

CITY OF DUARTE, CALIFORNIA

SINGLE AUDIT REPORT

**For the Fiscal Year Ended
June 30, 2023**

CITY OF DUARTE

Single Audit Report

For the Fiscal Year Ended June 30, 2023

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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Honorable Mayor and City Council
City of Duarte, 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, each major fund, and the aggregate remaining fund information of the City of Duarte (City), California, as of and for the fiscal 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 November 20, 2023.

Report on Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified a certain deficiency in internal control described in the accompanying schedule of findings and questions costs as item 2023-001 that we consider 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 Duarte's Response to the Findings

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

Purpose of the 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.

Moss, Levy & Hartzheim

Moss, Levy & Hartzheim, LLP
Culver City, California
November 20, 2023



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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

Honorable Mayor and the City Council
City of Duarte, California

Report on Compliance for Each Major Federal Program

Opinion on the Major Federal Program

We have audited the City of Duarte's (City) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the City's major federal program for the fiscal year ended June 30, 2023. The City's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal program for the fiscal 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; 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 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 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 generally accepted auditing standards, *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 generally accepted auditing standards, *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 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 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 City's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of the Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies may exist that have not been identified.

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

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

Moss, Levy & Hartzheim

Moss, Levy & Hartzheim, LLP
Culver City, California
March 26, 2024

City of Duarte

Single Audit Report

Schedule of Expenditures of Federal Awards

For the Fiscal Year Ended June 30, 2023

Federal Grantor/ Pass - Through Grantor Program Title	Federal Assistance Listing Number	Agency or Pass-Through Program Number	Federal Expenditures
U.S. Department of Housing and Urban Development:			
Passed Through the County of Los Angeles Development Authority			
Community Development Block Grant (CDBG)	14.218	602171-20	<u>\$ 637,103</u>
Total Department of Housing and Urban Development			<u>637,103</u>
U.S. Department of Treasury			
Coronavirus Relief Funds (CRF)	21.027		<u>2,544,238 *</u>
Total Department of Treasury			<u>2,544,238</u>
U.S. Department of Agriculture			
Passed through USDA Treasury			
Natural Resources Conservation Services (NRCS)	10.923	N0623EWP0010119	<u>121,667</u>
Total U.S. Department of Agriculture			<u>121,667</u>
Total Expenditures of Federal Awards			<u><u>\$ 3,303,008</u></u>

* - Denotes major program

See accompanying notes to Schedule of Expenditures of Federal Awards

City of Duarte
Notes to Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2023

NOTE 1 – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes the federal award activity of the City of Duarte (City) under programs of the federal government for the fiscal year ended June 30, 2023. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position or results of the City's operations.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accompanying Schedule is presented using the modified accrual basis of accounting for governmental 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, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Indirect Cost Rates

The City has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance. The City charged no indirect costs to federal programs this fiscal year.

NOTE 3 – PROGRAM DESCRIPTIONS

U.S. Department of Housing and Urban Development

Community Development Block Grant (CDBG)

The Community Development Block Grant (CDBG) Program was authorized under Title I of the Housing and Community Development Act of 1974. The primary objective of the CDBG Program is the development of viable urban communities, including adequate housing, a suitable living environment, and expansion of economic opportunities principally for persons of low to moderate income. Under this program, the Department of Housing and Urban Development (HUD) distributes funds based upon approved applications to eligible local governmental units for the purpose of community improvement and betterment. The City uses CDBG funds for ADA Improvement Projects.

U.S. Department of the Treasury

Coronavirus State and Local Fiscal Recovery Funds

The program allows units of local governments to respond to the COVID-19 public health emergency or its negative economic impact including to provide assistance to households, small business, nonprofits, and impacted industries, such as tourism, travel, and hospitality; respond to workers performing essential work during the COVID-19 pandemic by providing premium pay to eligible workers of the State, territory, tribal government, metropolitan city, county, or nonentitlement units of local government performing essential work or by providing grants to eligible employers that have eligible workers; provide government services, to the extent of the reduction of revenue due to COVID-19 relative to revenues

City of Duarte

Notes to Schedule of Expenditures of Federal Awards For the Fiscal Year Ended June 30, 2023

NOTE 3 – PROGRAM DESCRIPTIONS (Continued)

Coronavirus State and Local Fiscal Recovery Funds (Continued)

collected in the most recent full fiscal year of the State, territory, tribal government, metropolitan city, county, or nonentitlement units of local government; or make necessary investments in water, sewer, or broadband infrastructure.

U.S. Department of Agriculture

Emergency Watershed Protection Program

The program objective is to assist sponsors, landowners, and operators in implementing emergency recovery measures for runoff retardation and erosion prevention to relieve imminent hazards to life and property created by a natural disaster that causes a sudden impairment of a watershed. The project included mobilization, K-rail, channel clearing, and safety measures.

NOTE 4 – AMOUNTS PROVIDED TO SUBRECIPIENTS

For the fiscal year ended June 30, 2023, the City passed through \$0 to other agencies.

City of Duarte
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2023

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued	<u>Unmodified</u>
Internal control over financial reporting:	
Material weakness(es) identified?	_____ Yes <u> X </u> No
Significant deficiency(ies) identified not considered to be material weaknesses?	<u> X </u> Yes _____
Noncompliance material to financial statements noted?	_____ Yes <u> X </u> No

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	_____ Yes <u> X </u> No
Significant deficiency(ies) identified not considered to be material weaknesses?	_____ Yes <u> X </u> None reported

Type of auditor’s report issued on compliance for major programs:	<u>Unmodified</u>
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Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance, 2 CFR 200.516 (a)	_____ Yes <u> X </u> No
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Identification of major programs:

Federal Assistance Listing Number

21.027

Name of Federal Program

Coronavirus Relief Funds

Dollar threshold used to distinguish between Type A and Type B programs:

\$ 750,000

Auditee qualified as low-risk auditee:	_____ Yes <u> X </u> No
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City of Duarte
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2023

Section II – Findings– Financial Statement Audit

Significant Deficiency

2023-001 – Lease receivable recognition over extensions was not clearly defined by the City

Condition:

The City’s internal control procedures did not ensure that the date of the exercise of an extension of a lease agreement was properly reported for financial statement purposes.

Criteria:

City policies should include formal procedures on when to recognize changes in lease receivables.

Cause:

The City lacks a formal policy over the recognition of lease receivables in accordance with GASB Statement No. 87.

Effect:

We identified one lease receivable and corresponding deferred inflow for a lease extension that was exercised in FY22 and recorded by the City in FY22 as revenue, however was not included in the lease calculation.

Recommendation:

The City should formalize its policy over the recognition of changes in lease receivables when extensions are exercised in order to ensure that lease receivables are consistently recorded in accordance with U.S. GAAP.

Management’s Response:

In FY22 GASB Statement No. 87 was implemented and the City complied with the lease receivables. We believed we had a good understanding of the guidance, however, in FY23 we had a one-time payment which was not in the prior year and had not encountered before, therefore impacting our ability to recognize one-time payments having an effect on lease receivables. Moving forward, staff plans to create a policy with formal procedures on how to recognize lease receivables in accordance with GASB Statement No. 87.

Section III – Findings and Questioned Costs – Major Federal Award Program Audit

None reported in the current fiscal year.

City of Duarte
STATUS OF PRIOR YEAR'S FINDINGS
FOR THE FISCAL YEAR ENDED JUNE 30, 2023

Section IV – Status of Prior Year Findings and Questioned Costs

None reported in prior fiscal year.