CITY OF SANTA CLARA

SINGLE AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2018
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CITY OF SANTA CLARA

SINGLE AUDIT REPORT
For the Year Ended June 30, 2018

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SECTION I—SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of report the auditor issued on whether the financial statements audited 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

Internal control over major federal programs:

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

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

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:

<table>
<thead>
<tr>
<th>CFDA #(s)</th>
<th>Name of Federal Program or Cluster</th>
</tr>
</thead>
<tbody>
<tr>
<td>14.239</td>
<td>HOME Investment Partnerships Program</td>
</tr>
<tr>
<td>97.044</td>
<td>Assistance to Firefighters Grant</td>
</tr>
</tbody>
</table>

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 did disclose significant deficiencies, 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 3, 2018, 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: SA2018-001 Equipment Management Requirements

CFDA number: 97.044

CFDA Title: Assistance to Firefighters Grant

Name of Federal Agency: Department of Homeland Security

Federal Award Identification Number: EMW-2015-FO-07248 and EMW-2016-FO-06694

Criteria: Title 2 Part 200 Subpart D Subgroup Property Standards Section 200.313(d) of the Code of Federal Regulations requires that recipients of grant funds who use federal funds to purchase equipment adhere to certain management requirements for the equipment. These requirements include a physical inventory of the equipment at least once every two years.

Condition: The U.S. Department of Homeland Security’s Federal Emergency Management Agency (FEMA), Region IX Grants Management Division performed an on-site monitoring review of the City’s inventory procedures on July 23, 2018 related to the EMW-2016-FO-06694 grant and determined that the City was out of compliance with the physical inventory requirement noted above under Title 2 Part 200 Subpart D Subgroup Property Standards Section 200.313(d)(1-3) of the Code of Federal Regulations.

The City did subsequently provide a corrective action plan to FEMA, which included documentation that the required physical inventory had been completed, and the area of non-compliance was resolved and closed by FEMA in its letter dated November 16, 2018.

Effect: The City was not in compliance with the management requirements of Title 2 Part 200 Subpart D Subgroup Property Standards Section 200.313(d) of the Code of Federal Regulations.

Cause: It appears that this was due to an oversight on the part of City and Fire Department staff.

Recommendation: The City should develop procedures to ensure that the required physical inventory of equipment purchased in whole or in part with Federal funds is taken at least once every two years and reconciled with the equipment records.

View of Responsible Officials and Planned Corrective Actions: Please see Corrective Action Plan separately prepared by the City.
<table>
<thead>
<tr>
<th>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</th>
<th>Federal CFDA Number</th>
<th>Federal Pass-Through Identifying Number</th>
<th>Pass-Through Expenditures to Subrecipients</th>
<th>Federal Expenditures</th>
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</thead>
<tbody>
<tr>
<td>U.S. Department of Housing and Urban Development Direct Programs</td>
<td>14.218</td>
<td>$184,610</td>
<td>$922,892</td>
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<tr>
<td>Community Development Block Grant - Entitlement Grant</td>
<td>14.239</td>
<td>701,148</td>
<td>731,070</td>
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<tr>
<td>Total U.S. Department of Housing and Urban Development</td>
<td></td>
<td>885,758</td>
<td>1,653,962</td>
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<tr>
<td>U.S. Department of Justice Direct Program</td>
<td>16.922</td>
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<td>153,540</td>
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<tr>
<td>Equitable Sharing Program</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>U.S. Department of Transportation Pass-Through Programs From:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>State of California Department of Transportation</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Highway Planning and Construction</td>
<td>20.205</td>
<td>CML-5019 (033)</td>
<td>45,227</td>
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<tr>
<td>Metropolitan Transportation Commission</td>
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<td></td>
<td></td>
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<tr>
<td>Priority Development Area Planning Grant</td>
<td>20.205</td>
<td>1812</td>
<td>103,290</td>
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<tr>
<td>Program subtotal</td>
<td></td>
<td></td>
<td>148,517</td>
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<tr>
<td>State of California Office of Traffic Safety</td>
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<td></td>
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<td>State and Community Highway Safety</td>
<td>20.600</td>
<td>PS18030</td>
<td>23,203</td>
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<td>Total U.S. Department of Transportation</td>
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<td>171,720</td>
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<tr>
<td>U.S. Department of Homeland Security Pass-Through Programs From:</td>
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<tr>
<td>California Task Force 3 Urban Search and Rescue</td>
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<td>CA-TF3</td>
<td>170,659</td>
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<tr>
<td>National Urban Search and Rescue Response System</td>
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<tr>
<td>California Governor's Office of Emergency Services</td>
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<td></td>
</tr>
<tr>
<td>Disaster Grants - Public Assistance (Presidentially Declared Disasters)</td>
<td>97.036</td>
<td>FEMA-4301-DR-CA 085-69084</td>
<td>48,464</td>
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<tr>
<td>County of Santa Clara Office of Emergency Services</td>
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<tr>
<td>Homeland Security Grant Program</td>
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<td>SHSGP</td>
<td>18,500</td>
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<tr>
<td>Direct Program</td>
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<tr>
<td>Federal Emergency Management Agency</td>
<td>97.044</td>
<td></td>
<td>826,724</td>
<td></td>
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<tr>
<td>Assistance to Firefighters Grant</td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total U.S. Department of Homeland Security</td>
<td></td>
<td></td>
<td>1,064,347</td>
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<tr>
<td>Total Expenditures of Federal Awards</td>
<td>$885,758</td>
<td>$3,043,569</td>
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</tr>
</tbody>
</table>

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, 2018

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.
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, 2018, 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 3, 2018. 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, 2018 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, 2017, 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 did identify certain deficiencies in internal control we consider to be significant deficiencies as listed on the Schedule of Significant Deficiencies and item 2017-01 on the Status of Prior Year Significant Deficiencies included as part of our separately issued Memorandum on Internal Control dated December 3, 2018, 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 3, 2018 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 3, 2018
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, 2018. 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, 2018.
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 SA2018-001. Our opinion on each major federal program is not modified with respect to these matters.

The City’s response to the noncompliance findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The City’s response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City’s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City’s internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.
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, 2018, and the related notes to the financial statements, which collectively comprise the City’s basic financial statements. We issued our report thereon dated December 3, 2018, 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, 2018 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, 2017, 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 25, 2019
SINGLE AUDIT
FOR THE YEAR ENDED JUNE 30, 2018

CORRECTIVE ACTION PLAN

FINANCIAL STATEMENT FINDINGS - CURRENT YEAR

Finding Reference Number: 2018-01 Franchise Fees Remittance Errors

- Name(s) of the contact person: David Noce, Accounting Division Manager

- Corrective Action Plan: The City has established procedures in the Accounts Receivable function of the Accounting Division to ensure that franchise agreements are monitored for collection and accuracy of payment. An additional audit will review the existing NEF hauler agreements and prepare suggestions for the next iteration of these agreements for the 2019-2022 term. This task will also include the creation of an online reporting form to facilitate the ease and accuracy of payments and continued review for accuracy during the 2019-2022 reporting periods.

- Anticipated Completion Date: Implemented in fiscal year 2018/19.

FEDERAL AWARD FINDINGS - CURRENT YEAR

Finding Reference Number: SA2018-001 Equipment Management Requirements

- Name(s) of the contact person: Nicole Gresham, Staff Analyst

- Corrective Action Plan: The City provided the inventory records to the granting agency as required. The finding arose due to the timing of when the records were submitted and not that the inventory did not take place. The City has proper controls in place to conduct the inventories as required and has identified additional procedures to inform the granting agency in multiple ways.

- Anticipated Completion Date: Implemented in November 2018.
FINANCIAL STATEMENT FINDINGS – PRIOR AUDIT

Finding Reference Number: 2017-01 Payroll Database Access

Fiscal Year of Initial Finding: 2016/17

Name(s) of the contact person: David Noce, Accounting Division Manager

Current Status:
As recommended, beginning in the third quarter of fiscal year 2018, staff from the Human Resources Department is reviewing and approving all payroll database changes each and every pay period for validity. Additionally, the City continues to look at realigning duties and implementing technology enhancements to strengthen controls.

FEDERAL AWARD FINDINGS – PRIOR AUDIT

Finding Reference Number: SA2017-001 Monitoring HOME Program Activities for Compliance with HOME Program Rules and Regulations

Fiscal Year of Initial Finding: 2016/17

Name(s) of the contact person: Jonathan Veach, Housing and Community Services Division Manager

Current Status:
The seven step process to ensure that federal funds are not obligated in IDIS in advance of a signed commitment by the applicant, and to ensure that staff completes the environmental review prior to any commitment of funds has been implemented.

The seven steps described below present a summary of HUD approved administrative steps that ensure HOME program activities are occurring in an appropriate sequence.

1) The NCIP Administrator receives and reviews applications and if the application is approved, will oversee the preparation of a property valuation to determine the funding source (CDBG or HOME) for which the project qualifies.

2) The NCIP Housing Inspector conducts a site visit and inspection of the property. The physical and financial scope of work is assessed, including substandard code corrective requirements, and the inspection is discussed with the homeowner. At this time the homeowner will sign an Owner Participation Agreement which covers any grant expenditures. At this time Environmental and historical forms and any required disclosures will be executed.
3) The NCIP Administrator will request an NCIP activity number and the direct time payroll code from the City's Finance Department to start documenting costs attributed to the project.

4) If the scope of work determined will require a loan, the NCIP Administrator will request Lot Book and Judgment Tax Lien Guarantees from a Title Company. If the property has less than three liens reported and a City loan will be within third position, a loan will be offered to the homeowner.

5) The project is scheduled for review at the next Rehabilitation Loan Committee Meeting. Once the loan is approved, a Promissory Note is drawn and a Deed of Trust is recorded for the project.

6) Once all necessary documents have been fully executed with a written legally binding agreement under which HUD assistance will be provided to the homeowner, a HOME/CDBG activity and commitment will be set up in IDIS. The Housing and Community Services Division Management Analyst will process the first draw once an amount over $1,000 has been spent on the project.

7) The NCIP Administrator will sign off on the draw vetting that all the necessary documents have been executed before the draw is processed and approved in IDIS.

Further, a Housing Development Officer (HDO) and a Housing Rehabilitation Inspector (HRI) with substantial HUD experience have been hired. The HDO has attended numerous HUD-sponsored Environmental Review trainings, and the HRI has over 15 years of experience administering federally funded homeowner rehabilitation projects.

We finalized and implemented a comprehensive Tenant Based Rental Assistance (TBRA) manual and are in the final steps completing our Neighborhood Conversation and Improvement Program (NCIP) manual with the City Attorney's Office. In addition, in its letter dated February 22, 2019, the grantor indicated that it considers the finding closed.