

City of Petaluma

Petaluma, California

Single Audit Reports

For the year ended June 30, 2019

City of Petaluma
Single Audit Reports
For the year ended June 30, 2019
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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 Mayor and Members of City Council
of the City of Petaluma
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 of Petaluma, California (City), as of and for the year ended June 30, 2019, 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 27, 2019. Our report included emphasis of matters paragraphs disclosing the 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 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 preceding paragraph 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.

To the Honorable Mayor and Members of City Council
of the City of Petaluma
Petaluma, California
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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*.

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.



Badawi & Associates
Certified Public Accountants
Berkeley, CA
December 27, 2019



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

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

Report on Compliance for Each Major Federal Program

We have audited the City of Petaluma, California's (City) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2019. 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, 2019.

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 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.

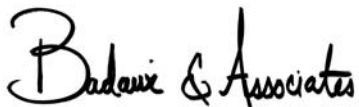
Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any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

To the Honorable Mayor and Members of City Council
of the City of Petaluma
Petaluma, California
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Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated December 27, 2019, 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.



Badawi and Associates
Certified Public Accountants
Berkeley, California
March 16, 2020, except for the schedule of expenditures of federal awards
which are as of December 27, 2019

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City of Petaluma
Single Audit Report
Schedule of Expenditures of Federal Awards
For the year ended June 30, 2019

Federal Grantor/Pass-Through Grantor Program Title	Federal CFDA Number	Agency or Pass-Through Number	Federal Expenditures	Subrecipient Expenditures
<u>U.S. Department of Housing and Urban Development:</u>				
CDBG - Entitlement Grants Cluster				
<i>Direct Programs:</i>				
Community Development Block Grants/ Entitlement Grants	14.218	B-17-MC-060049	\$ 357,552	\$ 256,552
Community Development Block Grants/ Entitlement Grants	14.218	CDBG-Program Income	203,400	203,400
Subtotal CDBG - Entitlement Grants Cluster			560,952	459,952
Total U.S. Department of Housing and Urban Development			560,952	459,952
<u>U.S. Department of Transportation:</u>				
Highway Safety Cluster				
<i>Passed through State of California Highway Patrol</i>				
Occupant Protection Incentive Grants	20.602	CHP 18C061140	5,974	-
<i>Passed through State of California Office of Traffic Safety</i>				
State and Community Highway Safety	20.600	PT18113	41,550	-
State and Community Highway Safety	20.600	PT19089	11,935	-
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	PT18113	21,371	-
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	PT19089	6,405	-
Subtotal Highway Safety Cluster			87,235	-
Highway Planning and Construction Cluster				
<i>Passed through State of California Department of Transportation/MTC</i>				
Highway Planning and Construction (Federal-Aid Highway Program)	20.205	BHLS-5022(050)	144	-
Subtotal Highway Planning and Construction Cluster			144	-
Highway Transit Cluster				
<i>Direct Programs</i>				
Federal Transit Formula Grants (Urbanized Area Formula Program)	20.507	CA-2016-130-02-00	14,671	-
Federal Transit Formula Grants (Urbanized Area Formula Program)	20.507	CA-2017-075-00	62,617	-
Federal Transit Formula Grants (Urbanized Area Formula Program)	20.507	CA-2018-090	178,204	-
Subtotal Highway Transit Cluster			255,492	-
Airport Improvement Program	20.106	03-06-0186-027-2017	17,775	-
Total U.S. Department of Transportation			360,646	-
<u>U.S. Department of Justice:</u>				
<i>Direct Programs:</i>				
Edward Byrne Memorial Justice Assistance Grant	16.738	2017-DJ-BX-0006	15,923	-
Edward Byrne Memorial Justice Assistance Grant	16.738	2018-DJ-BX-0126	15,954	-
Public Safety Partnership & Community Policing Grant	16.835	2015UMWX0012	3,504	-
Total U.S. Department of Justice			35,381	-
<u>U.S. Department of Homeland Security:</u>				
<i>Direct Program</i>				
Disaster Grants - Public Assistance	97.036	FEMA-4344-DR-CA	200,423	-
<i>Passed through California Governor's Office of Emergency Services:</i>				
PDM16/Pre Disaster Mitigation Program	97.047	2017-0003/PDM16-PL0063	992	-
<i>Pass through County of San Francisco</i>				
Homeland Security Grant Program	97.067	4-06076	31,971	-
Total U.S. Department of Homeland Security			233,386	-
Total Expenditures of Federal Award			\$ 1,190,365	\$ 459,952

See accompanying Notes to Schedule of Expenditures of Federal Awards.

City of Petaluma
Notes to the Schedule of Expenditures of Federal Awards
For the year ended June 30, 2019

A. Reporting Entity

The City was incorporated as a general law City by the state legislature on April 12, 1858. The City currently operates under a Council-Manager form of government established under a charter election in 1947. The City provides the following services as authorized by its charter: police and fire protection, transit service, parks and recreation, public works, community development, and general administrative services. In addition, the City owns and operates a water and waste water system, a municipal airport, and a marina.

B. Basis of Accounting

Funds received under the various grant programs have been recorded with separated account codes. The City utilizes the modified accrual method of accounting for the special revenue funds. Modified accrual accounting recognizes revenues when they become available and measurable and, with a few exceptions, recognizes expenditures when liabilities are incurred. The accompanying Schedule of Expenditures of Federal Awards (Schedule) has been prepared on the modified accrual basis of accounting.

C. Relationship of Schedule of Expenditures of Federal Awards to Financial Statements

The accompanying Schedule presents the activity of all federal financial assistance programs of the City. Federal financial assistance received directly from federal agencies as well as federal financial assistance passed through the State of California is included in the Schedule.

The Schedule was prepared only from the accounts of various grant programs and, therefore, does not present the financial position or results of operations of the City.

D. Pass-Through Entities' Identifying Number

When federal awards were received from a pass-through entity, the Schedule shows, if available, the identifying number assigned by the pass-through entity. When no identifying number is shown, the City determined that no identifying number is assigned for the program or the City was unable to obtain an identifying number from the pass-through entity.

E. Indirect Costs

The City did not elect to use the 10% de minimis indirect cost rate.

City of Petaluma
Single Audit Reports
Schedule of Findings and Questioned Costs
For the year ended June 30, 2019

Section I - Summary of Auditor's Results

Financial Statements

Types of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? No
- Significant deficiency(ies) identified? None noted

Any noncompliance material to the financial statements noted? No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? No
- Significant deficiency(ies) identified? None noted

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(a) No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster	Expenditures
20.507	Federal Transit Formula Grant	\$ 255,492
	Total Expenditures of All Major Federal Programs	\$ 255,492
	Total Expenditures of Federal Awards	\$ 1,190,365
	Percentage of Total Expenditures of Federal Awards	21.5%

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

Auditee qualified as low-risk auditee under section 200.520? Yes

City of Petaluma
Single Audit Reports
Schedule of Findings and Questioned Costs
For the year ended June 30, 2019

Section II - Current Year Findings

A. Financial Statement Audit Finding

No findings or questioned costs were noted in the current year.

B. Federal Award Program Audit Finding

No findings or questioned costs were noted in the current year.

Section III - Prior Year Findings

A. Financial Statement Audit Finding

No findings or questioned costs were noted in the prior year.

B. Federal Award Audit Finding

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.

City of Petaluma
Single Audit Reports
Schedule of Findings and Questioned Costs
For the year ended June 30, 2019

Section III - Prior Year Findings, *Continued*

B. Federal Award Audit Finding, *Continued*

- **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.
- **Status:** Corrected in November 2018