

CITY OF SAN RAFAEL
SINGLE AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2016

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CITY OF SAN RAFAEL
SINGLE AUDIT REPORT
For The Year Ended June 30, 2016

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CITY OF SAN RAFAEL

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2016**

SECTION I—SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of auditor’s report issued on whether the financial statements were prepared in accordance with GAAP: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? Yes X No
- Significant deficiency(ies) identified? X Yes None Reported

Noncompliance material to financial statements noted? Yes X No

Federal Awards

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

Internal control over major programs:

- Material weakness(es) identified? Yes X No
- Significant deficiency(ies) identified? X Yes None Reported

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? Yes X No

Identification of major programs:

<u>CFDA#(s)</u>	<u>Name of Federal Program or Cluster</u>
<u>14.218</u>	<u>Community Development Block Grants/Entitlement Grants</u>
<u>20.205</u>	<u>Highway Planning and Construction</u>

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 disclosed significant deficiencies, but did not disclose material weaknesses or instances of noncompliance material to the basic financial statements. We have also issued a separate Memorandum on Internal Control dated October 12, 2016, 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 or questioned costs required to be reported in accordance with Uniform Guidance.

Finding reference number: SA2016-001 Accurate Preparation of the Schedule of Expenditures of Federal Awards

CFDA number - 20.205, 20.600

CFDA Title - Highway Planning and Construction, State and Community Highway Safety

Name of Federal Agency - Department of Transportation

Name of pass-through Entity - California Department of Transportation

- **Criteria** - In accordance with the requirements of OMB Uniform Administrative Requirements Subpart D Section 200.302(b)(1), the City should report all Federal expenditures in the Schedule of Expenditures of Federal Awards (SEFA) each fiscal year with the correct Catalog of Federal Domestic Assistance (CFDA) title and number.
- **Condition** - The original SEFA prepared by the City included one grant project incorrectly identified as funded by the State and Community Highway Safety Grant (CFDA 20.600) instead of the Highway Planning and Construction Grant (CFDA 20.205).
- **Effect** – The City is not in compliance with the requirements as listed in the OMB Uniform Administrative Requirements for Federal grant program expenditures.
- **Cause** – The City’s staff in charge of the grant program did not provide the correct CFDA number in the preparation of the SEFA.
- **Recommendation** – The City should develop policies and procedures for City departments to ensure that the correct CFDA titles and numbers are included on the SEFA. For example, upon receiving new grant awards, the City should contact the grantor to obtain the CFDA title and number related to the award, if they are not clearly stated on the grant agreement. In addition, if the SEFA is prepared by an outside consultant, the City should distribute the SEFA to grant program managers to verify the accuracy of the information.
- **View of Responsible Officials and Planned Corrective Actions:** Please see Corrective Action Plan separately prepared by the City.

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CITY OF SAN RAFAEL

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2016

Federal Grantor/ Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Identifying Number	Federal Expenditures
U.S. Department of Housing and Urban Development			
Pass-Through County of Marin, California			
Community Development Block Grants/ Entitlement Grants			
Childcare	14.218	HUD-04527-01-13	\$ 16,552
ADA / DOJ Compliance Curb Ramps	14.218	HUD-04536-01-14	239,204
ADA / DOJ Compliance Curb Ramps	14.218	HUD-04536-01-15	<u>243,243</u>
Total U.S. Department of Housing and Urban Development			<u>498,999</u>
U.S. Department of Health and Human Services			
Pass-Through the California Health and Human Services Agency			
Medical Assistance Program			
Department of Health Care Services - Ground Emergency Medical Transportation	93.778	SFY 2013/14	<u>139,373</u>
Pass-Through County of Marin, California			
Special Programs for the Aging Title III,			
Part B - Grants for Supportive Services and Senior Centers	93.044	10-204	<u>8,390</u>
Substance Abuse and Mental Health Services Projects of Regional and National Significance			
Strategic Prevention Framework State Incentive Grant - Alcohol Compliance Team	93.243	2117	<u>51,925</u>
Total U.S. Department of Health and Human Services			<u>199,688</u>
U.S. Department of Transportation, Pass-Through Programs			
Pass-Through State of California Department of Transportation			
Highway Planning and Construction			
Puerto Suello Transit Center Connector	20.205	04-5043R-017-N	172,547
Downtown Rail Readiness Project	20.205	CML-5043(036)	1,591,986
Del Presidio Blvd. - Pt. San Pedro Resurfacing	20.205	STPL-5043 (035)	679,525
SR Downtown Integrated Transit Center Study	20.205	RSTPL-6406(014)	214,145
SR Downtown Parking and Wayfinding Study	20.205	RSTPL-6406(014)	<u>201,035</u>
Subtotal for Highway Planning and Construction			<u>2,859,238</u>
State and Community Highway Safety			
2nd Street at Grand Ave Intersection Modification	20.600	HISPL 5043 (037)	18,990
Pass-Through California Office of Traffic Safety			
State and Community Highway Safety			
Selective Traffic Enforcement Program FY2016	20.600	PT1673	<u>114,183</u>
Subtotal for State and Community Highway Safety			<u>133,173</u>
Pass-Through California Office of Traffic Safety			
Minimum Penalties for Repeat Offenders for Driving While Intoxicated			
Avoid Grant FY15-16	20.608	AL1628	<u>122,761</u>
Total U.S. Department of Transportation			<u>3,115,172</u>

(Continued)

CITY OF SAN RAFAEL

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2016

Federal Grantor/ Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Identifying Number	Federal Expenditures
U.S. Department of Justice, Direct Programs Bulletproof Vest Partnership Program PD Vest Grant 2014	16.607	1121-0035	<u>9,732</u>
Total U.S. Department of Justice			<u>9,732</u>
U.S. Department of Homeland Security, Pass-Through Programs Pass-Through County of Marin, California Homeland Security Grant Program Marin County CERT FY 2015	97.067	SHSGP-2015	<u>17,597</u>
Total U.S. Department of Homeland Security			<u>17,597</u>
Total Federal Expenditures			<u><u>\$ 3,841,188</u></u>

See Accompanying Notes to Schedule of Expenditures of Federal Awards

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CITY OF SAN RAFAEL

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended June 30, 2016**

NOTE 1-REPORTING ENTITY

The Schedule of Expenditure of Federal Awards (the Schedule) includes expenditures of federal awards for the City of San Rafael, California and its component units as disclosed in the notes to the Basic Financial Statements, except for federal awards of the San Rafael Sanitation District (District). Federal awards expended by this entity, if any, are excluded from the Schedule and are subject to a separate Single Audit performed by other auditors.

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 San Rafael, 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 basic financial statements of the City of San Rafael as of and for the year ended June 30, 2016, and the related notes to the financial statements, and have issued our report thereon dated October 12, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered 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 City's internal control. Accordingly, we do not express an opinion on the effectiveness of 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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. We identified certain deficiencies in internal control, we consider to be significant deficiencies as listed on the Schedule of Significant Deficiencies included as part of our separately issued Memorandum on Internal Control dated October 12, 2016 which is an integral part of our audits and should be read in conjunction with this report.

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.

City's Response to Findings

City's response to the findings identified in our audit are described in our separately issued Memorandum on Internal Control dated October 12, 2016 which is an integral part of our audits and should be read in conjunction with this report. City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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
October 12, 2016

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 San Rafael, California

Report on Compliance for Each Major Federal Program

We have audited the City of San Rafael'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, 2016. 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 the requirements of laws, regulations, contracts, and grants 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, 2016.

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 SA 2016-001. Our opinion on each major federal program is not modified with respect to these matters.

City's Response to Findings

The City's response to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. 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 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item SA 2016-001, that we consider to be significant deficiencies.

The City's response to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. 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.

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, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated February 22, 2017 which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. 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 basic financial statements as a whole.

Maze & Associates

Pleasant Hill, California
February 22, 2017

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**SINGLE AUDIT
FOR THE YEAR ENDED JUNE 30, 2016**

CORRECTIVE ACTION PLANS

FINANCIAL STATEMENT FINDINGS - CURRENT YEAR

Finding Reference Number: 2016 - 01

- Name(s) of the contact person: *Mark Moses, Van Bach*
- Corrective Action Plan: In July 2016, the City initiated a full reconciliation between CLASS, the Quadrant cash receipts and the Eden general ledger systems. The City was able to update the general ledger, and validate revenue and deposit amounts by verifying against Community Services customer account folders as of June 30, 2016.

A written policy regarding cash handling for the Community Services Department has been drafted and is in the implementation process. The policy addresses the need for courier pickup from the three Recreation Centers, end of day cash closing, and limit of \$100 in the pouch maintained at the desk. Each location is equipped with a safe, and any cash in excess of the minimum allowed at the counter is put in the safe. At the end of the business day, staff counts the cash and the bank deposit is put in the safe for courier pickup. Managers no longer transport cash in their cars.

Although there was no detailed substantiation of the accounts receivable general ledger write-offs of the past two years, the City was able to establish that most of the write offs were due to CLASS system hard coding of the Volleyball class, which led to charging customers the full fee for registration, even when the enrollment was not completed.

Although the Community Services Department has been operating without formal, written collection and write-off policies and procedures, the supervisors do monitor accounts receivable aging and routinely send reminder and collection emails and letters with a copy of the registration document and amount due. Customers with overdue balances are restricted from future registration until their accounts are returned to current status. The Community Services Department will formalize its policies and procedures for this accounts receivable management and collections activity.

Finding Reference Number: 2016 - 01 (Continued)

Community Services management commits to the monthly reconciliation between CLASS and Eden. The software product performance has proven to be an impediment to establishing routine reconciliations, due to a limitation on the frequency of deposits (weekly), as well as the inability of the vendor to guarantee timely crediting of credit and debit card transactions. The Community Services Department intends to replace the CLASS system during fiscal year 2016-2017, and will take steps to mitigate the issues generated by the functionality of the current system. This mitigation will include a procedure by which all payments received by the Community Services Department will be recorded in CLASS, and then sent to Finance.

The City will review the set-up of all revenue transaction systems that are not directly integrated into the general ledger. Regular reconciliation procedures will be developed and assigned to those employees who are responsible for the collection of these revenues.

- Anticipated Completion Date: *Fiscal Year 2017*

Finding Reference Number: 2016 - 02

- Name(s) of the contact person: *Van Bach*
- Corrective Action Plan: The City encountered a staffing shortage upon the retirement of the prior Accountant II. For the subsequent several months, the City was dependent upon third party support to perform bank reconciliations. Although the position remains vacant, the Finance Department has been able to use a combination of the third party support and part-time staffing resources to bring all bank account reconciliations up to date and has re-established its previous pattern of timely bank reconciliations. The City has since caught up on the reconciliation process.
- Anticipated Completion Date: *The City has implemented the corrective action plan described above.*

- **FEDERAL AWARD FINDINGS - CURRENT YEAR**

Finding Reference Number: 2016-001

- Name(s) of the contact person: *Van Bach*
- Corrective Action Plan: The City now requires that the grant program manager provide the CFDA title and number with the grant documentation at the time any federal grant is set up as a project on the City's financial system. The CFDA title and number verified by the grant manager will be used for the preparation of the SEFA.
- Anticipated Completion Date: *The City has implemented the corrective action plan described above.*



SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FINANCIAL STATEMENT FINDINGS – PRIOR AUDIT

Finding Reference Number: 2015 - 1

- *Fiscal Year of Initial Finding: 2015*
- **Current Status:** Recommendation partially implemented. Since discovering the inaccurate tax assessment information, the City has dedicated a fixed-term analyst to complete the review of the fiscal year 2015-2016 assessments. This effort has been completed and yielded additional Paramedic Tax revenues. In July 2016, the City used a third-party industry specialist to develop a comprehensive database of key property assessment information. This information was used to assist City staff with the review of the City's data to ensure the accuracy of fiscal year 2016-2017 assessments.

The City plans to develop internal operating procedures during fiscal year 2016-2017 to ensure that the ongoing administration of all assessments are coordinated between the Finance and Community Development, and that up-to-date and accurate tax assessment information is maintained and used to inform assessment-related transmissions to the County.

Finding Reference Number: 2015 - 2

- *Fiscal Year of Initial Finding: 2015*
- **Current Status:** Corrective action partially implemented. The Human Resources (HR) department staff verified most employee record/master data changes over the past year. Personnel Action Report (PAR) forms and documentation of health benefits changes with calculated amounts are provided to the Finance Department during payroll processing for additional verification. The City plans to improve this process by attaching the employee documentation with the PAR so that the employee change can be verified with the HR calculations. Over the past year, HR staff has improved internal process controls by utilizing a second reviewer to double check broader group master data/salary changes (e.g., negotiated salaries or benefits, annual open enrollment updates). When discrepancies or errors in payroll processing or benefits are brought to the Finance Department or Human Resources Department's attention, City staff has performed sampling tests to determine if a discrepancy is an isolated

Finding Reference Number: 2015 - 2 (continued)

incident or needs to be investigated further as a system-wide error. The City plans to continue to evaluate the benefit administration process to improve internal controls and opportunities for employee verification to ensure accuracy of master data changes.

For Workers' Compensation, City staff has verified settlement payments are consistent with the written authorization provided by the City of San Rafael. The Finance Department conducted an audit of a sample of claims payments to ensure accuracy of processing. The City has obtained REMIFs audit report to evaluate effective internal controls, but still needs to obtain any available audit reports for the Dental and Section 125 Flexible Benefits TPA to ensure they have effective internal controls. City staff has verified at least quarterly that claimants reported by the Dental and Section 125 Flexible Benefits TPAs are eligible City employees.

Finding Reference Number: 2015 - 3

- *Fiscal Year of Initial Finding: 2015*
- **Current Status:** Corrective action implemented. In August 2016, the City of San Rafael and San Rafael Sanitation District amended their agreement to include a provision that describes the commitments and obligations of the District with respect to pension and OPEB costs.