

CITY OF SANTA ROSA, CALIFORNIA

Single Audit Reports

For the Fiscal Year Ended June 30, 2015



Certified
Public
Accountants

CITY OF SANTA ROSA, CALIFORNIA
Single Audit Reports
For the Fiscal Year Ended June 30, 2015

Table of Contents

	<i>Page(s)</i>
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 <i>Government Auditing Standards</i>	1
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 OMB Circular A-133.....	3
Schedule of Expenditures of Federal Awards	6
Notes to the Schedule of Expenditures of Federal Awards	8
Schedule of Findings and Questioned Costs	9
Status of Prior Audit Findings	12



**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***

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 unit, each major fund, and the aggregate remaining fund information of the City of Santa Rosa, California (City), as of and for the year ended June 30, 2015, 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 31, 2015.

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

Sacramento, California
December 31, 2015



**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 OMB Circular A-133**

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, 2015. 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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, 2015.

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 OMB Circular A-133, 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 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 items 2015-001 and 2015-002, that we consider to be significant deficiencies.

The City's responses 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 responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated December 31, 2015, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 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

Sacramento, California
March 30, 2016

CITY OF SANTA ROSA
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2015

Federal Grantor/Pass-Through Entity/Grant Name	Federal CFDA No.	Grant Identifying Number	Federal Expenditures
U.S. Department of Housing and Urban Development:			
<u>Direct Programs</u>			
Community Development Block Grants/Entitlement Grants	14.218	--	\$ 2,666,938
Home Investment Partnerships Program	14.239	--	700,204
Lower Income Housing Assistance Program_Section 8			
Moderate Rehabilitation	14.856	--	100,921
Section 8 Housing Choice Vouchers	14.871	--	18,866,508
Total U.S. Department of Housing and Urban Development			22,334,571
U.S. Department of Justice:			
<u>Direct Program</u>			
Edward Byrne Memorial Justice Assistance Grant Program	16.738	N/A	19,505
<u>Passed through the County of Sonoma</u>			
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2011-DJ-BX-3223	3,502
Total Edward Byrne Memorial Justice Assistance Grant Program			23,007
<u>Passed through the California Office of Emergency Services and YWCA</u>			
Crime Victim Assistance	16.575	Not Available	7,278
Total U.S. Department of Justice			30,285
U.S. Department of Transportation:			
<u>Direct Program</u>			
Federal Transit_Formula Grants	20.507	--	2,329,954
<u>Passed through the State Department of Transportation</u>			
Highway Planning and Construction	20.205	CML-5028(072)	39,245
Highway Planning and Construction	20.205	HSIPL-5028(073)	58,115
Highway Planning and Construction	20.205	STPL-5028(075)	231,317
Total Highway Planning and Construction			328,677
<u>Passed through the State Office of Traffic Safety</u>			
State and Community Highway Safety	20.600	PT14114	51,760
State and Community Highway Safety	20.600	PT15131	199,705
Total State and Community Highway Safety			251,465
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	AL1523	70,718
<u>Passed through the University of California Berkeley</u>			
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	SC14394	20,457
<u>Passed through the City of Petaluma</u>			
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	Not Available	17,245
Total Minimum Penalties for Repeat Offenders for Driving While Intoxicated			108,420
Total U.S. Department of Transportation			3,018,516
National Endowment for the Arts			
<u>Direct Program</u>			
Promotion of the Arts_Grants to Organizations and Individuals	45.024	--	20,000
Total National Endowment for the Arts			20,000

CITY OF SANTA ROSA
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2015

<u>Federal Grantor/Pass-Through Entity/Grant Name</u>	<u>Federal CFDA No.</u>	<u>Grant Identifying Number</u>	<u>Federal Expenditures</u>
U.S. Department of Health and Human Services			
<u>Passed through the Community Action Partnership</u>			
Substance Abuse and Mental Health Services_Projects of Regional and National Significance	93.243	Not Available	\$ 9,770
Total U.S. Department of Health and Human Services			9,770
U.S. Department of Homeland Security			
<u>Direct Programs</u>			
Assistance to Firefighters Grant	97.044	N/A	355,941
Staffing for Adequate Fire and Emergency Response (SAFER)	97.083	EMW-2012-FH-00388	433,193
Staffing for Adequate Fire and Emergency Response (SAFER)	97.083	EMW-2013-FH-00681	1,158,883
Total Staffing for Adequate Fire and Emergency Response (SAFER)			1,592,076
<u>Passed through the State Natural Resources Agency</u>			
Boating Safety Financial Assistance	97.012	C8956323	38,607
<u>Passed through the County of Sonoma</u>			
Emergency Management Performance Grants	97.042	Cal EMA 2012-EP-0027	105,539
Total U.S. Department of Homeland Security			2,092,163
Total Expenditures of Federal Awards			\$ 27,505,305

CITY OF SANTA ROSA, CALIFORNIA

Notes to the Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2015

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 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 expenditures 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 – SUBRECIPIENTS

Of the expenditures presented in the Schedule, the City provided federal awards to subrecipients as follows:

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Amount Provided to Subrecipients</u>
Community Development Block Grants/ Entitlement Grants	14.218	\$175,060

CITY OF SANTA ROSA, CALIFORNIA

Schedule of Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2015

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued:	Unmodified
Internal control over financial reporting:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified?	None reported
Noncompliance material to the financial statements noted?	No

Federal Awards

Internal control over major federal programs:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified?	Yes

Type of auditor’s report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?	Yes

Identification of major federal programs:

<u>Name of Major Federal Program or Cluster</u>	<u>CFDA Number</u>
Section 8 Housing Choice Vouchers	14.871
Staffing for Adequate Fire and Emergency Response (SAFER)	97.083

Dollar threshold used to distinguish between type A and type B programs:	\$825,159
Auditee qualified as a low-risk auditee?	Yes

Section II – Financial Statement Findings

None reported.

CITY OF SANTA ROSA, CALIFORNIA

Schedule of Findings and Questioned Costs (Continued)
For the Fiscal Year Ended June 30, 2015

Section III – Federal Award Findings and Questioned Costs

Reference Number: 2015-001
Category of Finding: Reporting
Federal Agency: U.S. Department of Housing and Urban Development
CFDA Title: Section 8 Housing Choice Vouchers
CFDA Number: 14.871
Award Number: Not Applicable
Award Year: 2014-2015
Nature of the Finding: Significant deficiency in internal control over compliance

Criteria:

OMB Circular A-133, Subpart C—Auditees, § .300 Auditee responsibilities

The auditee shall:

- (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.

Condition:

During our testing of internal control over compliance with reporting requirements, we selected 4 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 before the reports were submitted.

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.

Questioned Costs:

No questioned costs were associated with the finding.

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.

Management Response and Corrective Action:

Management agrees with the recommendation and will examine the review process in place for proper implementation.

CITY OF SANTA ROSA, CALIFORNIA

Schedule of Findings and Questioned Costs (Continued)
For the Fiscal Year Ended June 30, 2015

Section III – Federal Award Findings and Questioned Costs

Reference Number: 2015-002
Category of Finding: Reporting
Federal Agency: U.S. Department of Homeland Security
CFDA Title: Staffing for Adequate Fire and Emergency Response (SAFER)
CFDA Number: 97.083
Award Number: EMW-2012-FH-00388, EMW-2013-FH-00681
Award Year: 2013-14, 2014-15
Nature of the Finding: Significant deficiency in internal control over compliance

Criteria:

OMB Circular A-133, Subpart C—Auditees, § .300 Auditee responsibilities

The auditee shall:

- (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.

Condition:

We selected 1 semi-annual Federal Financial Report (SF 425) and 2 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.

Questioned Costs:

No questioned costs were associated with the findings.

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.

Management Response and Corrective Action:

Management agrees with the recommendation and will examine the review process in place for proper implementation.

CITY OF SANTA ROSA, CALIFORNIA

Status of Prior Audit Findings
For the Fiscal Year Ended June 30, 2015

Section III – Federal Award Findings and Questioned Costs

Reference Number:	Federal Award Finding 2014-001
CFDA number(s)/ Program Name(s):	14.871 – Section 8 Housing Choice Vouchers
Audit Finding:	During our audit, we selected 40 out of 1,566 HAP contracts and 2 of the contracts tested reported inaccurate date of birth on the Family Report forms. In addition, there was no internal secondary review to compare system entries with the hard copy evidence. The City relies on information verification through the Income Eligibility and Verification System (IEVS), which is maintained by the State.
Status of Corrective Action:	Corrective action has been implemented.
Reference Number:	Federal Award Finding 2014-002
CFDA number(s)/ Program Name(s):	14.871 – Section 8 Housing Choice Vouchers
Audit Finding:	During our audit, we selected 40 out of 1,566 HAP contracts and the City could not provide evidence that an annual inspection had been performed of the related unit within the required timelines for 2 of the contracts. It does not appear that the City has established the proper level of review sufficient to ensure that inspections occur within the required timeline.
Status of Corrective Action:	Corrective action has been implemented.
Reference Number:	Federal Award Finding 2014-003
CFDA number(s)/ Program Name(s):	14.871 – Section 8 Housing Choice Vouchers
Audit Finding:	There is no audit trail that documents that the following reports are reviewed and approved before submission for HUD-52681 Voucher for Payment for Annual Contributions and Operating Statement, Financial Status Report and HUD-52648 SEMAP Certification Report. While the City has the secondary review procedure in place, it has not developed a procedure for documenting the formal review and approval.
Status of Corrective Action:	Corrective action has been partially implemented. See current year finding 2015-001.

CITY OF SANTA ROSA, CALIFORNIA

Status of Prior Audit Findings (Continued)
For the Fiscal Year Ended June 30, 2015

Section III – Federal Award Findings and Questioned Costs

Reference Number:	Federal Award Finding 2014-004
CFDA number(s)/ Program Name(s):	97.083 – Staffing for Adequate Fire and Emergency Response
Audit Finding:	The semi-annual Federal Financial Reports (SF 425) and quarterly Hiring Performance Reports were not reviewed and approved by someone independent of the preparation process. Furthermore, the reports were not complete and under-reported costs by \$76,179 for the fiscal year ended June 30, 2014. It does not appear that the City has established the proper level of review sufficient to ensure that reports were completed accurately. It also does not appear that there are any documented procedures for preparing the reports.
Status of Corrective Action:	Corrective action has been partially implemented. See current year finding 2015-002.
Reference Number:	Federal Award Finding 2014-005
CFDA number(s)/ Program Name(s):	97.083 – Staffing for Adequate Fire and Emergency Response
Audit Finding:	Drawdowns request are not reviewed or approved by someone independent of the preparation process. It does not appear that the City has established the proper level of review, sufficient enough to ensure that drawdown requests are independently reviewed by someone other than the preparer.
Status of Corrective Action:	Corrective action has been implemented.