

CITY OF SANTA CLARA
SINGLE AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2014

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SINGLE AUDIT REPORT
For The Year Ended June 30, 2014

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CITY OF SANTA CLARA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2014**

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

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? X Yes No

Identification of major programs:

<u>CFDA#(s)</u>	<u>Name of Federal Program or Cluster</u>
14.239	Department of Housing and Urban Development - Home Investment Partnership Program
14.218	Department of Housing and Urban Development - Community Development Block Grant/Entitlement Program

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? X Yes No

SECTION II – FINANCIAL STATEMENT FINDINGS

Our audit did not disclose any significant deficiencies, or material weaknesses or instances of noncompliance material to the basic financial statements. We have also issued a separate Memorandum on Internal Control dated November 14, 2014 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 section 510(a) of OMB Circular A-133.

Finding SA2014-01 Sub-award reporting under Federal Funding Accountability and Transparency Act (FFATA)

CFDA Number: 14.218; 14.239

CFDA Title: Community Development Block Grants/Entitlement Grants
Home Investment Partnership Program

Federal Agency: Department of Housing and Urban Development

Criteria: The Addendum to Grant Agreement for Community Development Block Grant/Entitlement Program (CDBG) and the Funding Agreement for the Home Investment Partnership Program (HOME) state the grantee shall comply with requirements of the Federal Funding Accountability and Transparency Act (FFATA). The City is required to report first-tier subrecipients obligating actions by the end of the month following the month in which the city awards any sub-grant equal or greater than \$25,000.

Condition: Per review of the grant on USASpending.gov website we noted the FFATA information regarding first-tier subrecipients over \$25,000 was not reported by the end of the following month in which the city awarded the sub-grant.

Effect: The City is not in compliance with the program reporting requirements specified in OMB Circular A-133, the CDBG Addendum to the Grant Agreement and the HOME Funding approval.

Cause: The filing deadline was overlooked due to shortage of staffing in the Housing Division in the past few years.

Recommendation: We recommend program staff completes all reporting requirements as stipulated in the grant agreements and OMB Circular A-133. In addition, the grant managers may contact the Federal grantor for FFATA reporting guidance.

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

View of Responsible Officials and Planned Corrective Actions (prepared by Management):

Name of contact person:

Eloiza Murillo-Garcia, Acting Housing & Community Services Division Manager

Corrective actions: The Housing Division has been short staffed in recent years resulting in a short-term work overload. Although aware of the requirement, the City inadvertently missed the deadline in filing the Federal Funding Accountability and Transparency Act (FFATA) on the appropriate Federal website.

The City filed the pertinent information on the Federal website on August 7, 2014 and has updated the filing procedures to ensure that this problem does not occur again in the future.

SECTION IV - STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS –
Prepared by Management

Financial Statement Prior Year Findings

There were no prior year Financial Statement Findings Reported.

Federal Award Prior Year Findings and Questioned Costs

Finding SA2013-01 Unsecured Housing Rehabilitation Loans

CFDA Number: 14.218
CFDA Title: Community Development Block Grants/Entitlement Grants
Federal Agency: Department of Housing and Urban Development

Criteria: The OMB Circular A-133 Agency Program Requirements for this program stipulates that grantees should have loan origination and servicing systems in place which assures that loans are properly authorized and receivables are properly established. In particular, housing rehabilitation loans that are not forgivable should be secured timely to ensure repayment of the principal along with any earned interest.

Condition: The City made 13 CDBG funded loans in current year. We tested 4 loans receivable and noted the following conditions which indicate that the loans were not properly secured:

- One loan was approved for \$25,000. Total actual loan funded amounted to \$24,785. However, the promissory note and the recorded deed of trust amounts were only \$18,000. An additional \$6,875 promissory note and deed of trust was not but should be recorded with the County.
- Another loan was approved for \$23,000. Total actual loan funded was \$19,326. However, the Promissory Note and the Deed of Trust amount were only \$1,300. An additional \$18,026 of promissory note and deed of trust was not but should be recorded with the County.

Effect: For the conditions noted above, the City was not in compliance with the CDBG program requirements specified in OMB Circular A-133. CDBG funded housing rehabilitation loans are non-forgivable loans with payments deferred for 20 years. Without the recorded promissory note and deed of trust for the full amount of the loans funded, the City is subject to increased risk of not being able to collect the full amounts of loans funded by the program.

Cause: According to the City staff, under normal procedures, loans were initially approved for the lower amount which was later increased depending on needs. The City would normally file an addendum to the promissory note after the loan is fully disbursed for the actual loan amount funded. However addendums were not properly executed timely due to City staffing change.

SECTION IV - STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS (Continued) –
Prepared by Management

Recommendation: We recommend that all CDBG funded loans be reviewed to ascertain that the related promissory notes and deeds of trusts are properly executed timely.

Current Status (prepared by Management):

In the prior year, the City implemented procedures to ensure that the appropriate documents are recorded with the county as required. These procedures are functioning properly and no further incidences of the prior year finding have occurred.

CITY OF SANTA CLARA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Fiscal Year Ended June 30, 2014

Federal Grantor/ Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Identifying Number	Federal Expenditures
U.S. Department of Housing and Urban Development Direct Programs			
Community Development Block Grant - Entitlement Cluster	14.218		\$1,134,942
Home Investment Partnerships Program	14.239		<u>849,775</u>
Total U.S. Department of Housing and Urban Development			<u>1,984,717</u>
U.S. Department of Justice Direct Programs			
Edward Byrne Memorial Justice Assistance Grant Program 2012	16.738		3,473
Edward Byrne Memorial Justice Assistance Grant Program 2013	16.738		13,373
Equitable Sharing Program	16.922		<u>20,280</u>
Subtotal Department of Justice Direct Programs			<u>37,126</u>
U.S. Department of Justice Pass-Through Programs From:			
Office of Justice			
Bulletproof Vest Partnership Program	16.607	2012	<u>3,695</u>
Subtotal Department of Justice Pass-Through Programs			<u>3,695</u>
Total U.S. Department of Justice			<u>40,821</u>
U.S. Department of Transportation Pass-Through Programs From:			
State of California Department of Transportation	20.205		
Highway Planning and Construction Program		STPL-HSR 5019 (027)	105,294
Highway Planning and Construction Program		CML-5019	1,197,724
Highway Planning and Construction Program		HSIP3-04-017	178,755
Highway Planning and Construction Program		STPL-5019(032)	<u>2,100</u>
Subtotal Pass-Through Programs From California Department of Transportation			<u>1,483,873</u>
County of Santa Clara Office of the Sheriff			
State and Community Highway Safety	20.600	AL0456	<u>28,089</u>
Total U.S. Department of Transportation			<u>1,511,962</u>
U.S. Institute of Museum and Library Services Pass-Through Programs From:			
State of California State Library	45.310		
Grants to State		LSTA40-8026	48,540
Grants to State		LSTA40-8182	<u>8,176</u>
Total U.S. Institute of Museum and Library Services			<u>56,716</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-IF3	<u>42,045</u>
Total U.S. Department of Homeland Security			<u>42,045</u>
Total Expenditures of Federal Awards			<u><u>\$3,636,261</u></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, 2014**

NOTE 1-REPORTING ENTITY

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

NOTE 2-BASIS OF ACCOUNTING

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-DIRECT AND INDIRECT (PASS-THROUGH) FEDERAL AWARDS

Federal awards may be granted directly to the City by a federal granting agency or may be granted to other government agencies which pass-through federal awards to the City. The Schedule includes both of these types of Federal award programs when they occur.

NOTE 4 – SUBRECIPIENTS

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

<u>CFDA Number</u>	<u>Program Name</u>	<u>Amount Provided to Subrecipients</u>
14.218	Community Development Block Grant	\$153,900
14.239	Home Investment Partnership Program	<u>28,780</u>
		<u><u>\$182,680</u></u>

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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 Mayor and 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 basic financial statements of the City of Santa Clara, California, as of and for the year ended June 30, 2014, and the related notes to the financial statements, and have issued our report thereon dated November 14, 2014. Our report included an emphasis of a matter paragraph disclosing the implementation of new accounting principles and redevelopment dissolution.

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 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. 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 that are required to be reported under *Government Auditing Standards*.

We have also issued a separate Memorandum on Internal Control dated November 14, 2014 which is an integral part of our audit and should be read in conjunction with this report.

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.

Mare & Associates

Pleasant Hill, California
November 14, 2014

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 OMB CIRCULAR A-133

To the Honorable Members of the City Council
City of Santa Clara, California

Report on Compliance for Each Major Federal Program

We have audited City of Santa Clara's compliance with the types of compliance requirements described in the *OMB Circular A-133 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, 2014. 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, 2014.

Other Matters

The results of our auditing procedures disclosed two instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 2014-01. Our opinion on each major federal program is not modified with respect to these matters.

City's Response to Findings

The City's responses 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 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 combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of 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 basic financial statements of the City as of and for the year ended June 30, 2014, and have issued our report thereon dated November 14, 2014, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. 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 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 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 financial statements or to the 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 financial statements as a whole.

Maze & Associates

Pleasant Hill, California
November 14, 2014

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