

CITY OF SANTA CLARA
SINGLE AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2017

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CITY OF SANTA CLARA
SINGLE AUDIT REPORT
For The Year Ended June 30, 2017

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CITY OF SANTA CLARA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2017

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)?

 X Yes No

Identification of major programs:

<u>CFDA#(s)</u>	<u>Name of Federal Program or Cluster</u>
<u>14.239</u>	<u>HOME Investment Partnerships Program</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 a significant deficiency, but no material weaknesses or instances of noncompliance material to the basic financial statements. We have also issued a separate Memorandum on Internal Control dated December 6, 2017 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 and questioned costs required to be reported in accordance with Uniform Guidance.

Finding reference number: SA2017-001 Monitoring HOME Program Activities for Compliance with HOME Program Rules and Regulations

CFDA number: 14.239

CFDA Title: HOME Investment Partnerships Program

Name of Federal Agency: Department of Housing and Urban Development

Criteria: 24 CFR Part 92 details the various rules and regulations of the HOME Investment Partnership (HOME) Program. These regulations include specific program requirements for timing of activities, eligible and prohibited activities, project and subrecipient monitoring requirements, as well as other provisions. If the City does not adhere to the requirements of 24 CFR Part 92 both before disbursement for eligible activities and on an ongoing basis to ensure continued compliance with the income eligibility requirements of the program, costs incurred under the program may be deemed ineligible and need to be returned to the grantor. One significant component of the regulations is related to the need for the City to execute an agreement before creating an associated activity in the program's Integrated Disbursement and Information System (IDIS) system.

Condition: The City underwent a monitoring review by the grantor during fiscal year 2017 related to the fiscal year 2016 HOME Program, the results of which were issued in August 2016. The monitoring review results included two concerns related to eligibility and environmental review documentation and two findings related to ineligible activities and eligibility documentation.

The first finding was related to the City committing funds in the IDIS system and expending funds for the activity two months prior to the execution of a promissory note for the project. The grantor disallowed the costs related to the project and required the City to return expended funds to the grantor totaling \$82,102 and deobligate the remaining activity funding of \$15,463.

In addition, City staff reevaluated all other HOME-funded promissory notes to determine if any other costs could be ineligible based on the grantor's findings and found an additional \$9,820 of ineligible costs. The additional ineligible HOME funds in the amount of \$9,820 were returned to the grantor by the City for a total return of grant funds of \$91,922 during fiscal year 2017.

The second finding was related to the City not being fully aware of how to document applicant and property eligibility determinations according to HOME standards. Although this finding did not result in the grantor deeming any costs ineligible, failure to document such eligibility determinations in accordance with the standards means the City runs the risk of having to repay HOME funds to the grantor.

Although we did not have any exceptions in our testing of fiscal year 2017 allowable costs, eligibility and subrecipient monitoring, the City did not have any new activities that involved the issuance of promissory notes in fiscal year 2017, so we were not able to test whether such agreements were executed prior to being obligated in the IDIS system.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)

Finding reference number: SA2017-001 Monitoring HOME Program Activities for Compliance with HOME Program Rules and Regulations (Continued)

Effect: HOME funds committed in IDIS are a measure of the participating jurisdiction's ability to meet the important capacity standard of timely identification and initiation of HOME projects. Committing HOME funds in IDIS means that the grantee has identified a viable project and is moving forward to initiate and complete the affordable housing project. Reporting funds as committed in IDIS also means that staff has certified that a legally binding agreement has been executed, binding the HOME funds to a housing project. By committing funds in IDIS two months in advance of the promissory note execution date, the City misrepresented the amount of funds actually committed, violated the terms of the certification in IDIS, and put the \$97,565 in committed HOME funds at risk. And, by not documenting continuing eligibility determinations for new and existing projects in accordance with HOME standards also puts HOME funds at risk.

Cause: The City neglected to follow its established procedures for committing HOME funds and documenting ongoing eligibility for HOME funded activities as required by the regulations contained in 24 CFR Part 92.

Recommendation: Although the City repaid the grantor for the fiscal year 2016 ineligible costs, deobligated the remaining funds for the project deemed ineligible, as mandated by the grantor, and resolved the concerns and findings with the grantor, the City must develop policies and procedures to ensure that all grant program activities are in compliance with the provisions of 24 CFR Part 92. And, those policies and procedures should include ongoing monitoring documentation procedures that comply with the annual eligibility requirements for the HOME funded activities.

View of Responsible Officials and Planned Corrective Actions: Please see Corrective Action Plan separately prepared by the City.

CITY OF SANTA CLARA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2017

Federal Grantor/ Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Identifying Number	Pass-Through To Subrecipients	Federal Expenditures
U.S. Department of Housing and Urban Development Direct Programs				
Community Development Block Grant - Entitlement Grant	14.218		\$231,197	\$1,458,482
Home Investment Partnerships Program	14.239		514,590	577,210
Total U.S. Department of Housing and Urban Development			<u>745,787</u>	<u>2,035,692</u>
U.S. Department of Justice Direct Programs				
Equitable Sharing Program	16.922			78,349
Edward Byrne Memorial Justice Assistance Grant Program	16.738			14,806
Total U.S. Department of Justice				<u>93,155</u>
U.S. Department of Transportation Pass-Through Programs From:				
State of California Department of Transportation				
Highway Planning and Construction	20.205	CML-5019 (033)		572
County of Santa Clara Office of the Sheriff				
State and Community Highway Safety	20.600	AL0456		5,989
Total U.S. Department of Transportation				<u>6,561</u>
U.S. Department of Homeland Security Pass-Through Programs From:				
California Task Force 3 Urban Search and Rescue				
National Urban Search and Rescue Response System	97.025	CA-TF3		11,809
Total Expenditures of Federal Awards			<u>\$745,787</u>	<u>\$2,147,217</u>

See Accompanying Notes to Schedule of Expenditures of Federal Awards

CITY OF SANTA CLARA

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended June 30, 2017**

NOTE 1-REPORTING ENTITY

The Schedule of Expenditure of Federal Awards (the Schedule) includes expenditures of federal awards for the City of Santa Clara, California, and its component units as disclosed in the notes to the Basic Financial Statements, except for federal awards of the Santa Clara Stadium Authority (Stadium Authority). Federal awards expended by the Stadium Authority, 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.

NOTE 4 – PRIOR YEAR ADJUSTMENTS

The prior year Schedule of Expenditures of Federal Awards included expenditures in excess of eligible costs for the following projects:

Federal Grantor/ Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Federal Expenditures
Department of Housing and Urban Development Direct Program: Home Investment Partnerships Program	14.239	\$91,922

This adjustment does not affect the current year Schedule of Expenditures of Federal Awards, and is being included only as an informational item.

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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 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 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, 2017, 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 6, 2017. Our report includes a reference to other auditors who audited the financial statements of the City of Santa Clara Stadium Authority for the year ended March 31, 2017 and a reference to other auditors who audited the financial statements the Northern California Power Agency, Transmission Agency of Northern California and San Jose-Santa Clara Regional Wastewater Facility and Clean Water Financing Authority as of and for the year ended June 30, 2016, related to the calculation of the Investments in Joint Ventures, as described in our report on the City's financial statements. This report includes our consideration of the results of the other auditors' testing of internal control over financial reporting and compliance and other matters that are reported on separately by those other auditors. However, this report, insofar as it relates to the results of the other auditors, is based solely on the reports of the other auditors. Our report also included an emphasis of a matter paragraph disclosing the implementation of new accounting principles.

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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we and the other auditors did not identify any deficiencies in internal control that we consider to be material weaknesses. We and the other auditors did identify 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 December 6, 2017, 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. The results of our tests and those of the other auditors disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

City's Response to Findings

The City's response to the findings identified in our audit are described in our separately issued Memorandum on Internal Control dated December 6, 2017 which is an integral part of our audits and should be read in conjunction with this report. The 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.

Pleasant Hill, California
December 6, 2017

**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 Santa Clara, California

Report on Compliance for Each Major Federal Program

We have audited the City of Santa Clara'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, 2017. 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 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, 2017.

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 SA2017-001. Our opinion on each major federal program is not modified with respect to these matters.

The City's responses to the noncompliance findings identified in our audit are described in the accompanying Corrective Action Plan. 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 SA2017-001, that we consider to be a significant deficiency.

The City's response to the internal control over compliance findings identified in our audit are described in the accompanying Corrective Action Plan. 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, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated December 6, 2017, which contained an unmodified opinion on those basic financial statements. Our report includes a reference to other auditors who audited the financial statements of the City of Santa Clara Stadium Authority for the year ended March 31, 2017 and a reference to other auditors who audited the financial statements the Northern California Power Agency, Transmission Agency of Northern California and San Jose-Santa Clara Regional Wastewater Facility and Clean Water Financing Authority as of and for the year ended June 30, 2016, related to the calculation of the Investments in Joint Ventures, as described in our report on the City's financial statements. Our report, insofar as it relates to the results of the other auditors, is based solely on the reports of the other auditors. Our audit was conducted for the purpose of forming an opinion on the basic 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 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 basic 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.

Pleasant Hill, California
February 16, 2018

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