

**CITY OF CLEARLAKE**

**Single Audit Report on  
Federal Award Programs**

June 30, 2022

**CITY OF CLEARLAKE**  
**SINGLE AUDIT REPORT ON FEDERAL AWARD PROGRAMS**  
Year Ended June 30, 2022

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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***

City Council  
City of Clearlake  
Clearlake, 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 Clearlake (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 May 31, 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. We identified a deficiency in internal control, described in the accompanying

schedule of findings and questioned costs 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 determination of financial statement amounts. 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 Clearlake's Responses to Findings**

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

### **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 City'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 organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Van Lant & Fankhaed, LLP*

May 31, 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 Uniform Guidance**

City Council  
City of Clearlake  
Clearlake, California

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

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

We have audited the City of Clearlake’s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City’s major federal programs for the year ended June 30, 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 of Clearlake, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 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; 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 of Clearlake 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 requirements referred to above.

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**Van Lant & Fankhanel, LLP**

29970 Technology Drive, Suite 105 A  
Murrieta, CA 92563  
909.856.6879

## ***Responsibilities of Management for Compliance***

Management is responsible for compliance with 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 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 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 Compliance section 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 were not 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.

#### **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 of Clearlake, 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 May 31, 2023 which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming an opinion 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 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.

*Van Lant & Fankhaed, LLP*

June 28, 2023

**CITY OF CLEARLAKE**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
Year Ended June 30, 2022

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal ALN Number	Program Identification Number	Program Expend- itures	Provided to Sub- Recipients
<b><u>U.S Department of Housing and Urban Development</u></b>				
<i>Passed through California Department of Housing and Community Development:</i>				
Community Development Block Grant	14.228	17-CDBG-12019	\$ 303,549	\$ -
Community Development Block Grant	14.228	Program Income	79,424	-
Community Development Block Grant	14.228	20-DRMHP-00021-NTP1	43,061	-
Community Development Block Grant	14.228	17-DRINFRA-17001-1	<u>7,030,157</u>	<u>-</u>
Total Department of Housing and Urban Development			<u>7,456,191</u> *	<u>-</u>
<b><u>U.S Department of Treasury</u></b>				
<i>Direct Assistance:</i>				
COVID-19 - Coronavirus State and Local Fiscal Recovery Funds	21.027	N/A	<u>3,652,190</u> *	<u>-</u>
Total Department of Treasury			<u>3,652,190</u>	<u>-</u>
Total Expenditures of Federal Awards			<u>\$ 11,108,381</u>	<u>\$ -</u>

\* = Major Program



**CITY OF CLEARLAKE**  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
Year Ended June 30, 2022

**1) Reporting Entity**

The financial reporting entity, as defined by the Governmental Accounting Standards Board (“GASB”) Codification, consists of the primary government, which is the City of Clearlake, California (the “City”), organizations for which the primary government is financially accountable, and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the City’s financial statements to be misleading or incomplete.

**2) Summary of Significant Accounting Policies**

Basis of Accounting

Funds received under the various grant programs have been recorded within the special revenue funds of the City. The City utilizes the modified accrual basis of accounting for the special revenue funds. The accompanying Schedule of Expenditures of Federal Awards (the “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*. Therefore, some amounts presented in the Schedule may differ from amounts presented in, or used in, the preparation of City’s basic financial statements.

Schedule of Expenditures of Federal Awards

The accompanying Schedule presents the activity of all federal financial assistance programs of the City. Federal financial assistance received directly from federal agencies, as well as federal financial assistance passed through the State of California Department of Housing and Community Development, are included in the Schedule. The Schedule was prepared from only the accounts of various grant programs and, therefore, does not present the financial position or results of operations of the City.

**3) Major Programs**

The City had two major programs for the year ended June 30, 2022, consisting of the Coronavirus State and Local Fiscal Recovery Funds and Community Development Block Grant Funds which had total disbursements of \$11,108,381. This amount calculates to 100% of the total disbursements from federal awards.

**4) Subrecipient Expenditures**

During the fiscal year ended June 30, 2022, there were no payments made to subrecipients.

**5) Indirect Cost Rate**

The City has not elected to use the 10-percent de minimis indirect rate as allowed under the Uniform Guidance.

**CITY OF CLEARLAKE**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
Year Ended June 30, 2022

**SECTION I – SUMMARY OF AUDITOR’S RESULTS**

**Financial Statements**

Type of Auditor’s Report Issued:	Unmodified
Internal Control Over Financial Reporting:	
Material Weakness(es) 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 Programs:	
Material Weakness(es) Identified?	No
Significant Deficiencies Identified not Considered to be Material Weaknesses?	None reported
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?	No

Identification of Major Programs:

CFDA Numbers	Name of Federal Program or Cluster
21.027	Coronavirus State and Local Fiscal Recovery Funds
14.228	Community Development Block Grant Funds

Dollar Threshold used to Distinguish Between Type A And Type B Programs:	\$ <u>750,000</u>
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Auditee Qualified as Low-Risk Auditee?	No
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**CITY OF CLEARLAKE**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
Year Ended June 30, 2022

**SECTION II – FINANCIAL STATEMENT FINDINGS**

***2022-001 Timeliness of Accounting Records***

Condition:

The City's accounting records were not reconciled and ready to be audited until March 2023, approximately 9 months after the end of the fiscal year.

Criteria:

The City's management is responsible for establishing and maintaining effective internal controls over financial reporting to help ensure that appropriate goals and objectives are met. This responsibility includes the selection and application of accounting principles, ensuring that financial information is reliable and properly recorded, and evaluating and monitoring ongoing activities in a timely manner.

Cause of Condition:

Turnover in the Finance Department and delays in completing the year-end financial close process due to COVID-19.

Recommendation:

Therefore, in order to maintain the integrity of the accounting and financial reporting system, and to ensure timely reporting, we recommend that all balance sheet accounts and other selected accounts be analyzed on a monthly, quarterly or other periodic basis as appropriate. We suggest a schedule of accounting functions to be performed monthly, quarterly, etc., be prepared with the provision for signing off by date and initials when the procedure is complete. We understand significant turnover in the finance department along with the onset of the COVID-19 pandemic were contributing factors to the finding described above.

Views of Responsible Officials:

The City concurs. Refer to separate Corrective Action Plan for management's response.

**CITY OF CLEARLAKE**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
Year Ended June 30, 2022

**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

There were no findings to be reported in accordance with the *Uniform Guidance*.

**CITY OF CLEARLAKE**  
**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
Year Ended June 30, 2022

**SECTION II – FINANCIAL STATEMENT FINDINGS**

*2021-001: Audit Adjustments*

Current Status: This finding has not been corrected. See Finding 2022-001 and corrective action plan.

**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

There were no findings reported in accordance with the *Uniform Guidance*.

**CITY OF CLEARLAKE**

**Corrective Action Plan**

**Year Ended June 30, 2022**

**CITY OF CLEARLAKE  
CORRECTIVE ACTION PLAN  
Year Ended June 30, 2022**

**SECTION I – FINANCIAL STATEMENT FINDINGS**

***2022-001 Audit Adjustments***

Management's or Departments Response:

We Concur.

View of Responsible Officials and Planned Corrective Actions:

The City has stabilized staffing in the finance department and is also in the process of bringing on an additional Account Clerk. Due to an increase in grant funded capital projects, the City requires additional support to manage grant reporting requirements and financial resource tracking.

The Finance Department has also established a monthly and quarterly review process that will allow for a seamless year-end close. The FYE 22 audit has been completed in time to start preparing for the FYE 23 audit which will be completed in the standard annual audit cycle.

Name of Responsible Person: Kathy Wells, Finance Director

Implementation Date: June 30, 2023

**CITY OF CLEARLAKE  
CORRECTIVE ACTION PLAN  
Year Ended June 30, 2022**

**SECTION II – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

There were no findings to be reported in accordance with the *Uniform Guidance*.