

CITY OF PETALUMA
SINGLE AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2018

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CITY OF PETALUMA
SINGLE AUDIT REPORT
For The Year Ended June 30, 2018

TABLE OF CONTENTS

	<u>Page</u>
Schedule of Findings and Questioned Costs	1
Section I - Summary of Auditor's Results	1
Section II – Financial Statement Findings	2
Section III – Federal Award Findings and Questioned Costs	2
Schedule of Expenditures of Federal Awards	4
Notes to the Schedule of Expenditures of Federal Awards.....	7
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 <i>Government Auditing Standards</i>	9
Independent Auditor's Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on the Schedule of Expenditures of Federal Awards Required by the Uniform Guidance	11

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CITY OF PETALUMA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2018

SECTION I—SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP

Unmodified

Internal control over financial reporting:

- Material weakness(es) identified?
Significant deficiency(ies) identified?

Noncompliance material to financial statements noted?

Federal Awards

Internal control over major federal programs:

- Material weakness(es) identified?
Significant deficiency(ies) identified?

Type of auditor’s report issued on compliance for major federal programs:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

X Yes No

Identification of major programs:

Table with 2 columns: CFDA#(s) and Name of Federal Program or Cluster. Row 1: 14.218, Community Development Block Grants/Entitlement Grants

Dollar threshold used to distinguish between type A and type B programs: \$750,000

Auditee qualified as low-risk auditee? X Yes No

SECTION II – FINANCIAL STATEMENT FINDINGS

Our audit did not disclose any significant deficiencies, or material weaknesses or instances of noncompliance material to the basic financial statements. We have also issued a separate Memorandum on Internal Control dated December 15, 2018 which is an integral part of our audits and should be read in conjunction with this report.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Our audit disclosed the following findings required to be reported in accordance with Uniform Guidance.

Finding reference number: 2018-001 Program Income Should Be Used Prior To Requesting Reimbursement

- **CFDA number:** 14.218
- **CFDA Title:** Community Development Block Grants/Entitlement Grants
- **Name of Federal Agency:** *Department of Housing and Urban Development*
- **Federal Award Identification number:** B-17-MC-060049
- **Name of pass-through Entity:** N/A
- **Criteria:** Provisions of OMB Uniform Guidance stipulate that the grantee must accurately account for any program income generated from the use of CDBG funds and must treat such income as additional CDBG funds which are subject to all program rules. Furthermore 24 CFR § 570.504 states that program income in the form of repayments to, or interest earned on, a revolving fund shall be substantially disbursed from the fund before additional cash withdrawals are made from the U.S. Treasury for the same activity.
- **Condition:** In fiscal year 2017-18, the City received \$203,400 in the form of repayments of principal and interest generated by the First Time Home Buyer Loan Program. During our testing it came to our attention that the City properly recorded income in its general ledger. However, it did not use these funds to cover program expenditures prior to requesting CDBG expenditure reimbursement from HUD on two occasions.
- **Effect:** The City is not in compliance with Program Income provisions of OMB Uniform Guidance and 24 CFR §570.504.
- **Cause:** The condition appears to be caused by staff oversight. The City contacted their HUD representative upon discovery of this condition and has since made corrections.
- **Recommendation:** Program income should be deducted from costs before requesting reimbursement from HUD.
- **View of Responsible Officials and Planned Corrective Actions:** Please see Corrective Action Plan separately prepared by the City.

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CITY OF PETALUMA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Fiscal Year Ended June 30, 2018

Federal Grantor/ Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Identifying Number	Pass-Through To Subrecipients	Federal Expenditures
Department of Housing and Urban Development Direct Program				
Community Development Block Grants/Entitlement Grants	14.218		\$290,000	\$332,791
Total Department of Housing and Urban Development Direct Program			290,000	332,791
Department of Justice Direct Program				
Edward Bryne Memorial Justice Assistance Grant Program Edward Bryne - 2016-DJ-BX-0054	16.738			13,501
Total Department of Justice Program Direct program				13,501
Department of Homeland Security Pass-Through Program				
State of California Office of Emergency Services Disaster Grants - Public Assistance (Presidentially Declared Disasters) EOC 2017 Sonoma County Wildfires	97.036	FEMA-4344-DR-CA		48,602
Total Department of Homeland Security Pass-Through Program				48,602
Department of Transportation Pass-through Programs				
State of California, Department of Transportation Highway Planning and Construction Lakeville Highway (SR116)/ Pine View Way East Washington to Caulfield Lane	20.205	HSIPL-5022(054) STPL-5022(055)		18,060 156,451
Subtotal Highway Planning and Construction				174,511
Highway Safety Cluster				
State of California Office of Traffic Safety State and Community Highway Safety OTS Step OTS Step	20.600	PT1790 PT18113		13,255 6,469
Subtotal State and Community Highway Safety				19,724
State of California Office of Traffic Safety Occupant Protection Incentive Grants Every 15 Minutes Program - SVHS Every 15 Minutes Program - CGHS	20.602	CHP 16C061180 CHP 17C061049		6,000 6,000
Subtotal Occupant Protection Incentive Grants				12,000
Total Highway Safety Cluster				31,724
State of California Office of Traffic Safety Minimum Penalties for Repeat Offenders for Driving While Intoxicated OTS Step OTS Step	20.608	PT1790 PT18113		10,967 20,803
Subtotal Minimum Penalties for Repeat Offenders for Driving While Intoxicated				31,770
Subtotal Department of Transportation Pass-through Programs				238,005

(Continued)

See Accompanying Notes to Schedule of Expenditures of Federal Awards

CITY OF PETALUMA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2018

Federal Grantor/ Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Identifying Number	Pass-Through To Subrecipients	Federal Expenditures
Department of Transportation Direct Programs				
Federal Transit Cluster				
Federal Transit - Formula Grants (Urbanized Area Formula Program)	20.507			
FY16 FTA 5307				16,313
FY17 5307 Facility Improvement, Replacement Vehicles				12,402
FY18 TSP Phase III				<u>90,790</u>
Subtotal Transit Formula Grants				<u>119,505</u>
Bus and Bus Facilities Formula and Discretionary Programs (Bus Program)	20.526			
FY13, FY14, FY15 5339 2 Paratransit Vans 1 Bus				<u>822</u>
Subtotal Federal Transit Cluster				<u>120,327</u>
Airport Improvement Program	20.106			
AIP-26- Update Airport Layout Plan				87,887
AIP-27- Design Runway				<u>19,011</u>
Subtotal Airport Improvement Program				<u>106,898</u>
Enhanced Mobility of Seniors and Individuals with Disabilities	20.513			
FTA Section 5310				<u>4,758</u>
Subtotal Department of Transportation Direct Programs				<u>231,983</u>
Total Department of Transportation Programs				<u>469,988</u>
Total Expenditures of Federal Awards			<u>\$290,000</u>	<u>\$864,882</u>

See Accompanying Notes to Schedule of Expenditures of Federal Awards

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CITY OF PETALUMA

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended June 30, 2018**

NOTE 1 – REPORTING ENTITY

The Schedule of Expenditure of Federal Awards (the Schedule) includes expenditures of federal awards for the City of Petaluma, California, and its component units as disclosed in the notes to the Basic Financial Statements.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting refers to *when* revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus applied. All governmental funds and agency funds are accounted for using the modified accrual basis of accounting. All proprietary funds are accounted for using the accrual basis of accounting. Expenditures of Federal Awards reported on the Schedule are recognized when incurred.

NOTE 3 – INDIRECT COST ELECTION

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

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

To the Honorable Members of the City Council
City of Petaluma, 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 as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 15, 2018. Our report included emphasis of matters paragraphs disclosing the implementation of new accounting principles and certain conditions that raise substantial doubt about the Marina Enterprise Fund's ability to continue as a going concern.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. We have also issued a separate Memorandum on Internal Control dated December 15, 2018 which is an integral part of our audit and should be read in conjunction with this report.

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

Maze & Associates

Pleasant Hill, California
December 15, 2018

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE

To the Honorable Members of the City Council
City of Petaluma, California

Report on Compliance for Each Major Federal Program

We have audited City of Petaluma's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2018. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

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'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'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's compliance.

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

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 2018-001. Our opinion on each major federal program is not modified with respect to these matters.

The City's response to the noncompliance findings identified in our audit are described in the Corrective Action Plan separately prepared by the City. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on 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'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.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated December 15, 2018, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.

Maze & Associates

Pleasant Hill, California
February 19, 2019

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