



MANAGEMENT LETTER

To the City Council
of the City of Hollister

In planning and performing our audit of the financial statements of the City of Hollister (the City) as of and for the year ended June 30, 2021, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion 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.

However, during our audit we became aware of deficiencies in internal control other than significant deficiencies and material weaknesses and matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. A separate letter dated May 9, 2024, contains our communication of significant deficiencies or material weaknesses in the City's internal control. This letter does not affect our report dated May 9, 2024, on the financial statements of the City.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various City personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This communication is intended solely for the information and use of management, City Council, and others within the City, and is not intended to be, and should not be, used by anyone other than those specified parties.

MUN CPAs, LLP

MUN CPAs, LLP
Sacramento, California
May 9, 2024

**City of Hollister
Summary of Current Year Findings and Recommendations
June 30, 2021**

Information Technology (Repeat Finding)

Existing written policies and procedures do not include policies and objectives concerning the role of user passwords and changes in computer authorizations in securing information and promoting proper segregation of duties. We recommend that written procedures be developed concerning the assignment, modification, and deletion of user passwords, as well as procedures for changes in employee status (terminations, department changes, etc.). Passwords should be changed at least once every six months. Written policies will help to ensure that password assignments, deletions, and employee modifications are performed in a manner consistent with management's intentions.

Cost Allocation Plan (Repeat Finding)

The City does not have a current cost allocation plan. In current and prior years, an overhead amount has been charged to the, utility, and airport funds; however, there is no basis for this amount. We recommend the City perform and obtain a cost allocation plan to allocate overhead expenditures to different departments to ensure that expenses being charged are an accurate reflection of current activity.

Other Post-Employment Benefits Census Data (Repeat Finding)

There are no formal procedures in place to review the accuracy of census data provided to actuaries. We recommend the City implement processes and controls to ensure that complete and accurate information is reported to the plan actuary. In evaluating the census data file, the employer may compare the information to underlying payroll records and the prior year census data file.

Procurement Support (Repeat Finding)

When performing testing over the City's procurement policy, we noted that departments maintain different forms for keeping track of bids and not all departments keep records of the bids that were received. We recommend that the City maintain a uniform and consistent method of tracking bidding documentation to improve organization and support for all bids received for projects as required by the City's procurement policy.

Payroll Liabilities (Repeat Finding)

The City's total accrued payroll and benefits incurred but not yet paid as of year-end from the City's payroll system did not agree to the City's payroll liability accrual. The difference was the result of old balances manually inputted that have been in the system for a period in excess of at least 3 years. We recommend the City clear out old balances from the system and reconcile accrual to records from payroll system.

Activity in Closed Funds

In our review of the City's special revenue funds we noted two funds, closed in a prior year, with activity erroneously posted to the fund in the City's general ledger system. We recommend logical controls be implemented to prevent journal entries from being posted to closed funds and that all manual journal entries be reviewed for correct general ledger coding.

**City of Hollister
Summary of Prior Year Findings and Recommendations**

Information Technology (Repeat Finding)

Existing written policies and procedures do not include policies and objectives concerning the role of user passwords and changes in computer authorizations in securing information and promoting proper segregation of duties. We recommend that written procedures be developed concerning the assignment, modification, and deletion of user passwords, as well as procedures for changes in employee status (terminations, department changes, etc.). Passwords should be changed at least once every six months. Written policies will help to ensure that password assignments, deletions, and employee modifications are performed in a manner consistent with management's intentions.

Status: Not implemented.

Cost Allocation Plan (Repeat Finding)

The City does not have a current cost allocation plan. In current and prior years, an overhead amount has been charged to the, utility, and airport funds; however, there is no basis for this amount. We recommend the City perform and obtain a cost allocation plan to allocate overhead expenditures to different departments to ensure that expenses being charged are an accurate reflection of current activity.

Status: Not implemented.

Other Post-Employment Benefits Census Data (Repeat Finding)

There are no formal procedures in place to review the accuracy of census data provided to actuaries. We recommend the City implement processes and controls to ensure that complete and accurate information is reported to the plan actuary. In evaluating the census data file, the employer may compare the information to underlying payroll records and the prior year census data file.

Status: Not implemented.

Procurement Support (Repeat Finding)

When performing testing over the City's procurement policy, we noted that departments maintain different forms for keeping track of bids and not all departments keep records of the bids that were received. We recommend that the City maintain a uniform and consistent method of tracking bidding documentation to improve organization and support for all bids received for projects as required by the City's procurement policy.

Status: Not implemented.

Payroll Liabilities (Repeat Finding)

The City's total accrued payroll and benefits incurred but not yet paid as of June 30, 2020 from the City's payroll system did not agree to City's payroll liability accrual. The difference was the result of old balances manually inputted that have been in the system for a period in excess of at least 2 years. We recommend that the City clear out old balances from the system and reconcile accrual to records from payroll system.

Status: Not implemented.

Activity in Closed Fund

In our review of the City's special revenue funds we noted one fund, closed in a prior year, with activity erroneously posted to the fund in the City's general ledger system. We recommend that logical controls be implemented to prevent journal entries from being posted to closed funds and that all manual journal entries be reviewed for correct general ledger coding.

Status: Not implemented.



May 9, 2024

To City Council
City of Hollister
375 Fifth Street
Hollister, California 95023

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 of Hollister (the City) for the year ended June 30, 2021. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, *Government Auditing Standards* and the Uniform Guidance), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated June 10, 2021. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Matters

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City are described in Note 1 to the financial statements. As described in Note 1 to the financial statements, the City adopted Statement of Governmental Accounting Standards (GASB Statement) No. 84, *Fiduciary Activities*, in 2021. Accordingly, the cumulative effect of the accounting change as of the beginning of the year is reported in the Statement of Changes in Fiduciary Net Position. We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the City's financial statements were:

Depreciation: Management's estimate of depreciation is based on the City's capitalization policy.

Allowance for uncollectible accounts: Management's estimate of uncollectible accounts is based on the City's analysis of current and historical collections and write-offs.

Allowance for notes receivable: Management's allowance for notes receivable is based on management's specific identification of loans with long-term deferrals and non-current payments.

Net pension liability and other post-employment benefits (OPEB) liability: Management's estimates for the net OPEB and net pension liabilities are based on actuarial valuations.

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

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

The completion of the audit was delayed due to lack of available staffing in the finance department and that processes utilized for closing and financial reporting of financial activity for the fiscal year were not effective. The year-end audit for the June 30, 2021 fiscal year-end began in April 2022. Audit schedules and reconciliations received were either lacking or not prepared accurately resulting in numerous journal entries proposed. Approximately 33 journal entries were posted to the final trial balance for audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Attachment A summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. The material misstatements in Attachment B were detected as a result of audit procedures and were corrected by management.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated May 9, 2024.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other significant matters discussed with management include the material weaknesses and significant deficiencies issued for the year ended June 30, 2021 which were reported in the Schedule of Findings and Questioned Costs included in the Single Audit and Related Reports package. The material weaknesses and significant deficiencies indicate there is high risk that potential errors may not be prevented, or detected and corrected, on a timely basis.

Other Matters

We applied certain limited procedures to management's discussion and analysis, budgetary comparison schedules for the General Fund and major special revenue funds, the schedule of proportionate share of the net pension liability, the schedule of contributions to the pension plan, the schedule of changes in the net OPEB liability and related ratios, and the schedule of contributions to the OPEB plan, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the combining and individual fund financial statements and the budgetary comparison schedules, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

We were not engaged to report on the introductory and statistical sections of the annual comprehensive financial report, which accompany the financial statements but are not RSI. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Restriction on Use

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

Very truly yours,



MUN CPAs, LLP

CITY OF HOLLISTER
SUMMARY OF PASSED AUDIT ADJUSTMENTS
June 30, 2021

Description	Effect - Increase (Decrease)				
	Assets & Deferred Outflows	Liabilities & Deferred Inflows	Equity	Revenue	Expenses
<u>Current Year Differences</u>					
Excess receivable - factual	\$ (23,279)			\$ (23,279)	
Change in landfill liability		\$ (21,573)			\$ (21,573)
Total Income Statement Effect				<u>\$ (23,279)</u>	<u>\$ (21,573)</u>
Balance Sheet Effect	<u>\$ (23,279)</u>	<u>\$ (21,573)</u>	<u>\$ -</u>		

City of Hollister
Year End: June 30, 2021
Recorded Journal Entries (AJEs)
Date: 7/1/2020 To 6/30/2021

Attachment B

Number	Account Name	Account No.	Debit	Credit
2	Claim On Cash	101101 101	452,633.00	
2	WAGES PAYABLE	220015 101		(452,633.00)
PBC - To record accrued payroll				
3	FUND BALANCE	300101 216		(1.00)
3	FUND BALANCE	300101 601		(1.00)
3	FUND BALANCE	300101 670		(1.00)
3	FUND BALANCE	300101 680		(1.00)
3	FUND BALANCE	300101 620	2.00	
3	FUND BALANCE	300101 665	1.00	
3	FUND BALANCE	300101 203	2.00	
3	FUND BALANCE	300101 205	1.00	
3	FUND BALANCE	300101 218	1.00	
3	FUND BALANCE	300101 223		(1.00)
3	FUND BALANCE	300101 241		(1.00)
3	FUND BALANCE	300101 246	1.00	
3	Fund Balance	300101 313		(1.00)
3	FUND BALANCE	300101 662		(1.00)
3	FUND BALANCE	300101 502	1.00	
3	FUND BALANCE	300101 850	1.00	
3	FUND BALANCE	300101 706	1.00	
3	FUND BALANCE	300101 712	1.00	
3	INTEREST INCOME	1000-450001 216	1.00	
3	INTEREST INCOME	1000-450001 601	1.00	
3	INTEREST INCOME	1000-450001 670	1.00	
3	INTEREST INCOME	1000-450001 680	1.00	
3	INTEREST INCOME	1000-450001 620		(2.00)
3	INTEREST INCOME	1000-450001 665		(1.00)
3	INTEREST INCOME	1000-450001 203		(2.00)
3	INTEREST INCOME	1000-450001 205		(1.00)
3	INTEREST INCOME	1000-450001 218		(1.00)
3	INTEREST INCOME	1000-450001 223	1.00	
3	INTEREST INCOME	1000-450001 313	1.00	
3	INTEREST INCOME	1000-450001 662	1.00	
3	INTEREST INCOME	1000-450001 502		(1.00)
3	INTEREST INCOME	1000-450001 850		(1.00)
3	INTEREST INCOME	1000-450001 706		(1.00)
3	INTEREST INCOME	1000-450001 712		(1.00)
3	UNIFORM ALLOWANCE	2205-701015 241	1.00	
3	OFFICE SUPPLIES	4010-710001 246		(1.00)

To reconcile fund balance to prior year report for rounding differences.

4	Claim On Cash	101101 101	66,476.00	
4	Claim On Cash	101101 101		(66,476.00)
4	CLAIM ON CASH	101101 105		(66,476.00)
4	CLAIM ON CASH	101101 105	66,476.00	
4	FUND BALANCE	300101 101		(66,476.00)
4	FUND BALANCE	300101 105	66,476.00	
4	FUND BALANCE	300101 105	2,741.00	
4	FUND BALANCE	300101 660		(102.00)
4	INTEREST INCOME	1000-450001 660	102.00	
4	Unrealized Gain On Investments	1000-450999 105		(2,741.00)
4	TRANSFERS IN	1000-490999 101	66,476.00	

4	TRANSFERS OUT	1100-799999 105	(66,476.00)
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To reconcile fund balance to prior year report (non-rounding,
immaterial differences)

5	AMT TO BE PROVIDED	140001 950	23,035,778.00	
5	Deferred Outflows - Contributions	140100 950	3,554,237.00	
5	Deferred Outflows - Actuary	140101 950	5,019,863.00	
5	DEFERRED OUTFLOW-CHANGES IN THE NET PENSION LIAB.	171001 660		(91,144.00)
5	Changes in the Total OPEB Liability	171002 660	91,144.00	
5	Deferred Inflows - Actuary	260100 950		(2,887,645.00)
5	Net Pension Liability	260500 950		(28,722,233.00)

To record beginning governmental activities GASB 68 balances

6	Deferred Outflows - Contributions	140100 950	257,681.00	
6	Deferred Outflows - Actuary	140101 950		(655,930.00)
6	Deferred Outflows - Actuary	140101 950	340,985.00	
6	Deferred Outflows - Actuary	140101 950	79,820.00	
6	Deferred Outflows - Actuary	140101 950	388,418.00	
6	Deferred Inflows - Actuary	260100 950	68,475.00	
6	Deferred Inflows - Actuary	260100 950		(154,201.00)
6	Deferred Inflows - Actuary	260100 950	220,147.00	
6	Net Pension Liability	260500 950		(1,868,416.00)
6	Pension Expense - GASB 68	0000-701005 950	1,323,021.00	

To record GASB 68 activity for the Safety Plan

7	Deferred Outflows - Contributions	140100 950	163,778.00	
7	Deferred Outflows - Actuary	140101 950		(620,000.00)
7	Deferred Outflows - Actuary	140101 950		(177,163.00)
7	Deferred Outflows - Actuary	140101 950		(932,498.00)
7	Deferred Outflows - Actuary	140101 950	218,692.00	
7	Deferred Outflows - Actuary	140101 950	418,443.00	
7	PENSION CONTRIBUTIONS	171000 620	11,295.00	
7	PENSION CONTRIBUTIONS	171000 660	13,178.00	
7	DEFERRED OUTFLOW-CHANGES IN THE NET PENSION LIAB.	171001 620		(42,759.00)
7	DEFERRED OUTFLOW-CHANGES IN THE NET PENSION LIAB.	171001 620		(12,218.00)
7	DEFERRED OUTFLOW-CHANGES IN THE NET PENSION LIAB.	171001 620		(64,310.00)
7	DEFERRED OUTFLOW-CHANGES IN THE NET PENSION LIAB.	171001 620	15,082.00	
7	DEFERRED OUTFLOW-CHANGES IN THE NET PENSION LIAB.	171001 620	28,858.00	
7	DEFERRED OUTFLOW-CHANGES IN THE NET PENSION LIAB.	171001 660		(49,885.00)
7	DEFERRED OUTFLOW-CHANGES IN THE NET PENSION LIAB.	171001 660		(14,254.00)
7	DEFERRED OUTFLOW-CHANGES IN THE NET PENSION LIAB.	171001 660		(75,029.00)
7	DEFERRED OUTFLOW-CHANGES IN THE NET PENSION LIAB.	171001 660	17,596.00	
7	DEFERRED OUTFLOW-CHANGES IN THE NET PENSION LIAB.	171001 660	33,668.00	
7	Deferred Inflows - Actuary	260100 950	119,319.00	
7	Deferred Inflows - Actuary	260100 950	69,968.00	
7	Deferred Inflows - Actuary	260100 950		(195,108.00)
7	Deferred Inflows - Actuary	260100 950	1,066,818.00	
7	Deferred Inflows - Actuary	260100 950	227,317.00	
7	Net Pension Liability	260500 950		(1,083,788.00)
7	NET PENSION LIABILITY	295000 620		(74,744.00)
7	NET PENSION LIABILITY	295000 660		(87,201.00)
7	DEFERRED INFLOW-CHANGES IN THE NET PENSION LIAB.	295001 620	8,229.00	
7	DEFERRED INFLOW-CHANGES IN THE NET PENSION LIAB.	295001 620	4,825.00	
7	DEFERRED INFLOW-CHANGES IN THE NET PENSION LIAB.	295001 620		(13,456.00)
7	DEFERRED INFLOW-CHANGES IN THE NET PENSION LIAB.	295001 620	73,574.00	
7	DEFERRED INFLOW-CHANGES IN THE NET PENSION LIAB.	295001 620	15,677.00	
7	DEFERRED INFLOW-CHANGES IN THE NET PENSION LIAB.	295001 660	9,600.00	
7	DEFERRED INFLOW-CHANGES IN THE NET PENSION LIAB.	295001 660	5,630.00	
7	DEFERRED INFLOW-CHANGES IN THE NET PENSION LIAB.	295001 660		(15,698.00)
7	DEFERRED INFLOW-CHANGES IN THE NET PENSION LIAB.	295001 660	85,836.00	

7	DEFERRED INFLOW-CHANGES IN THE NET PENSION LIAB.	295001 660	18,290.00	
7	Pension Expense - GASB 68	0000-701005 620	49,947.00	
7	Pension Expense - GASB 68	0000-701005 660	58,269.00	
7	Pension Expense - GASB 68	0000-701005 950	724,222.00	

To record GASB 68 activity for the Miscellaneous Plan

8	Deferred Outflows - Contributions	140100 950		(111,461.00)
8	PENSION CONTRIBUTIONS	171000 620	64,282.00	
8	PENSION CONTRIBUTIONS	171000 660	47,179.00	
8	Net Pension Liability	260500 950	111,461.00	
8	NET PENSION LIABILITY	295000 620		(64,282.00)
8	NET PENSION LIABILITY	295000 660		(47,179.00)

To true-up/reclassify pension contributions subsequent to the measurement date

10	CLAIM ON CASH	101101 601		(221,776.00)
10	CLAIM ON CASH	101101 212	221,776.00	
10	UNEARNED REVENUE	275006 254		(111,180.00)
10	UNEARNED REVENUE	275006 268		(1,810.00)
10	Federal Grant	1000-430021 254	111,180.00	
10	FEDERAL GRANT	1000-430021 268	1,810.00	
10	TRANSFERS IN	1000-490999 212		(221,776.00)
10	TRANSFERS OUT	1100-799999 601	221,776.00	

To correct grant activity

11	INTEREST PAYMENTS	1100-747000 704	12,647.00	
11	PRINCIPAL PAYMENTS	1100-748000 704		(12,647.00)

To reclass interest expense that had been recorded as principal payment

12	AMT TO BE PROVIDED	140001 950	4,519,176.00	
12	Deferred Outflows - GASB 75	140102 950	119,002.00	
12	Deferred Inflows - GASB 75	260102 950		(1,042,303.00)
12	Net OPEB Obligation	260650 950		(3,595,875.00)

To record beginning balances of GASB 75 activity

13	Deferred Outflows - GASB 75	140102 950	19,360.00	
13	Deferred Outflows - GASB 75	140102 950	681,440.00	
13	Deferred Outflows - GASB 75	140102 950		(16.00)
13	Changes in the Total OPEB Liability	171002 620		(1,368.00)
13	Changes in the Total OPEB Liability	171002 620	55,466.00	
13	Changes in the Total OPEB Liability	171002 620	2,942.00	
13	Changes in the Total OPEB Liability	171002 660		(1,765.00)
13	Changes in the Total OPEB Liability	171002 660	55,466.00	
13	Changes in the Total OPEB Liability	171002 660	3,339.00	
13	Deferred Inflows - GASB 75	260102 950	118,453.00	
13	Net OPEB Obligation	260650 950		(1,035,010.00)
13	Changes in the Total OPEB Liability	295002 620	9,642.00	
13	Changes in the Total OPEB Liability	295002 660	9,642.00	
13	NET OPEB	296000 620		(84,245.00)
13	NET OPEB	296000 660		(84,245.00)
13	OPEB Expense -GASB 75	0000-701025 620	17,563.00	
13	OPEB Expense - GASB 75	0000-701025 660	17,563.00	
13	OPEB Expense - GASB 75	0000-701025 950	215,773.00	

To record current year GASB 75 activity

14	INTEREST PAYMENTS	1100-747000 660	397,241.00	
14	PREMIUM/ DEF CHGS AMORTIZATION	1100-747002 660		(388,095.00)

14	16-WW-INTEREST PAYMENTS	1100-747007 660		(9,146.00)
14	PRINCIPAL PAYMENTS	1100-748000 660	15,671.00	
14	PRINCIPAL PAYMENTS	4995-748000 660		(15,671.00)

To book corrections for interest expense line items

15	COMMUNITY DEV. BLOCK GRANT (FORGIVEN)	160014 242		(245,580.00)
15	PALM COURT PROJECT	160412 851	175,226.00	
15	DEFERRED REVENUE	275005 851		(175,226.00)
15	DEFERRED REVENUE	275005 242	245,580.00	

To book corrections for loan receivable accounts

16	400 BLOCK OF SAN BENITO _LAND HELD	120024 101		(772,290.00)
16	GAIN/(LOSS) SALE OF LAND _RSALE	1000-470006 101	630,974.00	
16	SALE OF PROPERTY	1000-490055 101	141,316.00	

To book correction for land held for resale (400 Block)

17	Claim On Cash	101101 101		(835,693.00)
17	Claim On Cash	101101 101	835,693.00	
17	Claim On Cash	101101 101		(128,530.00)
17	CLAIM ON CASH	101101 246		(1,629,794.00)
17	CLAIM ON CASH	101101 850		(835,693.00)
17	CLAIM ON CASH	101101 850	128,530.00	
17	Wells Fargo Bank Pooled Cash	101103 999		(128,530.00)
17	Wells Fargo Bank Pooled Cash	101103 999		(707,163.00)
17	Wells Fargo Bank Pooled Cash	101103 999		(1,629,794.00)
17	ACCOUNTS RECEIVABLE	120001 101		(707,163.00)
17	ACCOUNTS RECEIVABLE	120001 101	835,693.00	
17	ACCOUNTS RECEIVABLE	120001 246	1,629,794.00	
17	POOL CASH CLEARING ACCT	250099 999	2,465,487.00	
17	SUCCESSOR AGENCY RESIDUAL PMT	1000-430100 101		(835,693.00)
17	SUCCESSOR AGENCY RESIDUAL PMT	1000-430100 101	707,163.00	
17	SUCCESSOR AGENCY RESIDUAL PMT	1000-430100 101	128,530.00	
17	RPTTF RESIDUAL PAYMENT	1000-430101 850	835,693.00	
17	RPTTF RESIDUAL PAYMENT	1000-430101 850		(128,530.00)

To book corrections for entries that were booked to cash that should have been to accoi

18	Claim On Cash	101101 101		(159.00)
18	Claim On Cash	101101 101		(27.00)
18	CLAIM ON CASH	101101 213	159.00	
18	CLAIM ON CASH	101101 225	27.00	
18	INTEREST RECEIVABLE	120010 101	142.00	
18	INTEREST RECEIVABLE	120010 213		(142.00)
18	INTEREST INCOME	1000-450001 101	1.00	
18	INTEREST INCOME	1000-450001 101	23.00	
18	INTEREST INCOME	1000-450001 213		(1.00)
18	INTEREST INCOME	1000-450001 225		(23.00)
18	Unrealized Gain On Investments	1000-450999 101	7.00	
18	UNREALIZED GAIN ON INVESTMENTS	1000-450999 225		(7.00)
18	Contracts: Bank Service Charge	1100-740025 101		(4.00)
18	Contracts: Bank Service Charge	1100-740025 101		(3.00)
18	CONTRACTS: BANK SERVICE CHARGE	1100-740025 213	4.00	
18	CONTRACTS: BANK SERVICE CHARGE	1100-740025 225	3.00	
18	Operating Supplies	4200-710015 101	20.00	
18	OPERATING SUPPLIES	4200-710015 213		(20.00)

To record entries to clear out funds that are supposed to be closed.

20	AMT TO BE PROVIDED	140001 950	64,936.00	
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20	COMPENSATED ABSENCES	260600 670		(15,338.00)
20	COMPENSATED ABSENCES	260600 620	3,113.00	
20	COMPENSATED ABSENCES	260600 660		(67,465.00)
20	COMPENSATED ABSENCES	260600 950		(64,936.00)
20	SALARIES REGULAR	4990-701001 660	67,465.00	
20	SALARIES REGULAR	5015-701001 670	15,338.00	
20	SALARIES REGULAR	5035-701001 620		(3,113.00)

To correct compensated absences

21	CONTRACTS: BANK SERVICE CHARGE	1100-740025 221	547.00	
21	CONTRACTS: BANK SERVICE CHARGE	1100-740025 305	1.00	
21	CONTRACTS: BANK SERVICE CHARGE	1100-740025 505	1,500.00	
21	IMPROVEMENTS	1100-750050 505		(1,500.00)
21	IMPROVEMENTS	2500-750050 221		(547.00)
21	PROFESSIONAL SERVICES	4000-730000 101		(56,480.00)
21	PROFESSIONAL SERVICES	4000-730000 216	43,496.00	
21	Professional Services	4010-730000 246		(7,941.00)
21	PROFESSIONAL SERVICES	5015-730000 662	37,626.00	
21	IMPROVEMENTS	5015-750050 662		(37,626.00)
21	PROFESSIONAL SERVICES	7000-730000 205	69,311.00	
21	Improvements	9000-750050 101	56,480.00	
21	Improvements	9000-750050 216		(43,496.00)
21	Improvements	9000-750050 205		(69,311.00)
21	Improvements	9000-750050 246	7,941.00	
21	Improvements	9000-750050 305		(1.00)

To book corrections to capital outlay accounts

22	ACCOUNTS RECEIVABLE	120001 101		(82,737.00)
22	MISCELLANEOUS REVENUE	1000-490100 101	82,737.00	

To book corrections to general fund AR balances.

24	400 BLOCK OF SAN BENITO LAND HELD	120024 101	494,266.00	
24	GAIN/(LOSS) SALE OF LAND_RSALE	1000-470006 101		(494,266.00)

To book corrections for land held for resale (400 Block)

25	Unearned Revenue	275006 101	26,320.00	
25	ANTENNA SITE RENT	1000-450105 101		(26,320.00)

To recognize FY 2021 revenues on Crown Castle lease and amortize deferred revenue.

26	CHISPA-SENIOR SUNRISE APARTMENTS	160519 101	23,750.00	
26	CHISPA-SENIOR SUNRISE APARTMENTS	160519 851	26,300.00	
26	DEFERRED REVENUE	275005 101		(23,750.00)
26	DEFERRED REVENUE	275005 851		(26,300.00)

To record interest related to CHISPA Sunrise loan

27	ALLOWANCE FOR DEPRECIATION	195000 601	123,627.00	
27	DEPRECIATION PER GASB 34	1100-764000 601		(123,627.00)

To correct depreciation expense per testing

28	VISTA MEADOWS_DBA MIDPEN HOUSING	160026 851	109,868.00	
28	DEFERRED REVENUE	275005 851		(109,868.00)

To record interst accrual on South County Housing Loan

29	ACCOUNTS RECEIVABLE	120001 101	34,741.00	
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29	Public Safety Sales	1000-401172 101		
29	CANNABIS CULTIVATION REVENUE	1000-440054 101		(34,741.00)
To post actual error found during subsequent receipts testing				
30	Public Safety Sales	1000-401172 101	68,885.00	
30	Cable TV	1000-410001 101		(68,885.00)
To reclassify revenue discovered during our audit procedures over subsequent events at WP 113				
31	DEPOSITS	270001 101		(26,000.00)
31	DEFERRED REVENUE	275005 101	26,000.00	
To correct posting error of a deposit received by the engineering department				
32	Claim On Cash	101101 101		(7,039,764.00)
32	CLAIM ON CASH	101101 216	148,504.00	
32	CLAIM ON CASH	101101 601	683,182.00	
32	CLAIM ON CASH	101101 670	1,884,538.00	
32	CLAIM ON CASH	101101 660		(2,470,554.00)
32	CLAIM ON CASH	101101 665	2,470,554.00	
32	CLAIM ON CASH	101101 212	51,146.00	
32	CLAIM ON CASH	101101 229	260,095.00	
32	CLAIM ON CASH	101101 241	1,519,805.00	
32	CLAIM ON CASH	101101 246	1,758,369.00	
32	Claim on Cash	101101 249	733,285.00	
32	Claim on Cash	101101 252	840.00	
32	DUE FROM OTHER FUNDS	150001 101	7,039,764.00	
32	DUE FROM OTHER FUNDS	150001 660	2,470,554.00	
32	DUE TO OTHER FUNDS	250001 216		(148,504.00)
32	DUE TO OTHER FUNDS	250001 601		(683,182.00)
32	DUE TO OTHER FUNDS	250001 670		(1,884,538.00)
32	DUE TO OTHER FUNDS	250001 665		(2,470,554.00)
32	DUE TO OTHER FUNDS	250001 212		(51,146.00)
32	DUE TO OTHER FUNDS	250001 229		(260,095.00)
32	DUE TO OTHER FUNDS	250001 241		(1,519,805.00)
32	DUE TO OTHER FUNDS	250001 246		(1,758,369.00)
32	DUE TO OTHER FUNDS	250001 249		(733,285.00)
32	DUE TO OTHER FUNDS	250001 252		(840.00)
To record due to/from as a result of negative cash in funds.				
33	CLAIM ON CASH	101101 660	181,110.00	
33	CLAIM ON CASH	101101 665		(181,110.00)
33	ACCOUNTS PAYABLE	220001 665	181,110.00	
33	POOL CASH CLEARING ACCT	250099 999		(181,110.00)
33	POOL CASH CLEARING ACCT	250099 999	181,110.00	
33	FEES: FILING/DUMP	4991-729000 660		(181,110.00)
To correct RWQCB San Benito Foods payable				
34	Accounts Receivable	120001 252	75,230.00	
34	Deferred Revenue (Inflows)	275005 252		(75,230.00)
To record 2020 CDBG grant receivable for expenditures incurred as of FY 2021				
35	ACCOUNTS RECEIVABLE	120001 665		(1,000,000.00)
35	DEPOSIT: SLUDGE REMOVAL DEPOSIT	270254 665	1,000,000.00	
To apply deposit received from San Benito Foods to outstanding receivable				
36	Allowance for Doubtful Accounts	195001 665		(2,891,421.00)

36	Bad Debt Expense	1100-764001 665	2,891,421.00
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To record allowance against San Benito Food receivable

37	ACCOUNTS RECEIVABLE	120001 241		(809,056.00)
37	DUE FROM OTHER FUNDS	150001 101		(379,011.00)
37	DUE TO OTHER FUNDS	250001 241	379,011.00	
37	Deferred Revenue	275005 241		(418,162.00)
37	PRIOR PERIOD ADJUSTMENT	399999 101	164,544.00	
37	PRIOR PERIOD ADJUSTMENT	399999 241		(164,544.00)
37	FEDERAL GRANT	1000-430021 241	1,227,218.00	
37	TRANSFERS IN	1000-490999 241		(177,792.00)
37	TRANSFERS OUT	1100-799999 101	177,792.00	
37	SALARIES REGULAR	2205-701001 101	36,675.00	
37	SALARIES REGULAR	2205-701001 241		(36,675.00)

To correct SAFER Grant

**CITY OF HOLLISTER
SINGLE AUDIT AND RELATED REPORTS
FOR THE YEAR ENDED
JUNE 30, 2021**

**MUN CPAs, LLP
1760 Creekside Oaks Drive, Suite 160
Sacramento, California 95833**

**CITY OF HOLLISTER
SINGLE AUDIT AND RELATED REPORTS
FOR THE YEAR ENDED JUNE 30, 2021**

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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 of
the City of Hollister
Hollister, 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 Hollister, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the City of Hollister's basic financial statements, and have issued our report thereon dated May 9, 2024.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Hollister'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 of Hollister's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Hollister's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and questioned costs, we did identify certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2021-001 through 2021-004 to be material weaknesses.

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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Hollister'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 Hollister's Responses to Findings

City of Hollister's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. City of Hollister's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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.

MCUN CPA, LLP

Sacramento, California
May 9, 2024



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

To the City Council of
the City of Hollister
Hollister, California

Report on Compliance for Each Major Federal Program

We have audited the City of Hollister'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 of Hollister's major federal programs for the year ended June 30, 2021. City of Hollister's major federal programs are 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 each of the City of Hollister's major federal programs 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 of Hollister'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 each major federal program. However, our audit does not provide a legal determination of the City of Hollister's compliance.

Opinion on Each Major Federal Programs

In our opinion, City of Hollister 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 identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended June 30, 2021.

Other Matters

The results of our auditing procedures disclosed other 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 item 2021-006. Our opinion on each major federal program is not modified with respect to these matters.

City of Hollister's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. City of Hollister'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 City of Hollister, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Hollister's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each 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 of Hollister'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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2021-005 to be a significant deficiency.

City of Hollister's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. City of Hollister'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 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 of Hollister, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the City of Hollister's basic financial statements. We issued our report thereon dated May 9, 2024, 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 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.

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.

 MJUN CPAs, LLP

Sacramento, California
May 9, 2024

**CITY OF HOLLISTER
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2021**

<u>Federal Grantor/Pass-Through Grantor Program</u>	<u>Federal Assistance Listing (AL) Number</u>	<u>Pass-Through Entity Identifying Number/Grant Number</u>	<u>Federal Expenditures</u>
Department of Housing and Urban Development			
Pass-Through State of California Department of Housing and Community Development Community Development Block Grants	14.228	17-CDBG-12098	\$ 1,704,387
Community Development Block Grants	14.228	20-CDBG-12015-2021	<u>75,230</u>
Total Community Development Block Grants			<u>1,779,617</u>
HOME Investment Partnership Program	14.239	New Loans	179,000
HOME Investment Partnership Program	14.239	Outstanding Loans	2,285,574
HOME Investment Partnership Program	14.239	Program Income	<u>67,613</u>
Total HOME Investment Partnership Program			<u>2,532,187</u>
Total Department of Housing and Urban Development			<u>4,311,804</u>
U.S. Department of Justice			
Direct Programs:			
Bulletproof Vest Partnership Program	16.607		<u>2,250</u>
Total U.S. Department of Justice			<u>2,250</u>
Department of Transportation			
Pass-Through State of California Office of Traffic Safety:			
Alcohol Impaired Driving Countermeasures Incentive Grants	20.601		<u>55,580</u>
Direct Programs:			
Airport Improvement Program	20.106	3-06-0105-21	2,309,262
COVID-19 Airport Improvement Program	20.106	3-016-0105-022-2020	<u>470,996</u>
Total Airport Improvement Program			<u>2,780,258</u>
Total Department of Transportation			<u>2,835,838</u>
Department of Homeland Security			
Direct Programs:			
Staffing for Adequate Fire and Emergency Response	97.083		591,422
Pass-Through State of California Office of Emergency Safety:			
Emergency Management Performance Grants	97.042		<u>166,270</u>
Total Department of Homeland Security			<u>757,692</u>
Total Expenditures of Federal Awards			<u><u>\$ 7,907,584</u></u>

CITY OF HOLLISTER
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2021

NOTE 1: REPORTING ENTITY

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal financial assistance programs of the City of Hollister. The City of Hollister reporting entity is defined in Note 1 of the City's Annual Comprehensive Financial Report. All federal awards received directly from federal agencies as well as federal awards passed through other government agencies are included on the schedule. When federal awards were received from a pass-through entity, the Schedule of Expenditures of Federal Awards shows, if available, the identifying number assigned by the pass-through entity.

NOTE 2: BASIS OF ACCOUNTING

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the City and is presented on accounting principles generally accepted in the United States of America. The information in this schedule is presented on the accrual basis of accounting and in accordance with requirements of Title 2, U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Costs Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*.

NOTE 3: RELATIONSHIP TO FINANCIAL STATEMENTS

The amounts reported in the accompanying Schedule of Expenditures of Federal Awards agree, in all material respects, to amounts reported within the City's basic financial statements. Federal award revenues are reported principally in the City's financial statements as intergovernmental revenues in the governmental funds.

NOTE 4: CLAIMS

The City of Hollister has received federal grants for specific purposes that are subject to review and audit by the Federal Government pass-through entity. Although such audits could result in expenditure disallowance under grant terms, any required reimbursements are not expected to be material which have not already been recorded.

NOTE 5: LOANS OUTSTANDING

The program listed below had the following aggregate federally funded loans outstanding at June 30, 2021:

<u>AL Number</u>	<u>Program Title</u>	<u>Amount Outstanding</u>
14.239	HOME Investment Partnership Program	<u>\$ 2,285,574</u>

NOTE 6: INDIRECT COSTS

The City elected not to use the 10% de minimus indirect cost rate, and did not charge indirect costs to federal grants during the year ended June 30, 2021.

**CITY OF HOLLISTER
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2021**

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 deficiency(ies) identified	None noted
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	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 section 200.516 of the Uniform Guidance	Yes
Identification of Major Programs:	
Department of Housing and Urban Development, Community Development Block Grants, AL 14.228	
Department of Transportation, Airport Improvement Program, AL 20.106	
Department of Homeland Security, Staffing for Adequate Fire and Emergency Response (SAFER), AL 97.083	
Dollar threshold used to distinguish between type A and type B programs:	\$750,000
Auditee qualified as low-risk auditee?	No

CITY OF HOLLISTER
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
JUNE 30, 2021

SECTION II: FINANCIAL STATEMENT FINDINGS

Findings relating to the financial statements which are required to be reported in accordance with *Government Auditing Standards*

Finding 2021-001: Financial Close (Material Weakness - Repeat Finding)

Criteria

Certain deficiencies in the internal control system over financial reporting could adversely affect an entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

Condition

During the performance of the audit, we noted that processes utilized for closing and financial reporting of financial activity for the fiscal year were not effective. Approximately 33 journal entries were proposed and posted subsequent to providing the trial balance for audit. Specific financial statement areas that required adjustment included:

- Cash - See material weakness 2021-004.
- Accounts receivable - Related to cash finding above, approximately \$1.7 million in receivable accruals were included in the bank reconciliation for June 30, 2021 as outstanding items. In addition, several correcting entries were proposed to true-up the receivable balance.
- Notes receivable - See material weakness 2021-003.
- Other assets - During the year, a portion of land held for sale was sold, however the asset balance did not change. A journal entry to record the sale of land was necessary.
- Capital assets - For one item selected for testing, we noted depreciation was incorrectly calculated.
- Prepaid lease revenue - The City did not record the current year lease revenue associated with a prepaid lease.
- Accounts payable - An outstanding liability was paid during the current year but the liability was not reduced.
- Compensated absences - Clerical errors were discovered in the schedule provided by the City which did not agree to the balance recorded on the trial balance.
- Grant receivables and revenue - See material weakness at 2021-002.
- Various incorrect postings - There were several reclassifying adjustments proposed to correctly classify activity in funds.

In addition, we noted several funds that had negative cash balances and/or negative fund deficits that have been recurring over several years. The result of our inquiries and analysis resulted in several audit adjustments to close out funds, correct revenue and expense balances, receivables, and transfers.

Cause

The City does not have adequate controls in place to ensure accounting records are closed accurately.

Effect

The financial statements as presented to the auditors contained misstatements that required adjustments.

CITY OF HOLLISTER
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
JUNE 30, 2021

Recommendation

We recommend the City revisit their closing procedures to ensure that proper accruals, cut-off, classification, and long-term items are being recorded. Supporting schedules should agree and reconcile to respective account balances prior to the trial balance being provided for the audit. The City should develop checklists or other guidance documents over the City's closing process to ensure all closing entries are captured.

Views of Responsible Officials

The City agrees with the finding. The City has been working on closing procedures but had key turnover of staff during the City's closing. The City will analyze the agency's existing year-end closing procedures, make any necessary modifications, and ensure these procedures are both adequate and consistently followed.

CITY OF HOLLISTER
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
JUNE 30, 2021

Finding 2021-002: Grants (Material Weakness - Repeat Finding)

Criteria

Certain deficiencies in the internal control system over financial reporting could adversely affect an entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

Condition

The City's grant revenues, expenditures, and receivables are not being properly reconciled for financial reporting purposes at year-end.

In addition, the City is not timely submitting claims for reimbursement of eligible expenditures to the relevant Agency resulting in unavailable revenues in the period of expenditure causing the City's general fund to up-front the cash payments. In some instances, receivables for reimbursement grants were not recorded.

Cause

The City enacted a Grants Administration Policy in 2016 however the policy is not being followed. It also appears there is not enough formalized communication between department heads who manage their own grants and the Administrative Services Department who is responsible for reconciling all activity.

Effect

There were numerous journal entries required to properly match grant revenues, expenditures, and receivables. Consequently, the improper recording of grants affects the reporting of federal expenditures on the Schedule of Expenditures of Federal Awards.

Recommendation

We recommend the City review and enhance its Grants Administration Policy. With assistance from department heads/grant managers, summarized grant information and program information should be provided to the Administrative Services Department such as:

- Copies of grant agreements and budgets
- Copies of material expenditures with proper approval of coding and application
- Copies of reimbursement requests
- Monitoring of grant cash flow

The Administrative Services Department should then be able to prepare a reconciliation of grant revenues and expenditures, and record receivables as needed. Claims for reimbursement should be submitted on a timely basis, within the fiscal year in which the expenditures were incurred.

Views of Responsible Officials

The City will analyze the agency's existing Grants Administration Policy, make any necessary modifications, and ensure these procedures are both adequate and consistently followed.

CITY OF HOLLISTER
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
JUNE 30, 2021

Finding 2021-003: Notes Receivable (Material Weakness - Repeat Finding)

Criteria

Certain deficiencies in the internal control system over financial reporting could adversely affect an entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

Condition

Upon our review of the City's notes receivables, we noted the following:

- The City is inconsistent in the recording of accrued interest on notes receivable.
- The allowance for uncollectible loans has not been reviewed or evaluated.
- The City has not performed a detailed review of their loans, noting that some loans on the books have terms which have expired.
- These deficiencies have been recurring each year and recommendations have not been implemented.

Cause

The City does not appear to have proper controls surrounding the recording and monitoring of notes receivables.

Effect

Several journal entries were proposed to reconcile the notes receivable balance, including an adjustment of \$245,580 related to amortization of forgiven loan; adjustments totaling \$335,144 for unrecorded interest; and \$89,564 adjustments to true-up related deferred inflows of resources for unavailable revenues.

Recommendation

The City should enhance its oversight over notes receivable. Increased oversight is necessary to ensure that all activity is properly and timely recorded. The Administrative Services Department should work closely with the Development Services Department to develop procedures to ensure that all loan activity is captured in the general ledger. In addition, we recommend the City reconcile and review their listing of loans, specifically loans generated over five years ago, to determine that all loans are current, have proper documentation, and are still owed to the City (i.e. no change in ownership or foreclosure of the related property). A master loan listing should be maintained and monitored. We also recommend management update their analysis of uncollectible accounts on an annual basis after reviewing the analysis of loans and making appropriate collection efforts to ensure that the estimated loss from uncollectible loan receivables is reflected on the balance sheet.

Views of Responsible Officials

The City will analyze the agency's existing procedures associated with notes receivable, make any necessary modifications, and ensure these procedures are both adequate and consistently followed.

**CITY OF HOLLISTER
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
JUNE 30, 2021**

Finding 2021-004: Cash and Bank Reconciliations (Material Weakness)

Criteria

Certain deficiencies in the internal control system over financial reporting could adversely affect an entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

Condition

- There was a failure to accurately and timely perform monthly bank reconciliations for the June 30, 2021 fiscal year. Bank reconciliations were delayed approximately 7-10 months from each month-end and were ultimately completed in April 2022.
- Upon review of the June 30, 2021 year-end bank reconciliation, we noted approximately \$1.7 million in outstanding other reconciling items that should have been recorded to accounts receivable.
- The City had various funds with negative cash balances indicating that other funds' had paid for expenditures. See finding 2021-002.

Cause

Due to personnel turnover, the overall process for cash and investment reconciliations was not being completed properly. Bank reconciliations were not being prepared or reviewed timely.

Effect

Untimely preparation and review of bank reconciliations increases the risk that errors could go undetected. Cash and investment balances as presented were not reflective of their true balances.

Recommendation

We recommend the City review their cash and investment reconciliation procedures to ensure timely and accurate completion. Cash and investment reconciliations review should include tests of mechanical accuracy and tracing of items on the reconciliation to relevant source documents.

Views of Responsible Officials

The City will analyze the agency's existing procedures associated with bank reconciliations, make any necessary modifications, and ensure these procedures are both adequate and consistently followed. The City has also hired a consultant to assist with this corrective action.

CITY OF HOLLISTER
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
JUNE 30, 2021

SECTION III: FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Findings and questioned costs for Federal Awards, which includes audit findings as defined in section 200.516 of the Uniform Guidance.

Finding 2021-005: Schedule of Expenditures of Federal Awards (Significant Deficiency)

Criteria

2 CFR Section 200.510 requires that auditees must prepare a schedule of expenditures of federal awards (SEFA) in accordance with Section 2 CFR Section 200.502.

2 CFR Section 200.303 requires an auditee to establish effective internal controls over Federal awards that provide reasonable assurance that an entity is managing the federal awards in compliance with federal statutes, regulations, and terms and conditions of the federal awards, including but not limited to internal controls over the accuracy and completeness of the expenditure amounts reported in the SEFA.

Condition

The initial SEFA provided to the auditors contained numerous errors.

Cause

As described in finding 2021-002, the City was not properly reconciling grant receivables, revenues, and expenditures. In addition, amounts initially reported on the SEFA were derived from general ledger details which do not necessarily equate to allowable costs to be claimed and reported on the SEFA.

Effect

There were numerous journal entries and adjustments made to ensure amounts reported on the SEFA were accurate.

Recommendation

See recommendations for finding 2021-002. In addition, the City should establish proper internal controls to ensure that amounts claimed per each Federal award are complete and accurate.

Views of Responsible Officials

The City will analyze the agency's existing procedures associated with the preparation of the annual Schedule of Expenditures of Federal Awards (SEFA), make any necessary modifications, and ensure these procedures are both adequate and consistently followed.

CITY OF HOLLISTER
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
JUNE 30, 2021

Finding 2021-006: Financial Reporting Timeliness (Uniform Guidance Compliance)

Criteria

In accordance with CFR section 200.512 of the Uniform Guidance, the audit must be completed and the data collection form and reporting package must be submitted to the Federal Audit Clearinghouse within the earlier of 30 calendar days after receipt of the auditor's report(s), or nine months after the end of the audit period. In accordance with OMB Memo M-20-26, and due to the coronavirus pandemic, an extension of six months beyond the normal due date was granted for submission of the audit, data collection form, and reporting package.

Condition

The 2021 Single Audit reporting package and data collection form were not submitted to the Federal Audit Clearinghouse by the original deadline of March 31, 2022, nor the extended deadline of September 30, 2022.

Cause

There were various accounting issues such as personnel turnover and accounting schedules not properly reconciling to the general ledger which caused delays in the completion of the 2021 annual audit.

Effect

The filing of the Single Audit Reporting package and data collection form is past the due date.

Recommendation

As noted in recommendation 2021-001, we recommend the City strive to close the year-end with properly prepared reconciliations within 3 - 4 months after year-end in order to complete the annual financial audit timely.

Views of Responsible Officials

The City has already started rebuilding its team in the Administrative Services Department and Finance Division. Further, the City has hired a consultant to assist with general duties of the Finance Division. Additionally, the City has started, and will continue to offer, robust internal trainings and protocols to ensure that all staff involved with financial activities are aware of, and comply with, any transactions or other activities associated with the timely preparation of the City's annual financial audit.

**CITY OF HOLLISTER
SCHEDULE OF PRIOR YEAR FINDINGS
JUNE 30, 2021**

Finding 2020-001: Financial Close (Material Weakness - Repeat Finding)

Condition

During the performance of the audit, we noted that processes utilized for closing and financial reporting of financial activity for the fiscal year were not effective. Approximately 25 journal entries were proposed and posted subsequent to providing the trial balance for audit.

Recommendation

We recommend the City revisit their closing procedures to ensure that proper accruals, cut-off, classification, and long-term items are being recorded. Supporting schedules should agree and reconcile to respective account balances prior to the trial balance being provided for the audit. The City should develop checklists or other guidance documents over the City's closing process to ensure all closing entries are captured.

Status

Not implemented. See finding 2021-001.

Finding 2020-002: Grants (Material Weakness - Repeat Finding)

Condition

The City's grant revenues, expenditures, and receivables are not being properly reconciled for financial reporting purposes at year-end.

In addition, the City is not timely submitting claims for reimbursement of eligible expenditures to the relevant Agency resulting in future revenues unavailable in the period of expenditure causing the City's general fund to up-front the expenditures.

Recommendation

We recommend the City review and enhance its Grants Administration Policy. With assistance from department heads/grant managers, summarized grant information and program information should be provided to the Administrative Services Department such as:

- Copies of grant agreements and budgets
- Copies of material expenditures with proper approval of coding and application
- Copies of reimbursement requests
- Monitoring of grant cash flow

The Administrative Services Department should then be able to prepare a reconciliation of grant revenues and expenditures, and record receivables as needed. Claims for reimbursement should be submitted on a timely basis, within the fiscal year in which the expenditures were incurred.

Status

Not implemented. See finding 2021-002.

**CITY OF HOLLISTER
SCHEDULE OF PRIOR YEAR FINDINGS (continued)
JUNE 30, 2021**

Finding 2020-003: Notes Receivable (Significant Deficiency - Repeat Finding)

Condition

Upon our review of the City's notes receivables, we noted the following:

- The City discovered they had not been accruing interest on some of their loans.
- The allowance for uncollectible loans has not been reviewed or evaluated.
- Through review of a promissory note, we noted a loan that was not recorded on the City's general ledger.
- These deficiencies have been recurring each year and recommendations have not been implemented.

Recommendation

The City should enhance its oversight over notes receivable. Increased oversight is necessary to ensure that all activity is properly and timely recorded. The Administrative Services Department should work closely with the Development Services Department to develop procedures to ensure that all loan activity is captured in the general ledger. In addition, we recommend the City reconcile and review their listing of loans, specifically loans generated over five years ago, to determine that all loans are current, have proper documentation, and are still owed to the City (i.e. no change in ownership or foreclosure of the related property). A master loan listing should be maintained and monitored. We also recommend management update their analysis of uncollectible accounts on an annual basis after reviewing the analysis of loans and making appropriate collection efforts to ensure that the estimated loss from uncollectible loan receivables is reflected on the balance sheet.

Status

Not implemented. See current year finding 2021-003.