



Finance Department  
MEMORANDUM

Date: May 12, 2017

To: Mayor Coursey and Members of the City Council

From: Deborah Lauchner, Chief Financial Officer *Lauchner*

Subject: Federal Single Audit Report for June 30, 2016

Action: Provided for Information

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A Single Audit is required to be completed for any government agency that received \$750,000 or more in Federal funding – this threshold amount was increased from \$500,000 in 2013. The audit looks at all Federal grant funds and the auditors select several grants for a more detailed review to ensure the agency is correctly accounting for the funds as well as correctly charging expenditures to the grant.

The financial records of the City of Santa Rosa are subject to annual independent audit. All audits are performed in conformance with auditing standards generally accepted in the United States. The Single Audit includes a comprehensive review of the financial records and the internal control procedures in place which safeguard the Federal Funds. The resulting independent auditor's report is called the Single Audit Report.

With this memo, the Finance Department is providing a copy of the Single Audit Report to the City Council. As part of the Single Audit Report, the City's independent auditors, Macias, Gini & O'Connell LLP, includes an "unmodified" opinion and found no material weaknesses. This information can be found on page 7 of the report.

Please let me know if you have any questions or need any additional information.

**CITY OF SANTA ROSA**

Single Audit Reports

For the Fiscal Year Ended June 30, 2016



Certified  
Public  
Accountants

CITY OF SANTA ROSA

Single Audit Reports  
For the Fiscal Year Ended June 30, 2016

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**Independent Auditor’s Report on Internal Control Over Financial Reporting  
and on Compliance and Other Matters Based on an Audit on Financial  
Statements Performed in Accordance with *Government Auditing Standards***

City Council of the City of Santa Rosa  
Santa Rosa, 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, the discretely presented component units, each major fund, and the aggregate remaining fund information of City of Santa Rosa, California (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 statement’s basic financial statements, and have issued our report thereon dated December 30, 2016.

**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 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*.

**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.

Macias Gini & O'Connell LLP

Walnut Creek, California  
December 30, 2016



**Independent Auditor’s Report on Compliance for Each Major Federal Program;  
Report on Internal Control Over Compliance; and Report on Schedule of  
Expenditures of Federal Awards Required by the Uniform Guidance**

City Council of the City of Santa Rosa  
Santa Rosa, California

**Report on Compliance for Each Major Federal Program**

We have audited the City of Santa Rosa, 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, 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 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 the 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.

**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 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 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, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City, as of and for the fiscal 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 December 30, 2016, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City's 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.

*Macias Gini & O'Connell LLP*

Walnut Creek, California  
March 22, 2017

**CITY OF SANTA ROSA**  
Schedule of Expenditures of Federal Awards  
For the Fiscal Year Ended June 30, 2016

Federal Grantor/Pass-Through Entity/Program Title	Federal CFDA No.	Grant / Pass-Through Entity's Identifying Number	Federal Expenditures	Passed Through to Subrecipients
<b>U.S. Department of Housing and Urban Development:</b>				
<u>Direct Programs</u>				
Community Development Block Grants/Entitlement Grants	14.218	B-14-MC-06-0025	\$ 885,130	\$ -
Community Development Block Grants/Entitlement Grants	14.218	B-15-MC-06-0025	775,569	198,980
Total Community Development Block Grants/Entitlement Grants			1,660,699	198,980
Home Investment Partnerships Program	14.239	M-16-MC-06-0219	140,469	-
Lower Income Housing Assistance Program_Section 8				
Moderate Rehabilitation	14.856	CA088MR0002	104,996	-
Section 8 Housing Choice Vouchers	14.871	CA088	20,024,191	-
<b>Total U.S. Department of Housing and Urban Development</b>			<b>21,930,355</b>	<b>198,980</b>
<b>U.S. Department of Justice:</b>				
<u>Direct Program</u>				
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2012-DJ-BX-0459	24,085	-
<u>Passed through the California Office of Emergency Services and YWCA</u>				
Crime Victim Assistance	16.575	Not Available	12,880	-
<b>Total U.S. Department of Justice</b>			<b>36,965</b>	-
<b>U.S. Department of Transportation:</b>				
<u>Direct Program</u>				
Federal Transit_Formula Grants	20.507	CA-2016-124	1,324,057	-
Federal Transit_Formula Grants	20.507	CA-2016-125	740,583	-
Federal Transit_Formula Grants	20.507	CA-95-X320	43,706	-
Total Federal Transit Formula Grants			2,108,346	-
New Freedom Program	20.521	CA-57-X076	5,293	-
<u>Passed through the State Department of Transportation</u>				
Highway Planning and Construction	20.205	CML-5028(072)	35,660	-
Highway Planning and Construction	20.205	HSIPL-5028(073)	31,636	-
Highway Planning and Construction	20.205	STPL-5028(075)	367,833	-
Highway Planning and Construction	20.205	5933(109)	65,116	-
Total Highway Planning and Construction			500,245	-
<u>Passed through the State Office of Traffic Safety</u>				
State and Community Highway Safety	20.600	PT16142	160,923	-
State and Community Highway Safety	20.600	PT15131	56,502	-
Total State and Community Highway Safety			217,425	-
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	AL1627	53,829	-
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	AL1523	65,489	-
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	15C061048	5,967	-
Total Minimum Penalties for Repeat Offenders for Driving While Intoxicated			125,285	-
<b>Total U.S. Department of Transportation</b>			<b>2,956,594</b>	-
<b>U.S. Department of Health and Human Services:</b>				
<u>Passed through the Community Action Partnership</u>				
Substance Abuse and Mental Health Services_Projects of Regional and National Significance	93.243	Not Available	5,000	-
<b>Total U.S. Department of Health and Human Services</b>			<b>5,000</b>	-
<b>U.S. Department of Homeland Security:</b>				
<u>Direct Programs</u>				
Assistance to Firefighters Grant	97.044	EMW-2013-FP-00537	15,324	-
Staffing for Adequate Fire and Emergency Response (SAFER)	97.083	EMW-2012-FH-00388	739,418	-
<b>Total U.S. Department of Homeland Security</b>			<b>754,742</b>	-
<b>Total Expenditures of Federal Awards</b>			<b>\$ 25,683,656</b>	<b>\$ 198,980</b>

See accompanying notes to the schedule of expenditures of federal awards.



## CITY OF SANTA ROSA

### Notes to the Schedule of Expenditures of Federal Awards For the Fiscal Year Ended June 30, 2016

#### **NOTE 1 – REPORTING ENTITY**

The City of Santa Rosa, California (City), for purposes of the schedule of expenditures of federal awards (Schedule), includes all the funds of the primary government as defined by GASB Statement No. 14, *The Financial Reporting Entity* as amended by GASB Statement No. 61, *The Financial Reporting Entity: Omnibus, An Amendment of GASB Statements No. 14 and No. 34*. It also includes the Housing Authority of the City of Santa Rosa, a discretely presented component unit of the City.

#### **NOTE 2 – BASIS OF PRESENTATION**

The Schedule is presented using the modified accrual basis of accounting for program expenditures accounted for in the governmental funds and the accrual basis of accounting for program expenses accounted for in the proprietary funds, as described in Note 2 to the City's basic financial statements.

#### **NOTE 3 – RELATIONSHIP TO BASIC FINANCIAL STATEMENTS**

Federal award expenditures agree to or can be reconciled with amounts reported in the City's basic financial statements.

#### **NOTE 4 – RELATIONSHIP TO FEDERAL FINANCIAL REPORTS**

Amounts reported in the Schedule agree to or can be reconciled with amounts reported in the related federal financial reports.

#### **NOTE 5 – INDIRECT COSTS**

The City did not elect to use the 10% de minimis cost rate as covered in 2 CFR Section 200.414 Indirect (F&A) costs.

**CITY OF SANTA ROSA**

Schedule of Findings and Questioned Costs  
For the Fiscal Year Ended June 30, 2016

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**Section I – Summary of Auditor’s Results**

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Financial Statements

Type of auditor’s report issued on whether the financial statements audited were prepared in accordance with accounting principles generally accepted in the United States of America:	Unmodified
Internal control over financial reporting:	
• Material weaknesses identified?	No
• Significant deficiencies identified?	None reported
Noncompliance material to the financial statements noted?	No

Federal Awards

Internal control over major federal programs:	
• Material weaknesses identified?	No
• Significant deficiencies identified?	None reported
Type of auditor’s report issued on compliance for major programs:	Unmodified
Any audit findings required to be reported in accordance with 2 CFR 200.516(a)?	No

Identification of major federal programs:

<u>Name of Major Federal Program or Cluster</u>	<u>CFDA Number</u>
Community Development Block Grants/Entitlement Grants	14.218
Section 8 Housing Choice Vouchers	14.871
Federal Transit_Formula Grants	20.507
Dollar threshold used to distinguish between type A and type B programs:	\$770,510
Auditee qualified as a low-risk auditee?	Yes

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**Section II – Financial Statement Findings**

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No current year findings are reported.

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**Section III – Federal Award Findings and Questioned Costs**

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No current year findings are reported.



In relation to the City of Santa Rosa's (City) annual financial statement audit and the single audit for the year ended June 30, 2016, the City hereby submits a summary schedule of prior audit findings, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, Section 511 *Audit findings follow-up*.

### Summary Schedule of Prior Audit Findings

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**Reference**

**Number:** 2015-001

**Type of Finding:** Significant Deficiency – Internal Control over Compliance

**Condition:** During our testing of internal control over compliance with reporting requirements, we selected four monthly HUD-52681 Voucher for Payment of Annual Contributions and Operating Statement reports for testing. While we were able to verify information in the reports with supporting documents, we were unable to determine whether the established control procedure for secondary review and approval was performed prior to the reports submission.

**Cause:** During the fiscal year, the City revised its policies and procedures to require the City Program Specialist submit draft reports to the Leased Housing Manager and the Supervising Accountant for review and approval prior to submission. The Program Specialist will submit the final HUD-52681 electronically after review and approval. However, the policies and procedures do not specify the need to maintain documentation of the report review and approval.

**Effect:** Without proper documentation, the City cannot demonstrate that controls operated as designed.

**Recommendation:** We recommend the City revisit its policies and procedures and ensure proper documentation is maintained to support its compliance with applicable grant requirements. Revised policies and procedures should be communicated to relevant parties and used as a monitoring tool for adherence to established controls.

**Current Year**

**Status:** Corrective action plan has been implemented.

**Summary Schedule of Prior Audit Findings (Continued)**

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**Reference Number:** 2015-002

**Type of Finding:** Significant Deficiency – Internal Control over Compliance

**Condition:** We selected one semi-annual Federal Financial Report (SF 425) and two quarterly Hiring Performance Report for testing of internal control over compliance with reporting requirements. While we were able to verify information in the reports with supporting documents, we were unable to determine whether the established control procedure for secondary review and approval was performed before the reports were submitted.

**Cause:** Although the City’s policies and procedures require secondary review and approval, they do not specify the need to maintain documentation to support the performance of the controls.

**Effect:** Without proper documentation, the City cannot demonstrate that controls operated as designed.

**Recommendation:** We recommend the City revisit its policies and procedures and ensure proper documentation is maintained to support its compliance with applicable grant requirements. Revised policies and procedures should be communicated to relevant parties and used as a monitoring tool for adherence to established controls.

**Current Year Status:** Corrective action plan has been implemented.