

CITY OF SANTA CLARA, CALIFORNIA

PEDESTRIAN AND BICYCLE PROJECTS

FINANCIAL STATEMENTS

FOR THE YEAR ENDED

JUNE 30, 2018

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**CITY OF SANTA CLARA
PEDESTRIAN AND BICYCLE PROJECTS
Financial Statements
For the Year Ended June 30, 2018**

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and City Council of the
City of Santa Clara, California

Report on the Financial Statements

We have audited the financial statements of the Pedestrian and Bicycle Projects (Projects) of the City of Santa Clara (City), as of and for the year ended June 30 2018, and the related notes to the financial statements, as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Projects' preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Projects' internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Projects as of June 30, 2018, and the change in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Projects and do not purport to, and do not present fairly the financial positions of the City as of June 30, 2018, or the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 3, 2018, on our consideration of the Projects' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Projects' internal control over financial reporting and compliance.

Maye & Associates

Pleasant Hill, California
December 3, 2018

CITY OF SANTA CLARA
 PEDESTRIAN AND BICYCLE PROJECTS
 BALANCE SHEET
 JUNE 30, 2018

	Allocation Instruction Number <u>16001020</u>	Allocation Instruction Number <u>18001091</u>	<u>Total</u>
ASSETS			
Due from Metropolitan Transportation Commission	<u>\$298,012</u>		<u>\$298,012</u>
LIABILITIES			
Due to the City	<u>\$298,012</u>	<u>\$16,804</u>	<u>\$314,816</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue	<u>298,012</u>		<u>298,012</u>
FUND BALANCE (DEFICIT)	<u>(298,012)</u>	<u>(16,804)</u>	<u>(314,816)</u>
Total Liabilities, Deferred Inflows and Fund Balance (Deficit)	<u>\$298,012</u>	<u>\$16,804</u>	<u>\$298,012</u>

See accompanying notes to financial statements

CITY OF SANTA CLARA
 PEDESTRIAN AND BICYCLE PROJECTS
 STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCE
 FOR THE YEAR ENDED JUNE 30, 2018

	Allocation Instruction Number <u>16001020</u>	Allocation Instruction Number <u>18001091</u>	<u>Total</u>
REVENUES			
TDA Article 3.0 (Note 2)			
Total Revenues			
EXPENDITURES			
Bicycle & Pedestrian Improvements at Various Locations	\$298,012		\$298,012
Bicycle Plan		\$16,804	16,804
Total Expenditures	<u>298,012</u>	<u>16,804</u>	<u>314,816</u>
Excess of Revenues over Expenditures	(298,012)	(16,804)	(314,816)
Fund balance at beginning of year			
Fund balance (deficit) at end of year	<u><u>(\$298,012)</u></u>	<u><u>(\$16,804)</u></u>	<u><u>(\$314,816)</u></u>

See accompanying notes to financial statements

CITY OF SANTA CLARA
PEDESTRIAN AND BICYCLE PROJECTS
Notes to the Financial Statements
For the Year Ended June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Santa Clara, California (City), has developed the Pedestrian and Bicycle Projects (Projects) under the Transportation Development Act (TDA), Article 3.0, for the construction for pedestrian pathways, wheelchair ramps and bicycle master plan studies.

The TDA funds are distributed through the Metropolitan Transportation Commission (MTC), which is the agency responsible for allocation of funds to eligible claimants within the greater San Francisco Bay Area.

The Projects are included in the Capital Project Fund of the Comprehensive Annual Financial Report of the City. The financial statements are intended to present the financial position and results of operation for the Projects, and not those of the City as a whole.

A. *Basis of Accounting*

Basis of accounting refers to when revenues and expenditures are recognized. The Projects are accounted for in a governmental fund type and the modified accrual basis of accounting is used. Under the modified accrual basis, revenues are recognized when they become measurable and available as net current assets. Expenditures are generally recognized when they are incurred.

B. *Deferred Outflows/Inflows of Resources*

In addition to assets, the statement of balance sheet may report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of fund balance that applies to a future period(s) and so will not be recognized as an outflow of resources (expenditure) until then.

In addition to liabilities, the balance sheet reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Projects have only one item, which arises only under a modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the balance sheet. The Projects report unavailable revenues from one source: accounts receivable. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

C. *Use of Estimates*

The preparation of financial statements in conformity with generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**CITY OF SANTA CLARA
PEDESTRIAN AND BICYCLE PROJECTS
Notes to the Financial Statements
For the Year Ended June 30, 2018**

NOTE 2 - TDA ARTICLE 3.0 REVENUE

As of June 30, 2018, the City had allocation instructions from the Metropolitan Transportation Commission for the following projects:

<u>Project Name</u>	<u>Allocation Instruction #</u>	<u>Grant Amount</u>	<u>Expended from Inception to June 30, 2018</u>	<u>Revenue Received Inception to June 30, 2018</u>
Bicycle & Pedestrian Improvements at Various Locations	16001020	\$298,012	\$298,012	
Bicycle Plan	18001091	75,000	16,804	

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

To the Honorable Mayor and City Council of the
City of Santa Clara, 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 City of Santa Clara (City) Pedestrian and Bicycle Projects (Projects), as of and for the year ended June 30, 2018, and the related notes to the financial statements, and have issued our report thereon dated December 3, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Projects' 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 Projects' internal control. Accordingly, we do not express an opinion on the effectiveness of the Projects' Fund'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 Projects' 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. We did identify certain deficiencies in internal control we consider to be a significant deficiency listed as item TDA2018-01 on the Schedule of Current Year Finding.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Projects' 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. Our procedures included the applicable audit procedures contained in §6666 of Title 21 of California Code of Regulations and tests of compliance with the applicable provisions of the Transportation Development Act and the Allocation Instructions and Resolutions of the Metropolitan Transportation Commission. 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 3, 2018, which is an integral part of our audit and should be read in conjunction with this report.

Project's Response to Findings

The Project's response to the findings identified in our audit is described in the Schedule of Current Year Findings. The Project'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 results of that testing, and not to provide an opinion on the effectiveness of the Projects' internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Projects' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

This report is intended solely for the information and use of the Metropolitan Transportation Commission, management, City Council, others within the City, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties; however, this restriction is not intended to limit the distribution of this report, which is a matter of public record.



Pleasant Hill, California
December 3, 2018

SCHEDULE OF CURRENT YEAR FINDING

TDA2018-01 – Accurate Accounting for Project Activities

Transportation Development Act (TDA) project revenues and expenditures should be tracked and accounted for to ensure all grant-eligible costs are identified and accurately reported.

The City assigns project numbers to its TDA projects and project number 1378 is used to account for the activities related to Allocation Instruction #16001020 (Bicycle & Pedestrian Improvements at Various Locations). Project 1378 began in fiscal year 2018 and we were provided expenditure detail totaling \$166,513 and the project report indicated that no grant revenue had been received. However, we later found that the City had requested reimbursement for the full grant amount of \$298,012. When we inquired about why the reimbursement request exceeded the project expenditures and did not appear on the project activity report, City staff determined that fiscal year 2018 project expenditures of \$131,499 had been miscoded to a different project in the same general ledger fund.

We understand that City staff managing the TDA-funded project had requested the reimbursement based on the project invoices from the vendors. However, two of the vendor invoices had been charged to a different project in the general ledger and reclassification of the expenditures to the TDA-funded project was not completed.

As a result of the miscoding of the vendor payments to an incorrect project number, the TDA-funded project revenue and expenditure activity provided for audit was understated.

City staff should develop procedures to ensure that grant reimbursement requests are reconciled to the project activity in the general ledger to ensure all invoices are accurately coded by project.

Management's Response:

The City has implemented an additional step to ensure that other department requests for reimbursement are compared to the general ledger before they are filed.

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