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

City of Paramount, 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 City Council
City of Paramount
Paramount, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Paramount, 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 January 10, 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. 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 or significant deficiencies may exist that have not been identified.

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*.

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

Eide Bailly LLP

Rancho Cucamonga, California
January 10, 2023

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

To the City Council
City of Paramount
Paramount, California

Report on Compliance of the Major Federal Program

Opinion on the Major Federal Program

We have audited the City of Paramount, California'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 year ended June 30, 2022. 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 compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2022.

Basis for Opinion on the 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 the 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 program.

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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 program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the City's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the City's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over compliance. Accordingly, no such opinion is expressed.

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

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2022-001 and 2022-002. Our opinion on the 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 certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2022-001 and 2022-002 to be significant deficiencies.

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

Government Auditing Standards requires the auditor to perform limited procedures on the City's response to the internal control over compliance findings identified in our 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 January 10, 2023, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Eide Bailly LLP

Rancho Cucamonga, California
March 30, 2023

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal Financial Assistance Listing	Pass-through Entity Identifying Number	Expenditures	Amounts Passed Through to Subrecipient
U.S. Department of Housing and Urban Development				
Direct Programs				
Community Development Block Grants Entitlement Grants Cluster				
Community Development Block Grants/Entitlement Grants	14.218	B-18-MC-06-0591	$ 6,828	$ -
Community Development Block Grants/Entitlement Grants	14.218	B-19-MC-06-0591	270,765	16,000
Community Development Block Grants/Entitlement Grants	14.218	B-20-MC-06-0591	110,521	-
Community Development Block Grants/Entitlement Grants	14.218	B-21-MC-06-0591	340,859	-
COVID-19 Community Development Block Grant/Entitlement Grants	14.218	B-20-MW-06-0591	226,977	-
Total Community Development Block Grants Entitlement Grants Cluster			955,950	16,000
HOME Investment Partnerships Program	14.239	M-18-MC-06-0558	166,409	-
HOME Investment Partnerships Program	14.239	M-20-MC-06-0558	102	-
HOME Investment Partnerships Program	14.239	M-21-MC-06-0558	38,030	-
HOME Investment Partnerships Program	14.239	M-22-MC-06-0558	10,202	-
Total HOME Investment Partnerships Programs			214,743	-
Total U.S. Department of Housing and Urban Development			**1,170,693**	**16,000**
U.S. Department of Justice				
Direct Programs				
Edward Byrne Memorial Justice Assistance Grant	16.738	15PBJA-21-GG-01246-JAGX	23,685	-
Total Edward Byrne Memorial Justice Assistant Grant			23,685	-
Total U.S. Department of Justice			**23,685**	**-**
U.S. Department of the Treasury				
Direct Program				
COVID-19 Coronavirus State and Local Fiscal Recovery Funds	21.027	N/A	4,909,423	-
Total U.S. Department of the Treasury			**4,909,423**	-
Total Federal Financial Assistance			**$ 6,103,801**	**$ 16,000**

Note 1 - Summary of Significant Accounting Policies

A. General

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal award programs of the City of Paramount, California (City). The City's reporting entity is defined in Note 1 of the City's Annual Comprehensive Financial Report (ACFR). All federal financial awards received directly from federal agencies, as well as federal financial awards passed through other governmental agencies, are included in the accompanying schedule.

B. Basis of Accounting

Consistent with accounting principles generally accepted in the United States of America, the City's accompanying Schedule of Expenditures of Federal Awards is presented using the modified-accrual basis of accounting, which is described in Note 1 of the City's basic financial statements. Subrecipient expenditures are recorded on a cash basis.

C. Relationship to Basic Financial Statements

Amounts reported in the accompanying Schedule of Expenditures of Federal Awards agree, in all material respects, to amounts reported within the City's financial statements.

D. Relationship to Federal Financial Reports

Certain federal financial reports are filed based on cash expenditures. As such, certain timing differences may exist in the recognition of revenues and expenditures between the Schedule of Expenditures of Federal Awards and the federal financial reports.

E. Indirect Cost Rate

The City has not elected to use the 10-percent de minimis indirect cost rate as 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 federal programs:	
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(a)?	Yes

Identification of major programs:

Name of Federal Program	Federal Financial Assistance Listing
COVID-19 Coronavirus State and Local Fiscal Recovery Funds	21.027

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

2022-001: **Federal Agency:** U.S. Department of the Treasury
Federal Financial Assistance Listing: 21.027
Program Name: COVID-19 Coronavirus State and Local Fiscal Recovery Funds
Compliance Requirement: Procurement, Suspension and Debarment
Type of Finding: *Significant Deficiency in Internal Control over Compliance, Instance of Non-compliance*

Criteria:

General procurement standards 2 CFR 200.318 require the non-Federal entity to use its own documented procurement procedures which reflect applicable State, local, and tribal laws and regulations, provided that the procurements conform to applicable Federal law and standards identified in this part. The non-Federal entity's documented procurement procedures must conform to the procurement standards identified in 2 CFR sections 200.317 through 200.326.

Prior to entering into subawards and contracts with award funds, recipients must verify that such contractors and subrecipients are not suspended, debarred, or otherwise excluded pursuant to 2 CFR section 200.214.

Condition:

The following required procurement standards were not addressed in the City's policy:

- Conflict of interest, including disciplinary actions for failure to adhere (2 CFR 200.318)
- Avoid acquisition of duplicative items (2 CFR 200.318)
- Cost effective purchasing (2 CFR 200.318)
- Document retention (2 CFR 200.318)
- Provisions to ensure all solicitations (2 CFR 200.319): Incorporate clear and accurate descriptions of technical requirements, do not restrict competition, and identify all requirements which the offerors must fulfill and factors used in evaluation
- Disadvantaged Business Enterprise program (2 CFR 200.321)
- Recovered materials, if subject to EPA requirements (2 CFR 200.322)
- Contract price/types (2 CFR 200.323)
- Bonding requirements (2 CFR 200.325)
- Contract provisions (2 CFR 200.326)

Additionally, we identified 3 instances in which the City did not verify the vendor was not suspended, debarred, or otherwise excluded before entering into a covered transaction rather, verification was performed after entering into the transaction. The City asserted that they verified the vendors were not suspended or debarred; however, no documentation of the procedure being performed prior to entering into the transaction was presented.

Cause:

The City's did not ensure it's written procedures identified all of the required federal procurement standards. Additionally, the City's controls did not ensure the check for suspension and debarment was performed and documented prior to entering into covered transactions.

Effect:

The City's documented procurement procedures do not conform to the procurement standards identified in 2 CFR sections 200. 318, 200.319, and 200.321 through 200.326. Additionally, the City did not comply with the requirements of 2 CFR 200.214.

Questioned Costs:

None reported.

Context/Sampling:

The condition noted above was identified during our procedures related to procurement, suspension, and debarment. A non-statistical sample of 4 expenditures out of a population of 12 vendors were selected for testing as a whole.

Repeat Finding from Prior Year:

No.

Recommendation:

We recommend the City modify and strengthen its policies and procedures to ensure that the required Uniform Guidance standards are addressed.

Views of Responsible Officials:

Management agrees. See separately issued Corrective Action Plan.

2022-002: **Federal Agency:** U.S. Department of the Treasury
Federal Financial Assistance Listing: 21.027
Program Name: COVID-19 Coronavirus State and Local Fiscal Recovery Funds
Compliance Requirement: Reporting
Type of Finding: *Significant Deficiency, Instance of Noncompliance*

Criteria:

Per 2 CFR 200.303, the non-Federal entity must establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. This includes internal controls over maintaining records of the preparer and approver of required reports.

2 CFR 200.329(b) requires that reports submitted to the federal awarding agency include all activity of the reporting period, are supported by applicable accounting or performance records, and are fairly presented in accordance with program requirements.

The City of Paramount (the City) must submit an *Interim Report* and quarterly *Project and Expenditure Reports* that contain costs incurred during the covered period.

Critical information pertaining to both the *Interim Report* and the *Project and Expenditure Reports* includes:

- Obligations and Expenditures
  - Current period obligation
  - Cumulative obligation
  - Current period expenditure
  - Cumulative expenditure

Critical information pertaining to the *Project and Expenditure Reports* specifically includes:

- Subawards
- Detailed information on any loans issued; contracts and grants awarded; transfers made to other government entities; and direct payments made by the recipient that are greater than $50,000. For amounts less than $50,000, the recipient must report in the aggregate for these same categories of loans issued; contracts and grants awarded; transfers made to other government entities and direct payments made by the recipient.

Additionally, per the Coronavirus State and Local Fiscal Recovery Funds (CSLFRF) Compliance and Reporting Guidance, all recipients are required to submit Project and Expenditure Reports on a timely basis as summarized in the quarterly report timelines table of the guidance.

Condition:

We identified 4 instances in which the City did not retain evidence to document the individual approving the City's required performance reports.

Current obligations were reported inaccurately for the Quarter 1 and 2 *Project and Expenditure Reports*. Additionally, expenditure information was reported inaccurately for the Quarter 2 Project and Expenditure Report and the report was submitted past the required deadline.

Further, $48,834 for the purchase of energy efficient lighting upgrades to City Hall were reported incorrectly under "Public Health - Negative Economic Impact" instead of "Revenue Replacement".

Cause:

The City's procedures did not include documentation to evidence the individual that approved the reports.

The City's procedures did not ensure the Quarter 2 Project and Expenditure Report was prepared in accordance with program requirements and on a timely basis.

Effect:

The City did not comply with the requirements of 2 CFR 200.303 and inaccurate information was reported to the federal awarding agency.

Questioned Costs:

None reported.

Context/Sampling:

The entire population of one *Interim Report* and three quarterly *Project and Expenditure Reports* submitted during the year were selected for testing.

Repeat Finding from Prior Year:

No.

Recommendation:

We recommend the City enhance internal controls to ensure *Interim* and *Project and Expenditure Reports* are prepared in accordance with program requirements.

Views of Responsible Officials:

Management agrees. See separately issued Corrective Action Plan.

None noted.