Representations Requested from Management

We have requested certain written representations from management which are included in the management representation letter dated April 28, 2023 for the basic financial statements and May 18, 2023 for the single audit.

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Matters, Findings, or Issues

In the normal course of our professional association with the City, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, significant events or transactions that occurred during the year, business conditions affecting the entity, and business plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the City's auditors.

Other Information Included in Annual Reports

Pursuant to professional standards, our responsibility as auditors for other information, whether financial or nonfinancial, included in the City's annual reports, does not extend beyond the financial information identified in the audit report, and we are not required to perform any procedures to corroborate such other information. However, in accordance with such standards, we have read the other information such as the introductory section and the statistical section and considered whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Our responsibility also includes communicating to you any information which we believe is a material misstatement of fact. Nothing came to our attention that caused us to believe that such information, or its manner of presentation, is materially inconsistent with the information, or manner of its presentation, appearing in the financial statements.

Existence of a Material Misstatement that Affects the Financial Statements of a Prior Period in Which There Was a Predecessor Auditor

We have identified the existence of a material misstatement that affects the prior period financial statements on which the predecessor auditor had previously reported without modification.

Accounts receivables and revenues pertaining to the State and Federal Grant fund were incorrectly recorded, resulting in an overstatement of fund balance in the governmental balance sheet totaling \$689,503 at June 30, 2021. As a result, the beginning fund balance of State and Federal Grant fund was restated as of June 30, 2022.

Group Audits

The financial statements include the financial statements of City of Monterey Joint Powers Financing Authority (Authority). For the purposes of our audit, we consider the Authority to be a significant component of the consolidated financial statements; however we do not consider the Authority to be a significant component of the financial statements. Consistent with the audit of the financial statements as a whole, our audit included obtaining an understanding of the Authority and their environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements of the Authority and completion of further audit procedures.

This report is intended solely for the information and use of the city council, and management of the City and is not intended to be, and should not be, used by anyone other than these specified parties.

The image shows a handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Menlo Park, California



Federal Awards Reports in Accordance
with the Uniform Guidance
June 30, 2022

City of Monterey Single Audit

Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* 1

Independent Auditor’s 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 3

Schedule of Expenditures of Federal Awards 7

Notes to Schedule of Expenditures of Federal Awards 8

Schedule of Findings and Questioned Costs 9

Summary Schedule of Prior Audit Findings..... 13



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

To Honorable Mayor and Members
of the City Council of the City of Monterey
Monterey, 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 the of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Monterey, California, (City) as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the City’s basic financial statements, and have issued our report thereon dated April 28, 2023. Our report included an emphasis of matter relating to the adoption of GASB Statement No. 87, *Leases* and Correction of an error.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City’s internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City’s internal control. Accordingly, we do not express an opinion on the effectiveness of the City’s internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We identified a certain deficiency in internal control, described in the accompanying Schedule of Findings and Responses as item 2022-001 that we consider to be a material weakness.

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*.

The 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 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.

The image shows a handwritten signature in cursive script that reads "Eide Bailly LLP".

Menlo Park, California
April 28, 2023



Independent Auditor’s 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

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

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited the City of Monterey’s (City) compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of the City’s major federal programs for the year ended June 30, 2022. The City’s major federal programs are identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

In our opinion, the City complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2022.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor’s Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the City’s compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the City's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the City's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the City's compliance with the requirements of the major federal programs 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 an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2022-002. 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 the City's response to the noncompliance findings identified in our compliance audit described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, as discussed below, we did identify a certain deficiency in internal control over compliance that we consider to be a significant deficiency.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2022-002 to be a significant deficiency.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

Government Auditing Standards requires the auditor to perform limited procedures on the City's response to the internal control over compliance findings identified in our compliance audit described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the governmental activities, 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, 2022, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated April 28, 2023, which contained unmodified opinions on those financial statements. Our report included an emphasis of matter relating to the adoption of GASB Statement No. 87, *Leases*. 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.



Menlo Park, California
May 18, 2023

City of Monterey
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2022

Federal Grantor/Pass-Through Entity/Program Title/Cluster	Federal Financial Assistance Number	Pass-through Identifying Number	Expenditures
U.S. Department of Housing and Urban Development			
Passed through California Department of Housing and Community Development			
CDBG - Entitlement Grants Cluster			
Community Development Block Grants / Entitlement Grants	14.228	B-21-MC-06-0004	\$ 263,657
Community Development Block Grants / Entitlement Grants	14.228	Program Income	1,377,576
Total CDBG - Entitlement Grants Program/Cluster			<u>1,641,233</u>
Total U.S. Department of Housing and Urban Development			<u>1,641,233</u>
U.S. Department of Justice			
Direct Programs			
Bulletproof Vest Partnership Program	16.607	2020 Grant	2,619
Bulletproof Vest Partnership Program	16.607	2021 Grant	33
Subtotal Bulletproof Vest Partnership Program			<u>2,652</u>
Total U.S. Department of Justice			<u>2,652</u>
U.S. Department of Transportation			
Passed through California Department of Transportation			
Highway Planning and Construction Cluster			
Highway Planning and Construction	20.205	HSIPL 5086(40) ATPL-5086(034)	32,247
Highway Planning and Construction	20.205	PPNO 2610	2,345,042
Total Highway Planning and Construction Program/Cluster			<u>2,377,289</u>
Passed through the California Office of Traffic Safety			
Highway Safety Cluster			
State and Community Highway Safety	20.600	PS21021	11,807
Total Highway Safety Cluster			<u>11,807</u>
Total U.S. Department of Transportation			<u>2,389,096</u>
U.S. Department of Treasury			
Direct Program			
COVID-19 Coronavirus State and Local Fiscal Recovery Funds	21.027		6,510,461
Passed through United Way Monterey County			
COVID-19 Coronavirus Relief Fund	21.019	Agreement-10482	493,228
Total U.S. Department of Treasury			<u>7,003,689</u>
U.S. Department of Homeland Security			
Direct Program:			
Staffing for Adequate Fire and Emergency Response (SAFER)	97.083	EMW-2017-FH-00540	47,606
Passed through the California Emergency Management Agency:			
COVID-19 California Pandemic PPE & Supplies	97.036	FEMA-DR 4482-CA	4,798
Total U.S. Department of Homeland Security			<u>52,404</u>
U.S. Department of Education			
Direct Program:			
Student Financial Audit Cluster			
Federal Work-Study Program	84.033	Agreement-10858	5,606
Total Student Financial Audit Cluster			<u>5,606</u>
Total U.S. Department of Education			<u>5,606</u>
Total Federal Financial Assistance			<u>\$ 11,094,680</u>

See Notes to Schedule of Expenditures of Federal Awards.

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards presents the activity of all federal awards programs of the City of Monterey for the year ended June 30, 2022. The information in this schedule is presented in accordance with the requirements of Title 2 *U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the City it is not intended to and does not present the financial position, changes net position, or cash flows of the City.

Note 2 - Summary of Significant Accounting Principles

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Therefore, some amounts presented in the schedule may differ from amounts presented in, or used in the preparation of, the financial statements. No federal financial assistance has been provided to a subrecipient.

Note 3 - Federal Financial Assistance Number

The program titles and federal financial assistance listing numbers are obtained from the federal or pass-through grantor or the *Federal Financial Assistance Number*. When no Federal Financial Assistance Number is assigned to a program, the two-digit federal agency identifier and the federal contract number are used.

When there is no federal contract number, the two-digit federal agency identifier and the word “unknown” is used.

Note 4 - Indirect Cost Rate

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

Section I – Summary of Auditor’s Results

Financial Statements

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

Federal Awards

Internal control over major program:	
Material weaknesses identified	No
Significant deficiencies identified not considered to be material weaknesses	Yes
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance 2 CFR 200.516:	Yes

Identification of major programs:

Name of Federal Program	Federal Financial Assistance Listing/CFDA Number
COVID-19 - Coronavirus State and Local Fiscal Recovery Funds	21.027
CDBG - Entitlement Grants Cluster	14.218
Dollar threshold used to distinguish between type A and type B programs:	\$ 750,000
Auditee qualified as low-risk auditee?	No

Section II – Financial Statement Findings

2022-01 - Material Weakness in Financial Reporting of an Error and a Restatement of the Financial Statements

Criteria: Management is responsible for developing and maintaining internal control activities that comply with the generally accepted accounting principles to meet the following objectives: control environment, risk assessment, control activities, information and communications, and monitoring.

Condition: In fiscal year ended June 30, 2021, the City incorrectly reported certain receivables related to Federal Emergency Management Agency (FEMA) that were uncollectible for \$689,503. In addition to the restatements noted above, adjustments were necessary for the current year's revenues pertaining to the Presidio of Monterey Public Work fund because certain revenues for \$11,130,750 did not meet the 60-day availability requirements as of June 30, 2022.

Effect or Potential Effect: An adjustment to beginning fund balance of the State/Federal Grants fund and an adjustment to the beginning net position of the City's governmental activities was made to remove the FEMA receivables from the financial statements of the City. Prior year restatements were necessary to conform with generally accepted accounting principles. In addition, the City booked an audit adjustment to reduce the Presidio of Monterey Public Work Fund's revenues and report these amounts as deferred inflows of resources-unavailable revenues at June 30, 2022.

Cause: The City did not perform an assessment of the collectability of its FEMA receivables in fiscal year ended June 30, 2021. In addition, the City did not perform an assessment of its unavailable revenues for the fiscal year ended June 30, 2022.

Recommendation: We recommend for the City to closely monitor its receivables and perform an aging to ensure that uncollectible receivables are removed from the financial statements. Further, we recommend that the City performs an assessment of its unavailable revenues that do not meet the 60-day availability requirement shortly after year end.

Views of Responsible Officials: We agree with the recommendations to closely monitor our receivables and unavailable revenues. We have implemented procedures to perform an aging of the receivables in every fund. In addition, we've implemented procedures to ensure that all revenues not meeting the availability period are reported as deferred inflows of resources.

Section III – Federal Award Findings and Questioned Costs

2022-002 **Program:** Community Development Block Grants / Entitlement Grants
Federal Financial Assistance Listing Number: 14.218
Grant Identification Number: B-21-MC-06-0004 and related program income
Federal Grantor: U.S. Department of Housing and Urban Development
Passthrough Entity: State Department of Housing and Community Development
Compliance Requirements: Reporting
Type of Finding: Significant deficiency in Internal Control over Compliance and Compliance Other Matters

Criteria:

The grant requires that SF-425, Federal Financial Report – Quarterly Federal Financial Report (“FFR”) are filed no later than 30 days after the end of the quarter.

Condition:

During our audit, we noted that the City did not file the FFR timely for two of the four quarters during the year ended June 30, 2022. The late submission is summarized as follows:

Report	Reporting Period End Date	Report Due Date	Report Submission Date
Federal Financial Report (SF-425)	7/1/2021 to 9/30/2021	10/30/2021	11/10/2021
Federal Financial Report (SF-425)	1/1/2022 to 3/31/2022	4/30/2022	7/11/2022

Cause:

The City was in the process of hiring a consultant to assist with the implementation of corrective action plan. The quarterly reports were finally caught up in the 3rd quarter of the fiscal year.

Effect:

The delay in filing the report resulted in noncompliance with program requirements.

Questioned Costs:

None.

Context/Sampling:

See condition above for context of the finding.

Section III – Federal Award Findings and Questioned Costs (Continued)

Repeat Findings from Prior Years:

Repeat finding, see 2021-003 in the Prior Year Current Findings and Questioned Costs Section.

Recommendation:

We recommend that the City follows its comprehensive policies and procedures and specify the deadlines for all required reporting for all City employees to follow.

Views of Responsible Officials:

Management concurs with the finding and will ensure that the reports are filed timely.

Financial Statement Findings

2021-001 Internal Control Over Budget and Accounting for Special Revenue Funds

Criteria: Management is responsible for designing, implementing, and maintaining appropriate internal control over financial reporting and compliance of provisions of laws, regulations, contracts, and grant agreements. Budgeting is an essential element of the financial planning, control, and performance evaluation processes of many governments. Governments adopt budgets that have the force of law, are subject to sanctions for overspending budgetary authorizations, and have extensive controls to ensure budgetary compliance.

Condition: The City did not have adequate budget and expenditures policies in place to ensure that budgets were modified appropriately to reflect accurately available grant and other resources. The lack of policies resulted in several special revenue funds with expenditures in excess of appropriations, and nonbudgeted transfers were made to other funds for restrictive purposes in violation of the City's fund balances policy. In addition, the City uses balance sheet accounts to record transfers in the general ledger system. As a result, the adopted budgeted transfers and subsequent adjustment in budgeted transfers are not maintained in the general ledger system.

Recommendation: We recommend the City implement policies and procedures to ensure that the budgeting and accounting of special revenues are properly managed and staff are properly trained.

Current Status: See current year finding 2022-001.

2021-002 Internal Control over Capital Asset

Criteria: U.S. generally accepted accounting principles, including the accuracy and completeness of the accounting records. Internal control is defined as a process implemented and monitored by the City Council, management, and other personnel that provides reasonable assurance that the objectives of the City will be achieved. The City's internal control system should be designed to provide reasonable assurance regarding the achievement of the following objectives:

- Reliability of financial reporting for internal and external use;
- Effectiveness and efficiency of operations; and
- Compliance with applicable laws and regulations.

Condition: During our audit for the year ended June 30, 2021, we noted inaccurate classification of the accumulated depreciation and depreciation expenses for the City's capital assets. Although the capital assets are maintained in the capital asset module in the accounting system, the asset classification, functions and/or the funds are not accurately set up in the capital asset module.

Recommendation: We recommended the City perform a full review of the fixed asset module for the asset classification, fund, and function and interface the fixed asset module to the general ledger to avoid manual reconciliation.

Current Status: Resolved.

Federal Awards Findings

2021-003 Internal Controls and Compliance Over Reporting

Identification of the Federal Program

Program: Community Development Block Grants / Entitlement Grants
Federal Financial Assistance Listing Number: 14.218
Federal Grantor: U.S. Department of Housing and Urban Development
Award No. and Year: B-20-MC-06-0004

Criteria: Management of the City is responsible for submitting quarterly Federal Financial Report (“FFR”) within 30 days after the end of the quarter.

Condition: The City did not file the FFR timely for two of the four quarters during the year ended June 30, 2021.

Recommendation: We recommend that the City follows its comprehensive policies and procedures and specify the deadlines for all required reporting for all City employees to follow.

Current Status: See current year finding 2022-002.