



Federal Awards Reports in Accordance
with the Uniform Guidance
June 30, 2021

City of Palmdale, California

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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

To the Honorable City Council of
the City of Palmdale
City of Palmdale, California

We have audited, in accordance with 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 Palmdale, California (City), as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the City’s basic financial statements, and have issued our report thereon dated April 13, 2022. Our report includes an emphasis of matter paragraph regarding the City’s adoption of Governmental Accounting Standards Board Statement No. 84, *Fiduciary Activities*, and the conversion of certain governmental fund balances to Internal Service Funds, effective July 1, 2020.

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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

Rancho Cucamonga, California

April 13, 2022



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

The Honorable City Council of
the City of Palmdale
City of Palmdale, California

Report on Compliance for the Major Federal Program

We have audited the City of Palmdale's (the 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 year ended June 30, 2021. 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.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the City's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on the Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major Federal program for the year ended June 30, 2021.

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 items 2021-001, 2021-002, and 2021-003. Our opinion on the major federal program is not modified with respect to these matters.

The City's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs and separate corrective action plan. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses and significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, described in the accompanying schedule of findings and questioned costs as items 2021-001, 2021-002, and 2021-003 that we consider to be significant deficiencies.

The City's response to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs and separate corrective action plan. The City's response was not subjected to the 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, each major fund, and the aggregate remaining fund information of the City as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated April 13, 2022, which contained unmodified opinions on those financial statements. Our report included an emphasis of matter paragraph regarding the City's adoption of Governmental Accounting Standards Board Statement No. 84, *Fiduciary Activities*, and the conversion of certain governmental fund balances to Internal Service Funds, effective July 1, 2020. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.



Rancho Cucamonga, California
November 7, 2022

City of Palmdale, California
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2021

Federal Grantor/Pass-Through Grantor/Program Title/Cluster	Federal Financial Assistance Listing/Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. Department of Housing and Urban Development			
<i>Direct Programs</i>			
CDBG - Entitlement Grants Cluster			
Community Development Block Grants/Entitlement Grants - Administration	14.218	B18MC060581	\$ 119,380
Community Development Block Grants/Entitlement Grants - Fair Housing Council	14.218	B18MC060581	35,031
Community Development Block Grants/Entitlement Grants - Section 108 Loan Principal Payment	14.218	B15MC060581	309,000
Community Development Block Grants/Entitlement Grants - Section 108 Loan Interest Payment	14.218	B15MC060581	63,047
Community Development Block Grants/Entitlement Grants - SAVES Administration	14.218	B14/15/16MC060581	237,976
Community Development Block Grants/Entitlement Grants - Facility Acquisition	14.218	N/A	33,730
Community Development Block Grants/Entitlement Grants - ADA Compliance- Ave Q 12/10th St E	14.218	B18MC060581	55,485
Community Development Block Grants/Entitlement Grants - ADA Imp - Curb & Sidewalks- Yellen Park	14.218	B14MC060581	35,613
Community Development Block Grants/Entitlement Grants - Courson Connection Infrastructure	14.218	B18MC060581	18,899
COVID-19 - Community Development Block Grants/Entitlement Grants - CDBG-CV - ADMIN	14.218	B20MW060581	22,201
COVID-19 - Community Development Block Grants/Entitlement Grants - CDBG-CV - SAVES	14.218	B20MW060581	66,745
COVID-19 - Community Development Block Grants/Entitlement Grants - CDBG-CV - Economic Assistance Program	14.218	B20MW060581	107,282
COVID-19 - Community Development Block Grants/Entitlement Grants - CDBG-CV - Mortgage Assistance Program	14.218	B20MW060581	229,401
Community Development Block Grants/Entitlement Grants - Neighborhood Stabilization Prog - Administration	14.218	B08MN060515	11,623
Community Development Block Grants/Entitlement Grants - Neighborhood Stabilization Prog - Capital	14.218	B08MN060515	3,147
Community Development Block Grants/Entitlement Grants - NSP Forgive/Loss	14.218	B08MN060515	117,658
Total CDBG Entitlement Grants Cluster			<u>1,466,218</u>
HOME Investment Partnership Program			
HOME Investment Partnerships Program - Administration	14.239	M-14/15-MC060562	104,380
HOME Investment Partnerships Program - Tenant-Based Rental Assistance	14.239	M-17-MC-06-0562	155,788
COVID-19 - HOME Investment Partnerships Program - Tenant-Based Rental Assistance	14.239	M-17-MC-06-0562	134,492
Total HOME Investment Partnerships Program			<u>394,660</u>
Total U.S. Department of Housing and Urban Development			<u>1,860,878</u>
U.S. Department of Transportation			
<i>Passed-through the State of California Department of Transportation</i>			
Highway Planning and Construction Cluster			
Highway Planning and Construction - Roundabout @ S-8 & 40th St	20.205	HSIPL-5378(044)	188,600
Total Highway Planning and Construction Cluster			<u>188,600</u>
Total U.S. Department of Transportation			<u>188,600</u>
U.S. Department of Homeland Security			
<i>Passed-Through United Way</i>			
Emergency Food and Shelter National Board Program - SAVES - Food	97.024	26-0695-00	6,358
Emergency Food and Shelter National Board Program - SAVES - Shelter	97.024	26-0695-00	12,613
Total Emergency Food and Shelter National Board Program			<u>18,971</u>
Total U.S. Department of Homeland Security			<u>18,971</u>
U.S. Treasury Department			
<i>Passed through the California Department of Finance</i>			
COVID-19 - Coronavirus Relief Fund (CRF) 2020 Grant (Expenditures in 2020)	21.019	N/A	1,258,069
COVID-19 - Coronavirus Relief Fund (CRF) 2020 Grant (Expenditures in 2021)	21.019	N/A	677,183
Total Coronavirus Relief Fund (CFR) Program			<u>1,935,252</u>
Total U.S. Treasury Department			<u>1,935,252</u>
Total Federal Financial Assistance			<u>\$ 4,003,701</u>

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards (Schedule) includes the federal award activity of the City of Palmdale, California (City) under programs of the federal government for the year ended June 30, 2021. 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 or changes in net position of the City.

Note 2 - Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. When applicable, such expenditures are recognized following the cost principles continued in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. No federal financial assistance has been provided to a subrecipient.

Note 3 - Indirect Cost Rate

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

Section I – Summary of Auditor’s Results

FINANCIAL STATEMENTS

Type of auditor's report issued	Unmodified
Internal control over financial reporting:	
Material weaknesses identified	No
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:

Names of Federal Program or Cluster	Federal Financial Assistance Listing/ CFDA Number
COVID-19 Coronavirus Relief Fund	21.019
Dollar threshold used to distinguish between type A and type B programs:	\$750,000
Auditee qualified as low-risk auditee?	Yes

Section II – Financial Statement Findings

None noted.

Section III – Federal Award Findings and Questioned Costs

**2021-001 U.S. Treasury Department, California Department of Finance
Federal Financial Assistance Listing/CFDA Number 21.019
COVID-19 Coronavirus Relief Funds**

Compliance Requirements: Activities Allowed or Unallowed and Allowable Costs/Cost Principles
Type of Finding: Significant Deficiency in Internal Control and Instance of Noncompliance

Criteria:

Per the Federal Register dated January 15, 2021, expenditures charged to the Coronavirus Relief Fund (CRF) must meet the following criteria:

- Costs were not accounted for in the budget most recently approved as of March 27, 2020
- Costs were incurred during the period that begins on March 1, 2020 and ended on December 31, 2021
- Were necessary expenditures incurred due to the public health emergency

Condition:

During our testing of the City's compliance with the Activities Allowed or Unallowed, and Allowable Costs/Cost Principles compliance requirements, we noted the following from our sample of 60 payroll transactions:

- Documentation for hours charged to the CRF program did not agree to actual expenditures charged for 11 employees tested.
- A sample of 4 employees tested lacked documentation for a COVID-related purpose.
- One employee tested was charged an incorrect payrate.

Cause:

The City lacked an internal control process to maintain the documentation for changes to amounts initially charged to the program.

Effect:

Failure to follow the Activities Allowed or Unallowed & Allowable Costs/Cost Principles compliance requirements results in non-compliance with federal regulations.

Questioned Costs:

None reported as less than \$25,000

Context/Sampling:

A nonstatistical sample of 60 transactions were selected from the payroll program expenditures, which accounted for \$249,387 of the total payroll population of \$603,217.

Repeat Finding from Prior Year:

No

Recommendation:

We recommend the City modify and strengthen its policies and procedures to ensure that grant expenditures are in accordance with grant terms and conditions.

Views of Responsible Official:

The City agrees with the above finding. See separately issued Corrective Action Plan.

2021-002

**U.S. Treasury Department, California Department of Finance
Federal Financial Assistance Listing/CFDA Number 21.019
COVID-19 Coronavirus Relief Funds**

Compliance Requirement: Period of Performance

Type of Finding: Significant Deficiency in Internal Control and Instance of Noncompliance

Criteria:

Per the Federal Register dated January 15, 2021, expenditures charged to the Coronavirus Relief Fund (CRF) must meet the following criteria:

- Costs were not accounted for in the budget most recently approved as of March 27, 2020
- Costs were incurred during the period that begins on March 1, 2020 and ended on December 31, 2021
- Were necessary expenditures incurred due to the public health emergency

Condition:

Public safety expenditures were charged to the CRF program prior to the allowed March 1, 2020 timeframe.

Cause:

The City lacked an internal control process to verify payroll expenditures were charged to the grant based on date incurred, rather than date paid.

Effect:

Failure to follow the Period of Performance compliance requirement results in non-compliance with federal regulations.

Questioned Costs:

None reported as less than \$25,000

Context/Sampling:

A nonstatistical sample of 60 transactions were selected from the payroll program expenditures, which accounted for \$249,387 of the total payroll population of \$603,217.

Repeat Finding from Prior Year:

No

Recommendation:

We recommend the City modify and strengthen its policies and procedures to ensure that grant expenditures are in accordance with grant terms and conditions.

Views of Responsible Official:

The City agrees with the above finding. See separately issued Corrective Action Plan.

**2021-003 U.S. Treasury Department, California Department of Finance
Federal Financial Assistance Listing/CFDA Number 21.019
COVID-19 Coronavirus Relief Funds**

Compliance Requirement: Reporting

Type of Finding: Significant Deficiency in Internal Control and Instance of Noncompliance

Criteria:

Uniform Guidance section 200.512 requires the data collection form reporting package be submitted within the earlier of 30 calendar days after receipt of the auditor's report or nine months after the year-end of the audit period. For fiscal year 2021, that deadline was extended to September 30, 2022 for June 30th year-end entities by the federal government.

Condition:

The data collection form reporting package was filed after the September 30, 2022 deadline.

Cause:

The audit process was delayed to allow for assembly of information needed to complete the Single Audit, including clarification of certain program requirements with granting agencies.

Effect:

The City did not comply with the reporting deadline.

Questioned Costs:

None reported

Repeat Finding from Prior Year:

No

Recommendation:

We recommend the City modify and strengthen its procedures to ensure the data collection for reporting package is filed in accordance with federal deadlines.

Views of Responsible Official:

The City agrees with the above finding. See separately issued Corrective Action Plan.

None noted.