
**CITY OF HOLLISTER
SINGLE AUDIT AND RELATED REPORTS
FOR THE YEAR ENDED
JUNE 30, 2022**

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**CITY OF HOLLISTER
SINGLE AUDIT AND RELATED REPORTS
FOR THE YEAR ENDED JUNE 30, 2022**

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

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, 2022, 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 December 10, 2025.

Report on 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.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2022-001 through 2022-006 that we consider to be material weaknesses.

Report on 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

Government Auditing Standards requires the auditor to perform limited procedures on the 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 other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.

MUN CPAs, LLP

Sacramento, California
December 10, 2025



**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

Opinion on Each Major Federal Program

We have audited the City of Hollister's compliance with the types of compliance requirements identified as subject to audit 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, 2022. 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.

In our opinion, City of Hollister complied, in all material respects with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2022.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the City of Hollister and to meet our ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of City of Hollister'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 of Hollister's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on City of Hollister'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 general accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is 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 of Hollister's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risk 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 of Hollister'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 of Hollister'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 of Hollister'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 item 2022-007 - 2022-008. Our opinion on each major federal program is not modified with respect to these matters.

Government Auditing Standards requires the auditor to perform limited procedures on the 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 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. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be material weaknesses's and 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 deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2022-006 to be a significant deficiency.

Our audit was 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 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, 2022, 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 December 10, 2025, 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.

Sacramento, California
December 10, 2025

**CITY OF HOLLISTER
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2022**

<u>Federal Grantor/Pass-Through Grantor Program</u>	<u>Federal Assistance Listing (AL)</u>	<u>Pass-Through Entity Identifying Number/Grant Number</u>	<u>Federal Expenditures</u>
U.S. Department of Treasury			
Direct Programs:			
COVID-19 - Coronavirus State and Local Fiscal Recovery Funds	21.027		\$ 4,872,937
Total U.S. Department of Treasury			<u>4,872,937</u>
U.S. 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	\$ 173,014
Community Development Block Grants	14.228	20-CDBG-12015-2021	<u>144,698</u>
Total Community Development Block Grants			<u>317,712</u>
HOME Investment Partnership Program	14.239	Outstanding Loans	2,285,574
HOME Investment Partnership Program	14.239	Program Income	<u>150,444</u>
Total HOME Investment Partnership Program			<u>2,436,018</u>
Total U.S. Department of Housing and Urban Development			<u>2,753,730</u>
U.S. Department of Justice			
Direct Programs:			
Bulletproof Vest Partnership Program	16.607		<u>7,155</u>
Total U.S. Department of Justice			<u>7,155</u>
U.S. Department of Transportation			
Pass-Through State of California Office of Traffic Safety:			
Alcohol Impaired Driving Countermeasures Incentive Grants	20.601	PT21027	22,600
Alcohol Impaired Driving Countermeasures Incentive Grants	20.601	PT22152	<u>2,269</u>
Total Alcohol Impaired Driving Countermeasures Incentive Grants			<u>24,869</u>
Direct Programs:			
Airport Improvement Program	20.106	3-06-0105-21	77,405
COVID-19 Airport Improvement Program	20.106	3-016-0105-022-2020	<u>43,000</u>
Total Airport Improvement Program			<u>120,405</u>
Total U.S. Department of Transportation			<u>145,274</u>
U.S. Department of Homeland Security			
Direct Programs:			
Staffing for Adequate Fire and Emergency Response	97.083		241,127
Pass-Through State of California Office of Emergency Safety:			
Emergency Management Performance Grants	97.042		<u>18,520</u>
Total U.S. Department of Homeland Security			<u>259,647</u>
Total Expenditures of Federal Awards			<u>\$ 8,038,743</u>

**CITY OF HOLLISTER
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2022**

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, 2022:

<u>AL Number</u>	<u>Program Title</u>	<u>Amount Outstanding</u>
14.239	HOME Investment Partnership Program	<u>\$ 2,140,537</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, 2022.

**CITY OF HOLLISTER
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2022**

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	Yes
Significant 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:	
U.S. Department of Treasury, Coronavirus State and Local Fiscal Recovery Funds, AL 21.027	
U.S. Department of Housing and Urban Development, Home Investment Partnerships Program, AL 14.239	
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, 2022**

SECTION II: FINANCIAL STATEMENT FINDINGS

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

Finding 2022-001: 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 50 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 2022-004.
- Accounts receivable - Several correcting entries were proposed to true-up the receivable balance. During our testing of subsequent receipts, noted three out of thirty-five items were not properly accrued.
- Notes receivable - See material weakness 2022-003.
- Capital assets - See material weakness 2022-005.
- Leases - Due to implementation of GASB 87 in the current year, the City had not fully analyzed all of their lease agreements in a timely manner which resulted in subsequent corrections and journal entries.
- Accounts payable - Two out of fifty items selected for testing totaling approximately \$128,000 were not properly accrued. One of the items related to capital assets in which the related asset was not recorded.
- Compensated absences - Clerical errors were discovered in the schedule provided by the City. In addition, the journal entries to record the balances between governmental activities and business-type activities was incorrect.
- Long-term debt - The City did not record proceeds related to a financed purchase agreement. Interest payable was incorrectly calculated and recorded. In addition, a contract payable from a prior year was not recorded.
- Grant receivables and revenue - See material weakness at 2022-002.
- Various incorrect postings - There were several reclassifying adjustments proposed to correctly classify activity in funds. In addition, noted a reimbursement transaction was double posted.

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

Due to significant staff turnover, the City did not have adequate controls in place to ensure accounting records were closed accurately and timely.

CITY OF HOLLISTER
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
JUNE 30, 2022

Effect

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

Recommendation

We recommend the City revisit their closing procedures to ensure that proper accruals, cut-off, classification, and long-term items are being recorded properly. 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 strengthened its year-end closing procedures and continues to refine reconciliation processes to improve the accuracy of financial reporting. The City has increased staffing capacity within the Finance Division and is providing additional training to staff involved in the closing process. The City is also working with a consultant to assist in the review of prior-year balances, improve workflow, and establish more efficient closing practices. These improvements will continue as the City works toward completing outstanding audits and establishing timely year-end close cycles.

CITY OF HOLLISTER
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
JUNE 30, 2022

Finding 2022-002: 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, unavailable revenues, and receivables are not being properly reconciled for financial reporting purposes at year-end. In some instances, grant expenditures and related revenue were recorded in incorrect funds and in incorrect amounts, receivables for reimbursement grants were not recorded, and the modified accrual basis of accounting was not being followed for grants recorded in governmental funds.

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.

Cause

The City enacted a Grants Administration Policy in 2016 however the policy is not being followed. In addition, significant staff turnover has lead to inconsistencies in how transactions are recorded. 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 agrees with the finding. The City is updating and re-implementing its 2016 Grants Administration Policy to strengthen compliance with grant accounting and reporting requirements. The City has developed a standardized grant packet checklist that departments must complete, including agreements, budgets, and resolutions. As of May 2025, the City has hired a full-time accountant whose primary responsibility is to reconcile and track grant revenues and expenditures, monitor receivables, assist departments with reimbursement claims, and ensure compliance with grant terms. These improvements will support accurate grant activity reporting and timely submission of reimbursement claims.

CITY OF HOLLISTER
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
JUNE 30, 2022

Finding 2022-003: 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 true-up of balances related to revised amortization schedules, recording of accrued interest, and recording of deferred inflows of resources.

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 agrees with the finding. The City is creating a consolidated master loan listing that includes amortization schedules, accrued interest, loan status, and supporting documentation. The City will review outstanding loans, particularly older loans, to identify expired terms, foreclosures, and needed adjustments. Annual procedures will be established for interest accrual, allowance evaluation, and communication between Development Services and Finance. A consultant is assisting the City with all aspects of this corrective action, including reviewing historical loan records and implementing improved internal controls.

**CITY OF HOLLISTER
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
JUNE 30, 2022**

Finding 2022-004: Cash and Bank Reconciliations (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

- There was a failure to accurately and timely perform monthly bank reconciliations for the June 30, 2022 fiscal year. Bank reconciliations were delayed approximately 7-10 months from each month-end and were ultimately completed in October 2023.
- The City had various funds with negative cash balances indicating that other funds' had paid for expenditures. See finding 2022-002.
- There were approximately 154 checks outstanding greater than one year totaling approximately \$60,000.

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. Outstanding checks should be investigated and written off or voided and reissued.

Views of Responsible Officials

The City agrees with the finding. The City has implemented revised bank reconciliation procedures to ensure timely and accurate completion of monthly reconciliations. As of September 2024, the City has hired a full-time Accountant whose primary responsibility is to complete bank and investment reconciliations monthly and ensure they are reviewed within 30 days of month-end. The City will continue researching long-outstanding checks and correcting negative cash balances through improved grant claiming, timely interfund transfers, and resolution of prior-year errors.

**CITY OF HOLLISTER
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
JUNE 30, 2022**

Finding 2022-005: Capital Assets (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

The City's capital asset are not being properly reconciled for financial reporting purposes at year-end. In some instances, capital outlay expenditures were recorded in incorrect funds and in incorrect amounts, capital assets were not recorded and/or included in the capital asset schedule, and consequently depreciation expense was not properly calculated.

Cause

Due to significant staff turnover, the City did not have adequate controls in place to ensure accounting records related to capital assets were adequately reconciled.

Effect

The capital asset balances, accumulated depreciation, and related capital outlay and depreciation expense accounts as presented originally presented required several material adjustments to correct. Several versions of the capital asset schedule were presented for audit.

Recommendation

Included as part of their year-end close process, the City should establish adequate controls to ensure that all capital outlay projects are capitalized in accordance with the City's capitalization policy. Capital outlay accounts should be reconciled to total capital asset additions and depreciation expense recorded. Due to the numerous errors noted and the time spent in reconciling schedules, the City may want to consider a quarterly reconciliation process as opposed to an annual one so that discrepancies can more easily be researched and resolved.

Views of Responsible Officials

The City agrees with the finding. The City is revising its capital asset tracking procedures to ensure proper capitalization, reconciliation of capital project expenditures, and accurate depreciation reporting. The City has assigned a full-time Accountant to support the reconciliation and maintenance of capital asset schedules. Quarterly reviews will be implemented to ensure timely updates and to reduce year-end backlog.

**CITY OF HOLLISTER
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
JUNE 30, 2022**

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 2022-006: Schedule of Expenditures of Federal Awards (Significant Deficiency - Repeat Finding)

Criteria

2 CFR Section 200.510 requires that auditees must prepare a schedule of expenditures of federal awards 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 schedule of expenditures of federal awards.

Condition

The initial schedule of expenditures of federal awards provided to the auditors contained numerous errors.

Cause

As described in finding 2022-002, the City was not properly reconciling grant receivables, revenues, and expenditures. In addition, amounts initially reported on the schedule of expenditures of federal awards were derived from general ledger details which do not necessarily equate to allowable costs to be claimed and reported on the schedule of expenditures of federal awards.

Effect

There were numerous journal entries and adjustments made to ensure amounts reported on the schedule of expenditures of federal awards were accurate.

Recommendation

See recommendations for finding 2022-002. 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 agrees with the finding. The City will strengthen internal controls over SEFA preparation by implementing the improvements described in the corrective action for Finding 2022-002. The full-time Accountant responsible for grant reconciliation will coordinate year-end SEFA preparation with departments and Finance staff to ensure expenditures reconcile to the general ledger and represent allowable federal costs. Updated policies will reflect these strengthened processes and centralized oversight.

**CITY OF HOLLISTER
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
JUNE 30, 2022**

Finding 2022-007: HOME Loan Compliance Monitoring (Uniform Guidance Compliance)

Criteria

2 CFR Part 200, Appendix XI Compliance Supplement for HOME Investment Partnerships Program, Special Tests and Provisions, Housing Quality Standards, requires on-site inspections and/or verification of information submitted by the homeowners. In addition, the City's Homebuyer Assistance Program Guidelines along with the loan agreements specify conditions of default with the loan provisions which should be monitored on a regular basis.

Condition

For two out of five HOME loans selected for testing, the City did not have completed information for the certificate of occupancy that was provided to the homeowners. For two out of five HOME loans selected for testing, the monitoring checklist maintained by the City did not contain the signature of the Housing Program Coordinator.

Cause

The City did not follow up on missing documentation required for the monitoring of HOME loans.

Effect

The City has not fully monitored compliance with the loan provisions for single family residence loans issued and does not have complete information indicating the loan recipients are in compliance with the loan provisions.

Recommendation

We recommend the City enhance their current loan monitoring procedures to ensure that checklists are properly filled out and signed by responsible employee, and that follow up procedures are performed in the event that incomplete information is received from the loan recipient.

Views of Responsible Officials

The City agrees with the finding. The City will enhance monitoring procedures for HOME loans to ensure required documentation is obtained, checklists are fully completed, and signatures are properly recorded. Follow-up procedures will be implemented when information is missing. The Housing Program Coordinator will oversee compliance monitoring and ensure all loan files are complete.

**CITY OF HOLLISTER
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
JUNE 30, 2022**

Finding 2022-008: Financial Reporting Timeliness (Uniform Guidance Compliance - Repeat Finding)

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.

Condition

The 2022 Single Audit reporting package and data collection form were not submitted to the Federal Audit Clearinghouse by the deadline of March 31, 2023.

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 2022 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 2022-001, 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 agrees with the finding. The City acknowledges that full implementation of this corrective action cannot occur until prior-year audits are completed and the City becomes fully current. In the meantime, the City is strengthening internal processes to support timely year-end closing, including improved reconciliation procedures, increased staffing within the Finance Division, and the establishment of internal deadlines for audit preparation. These improvements will support smoother and more timely audit completion once the City is current on all outstanding audits.

**CITY OF HOLLISTER
SCHEDULE OF PRIOR YEAR FINDINGS
JUNE 30, 2022**

Finding 2021-001: 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 33 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 2022-001.

Finding 2021-002: 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 2022-002.

**CITY OF HOLLISTER
SCHEDULE OF PRIOR YEAR FINDINGS (CONTINUED)
JUNE 30, 2022**

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

Condition

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

- The City is inconsistent in the recording of accruing 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.

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 2022-003.

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

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.

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.

Status

Not implemented. See current year finding 2022-004.

**CITY OF HOLLISTER
SCHEDULE OF PRIOR YEAR FINDINGS (CONTINUED)
JUNE 30, 2022**

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

Condition

The initial schedule of expenditures of federal awards provided to the auditors contained numerous errors.

Recommendation

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

Status

Not implemented. See current year finding 2022-006.

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

Condition

The 2021 Single Audit reporting package and data collection form were not submitted to the Federal Audit Clearinghouse by the deadline.

Recommendation

As noted in 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.

Status

Not implemented. See current year finding 2022-008.