

City of Patterson

Patterson, California

Single Audit and Independent Auditors' Reports

For the Year Ended June 30, 2018



**City of Patterson
Single Audit Reports
For the Year Ended June 30, 2018**

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**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***

Independent Auditors' Report

To the Honorable Mayor and Members of the City Council
of the City of Patterson
Patterson, 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 of Patterson, California (the "City"), as of and for the year ended June 30, 2018, and the related notes to the basic financial statements which collectively comprise the City's basic financial statements and have issued our report thereon dated January 30, 2019.

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 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*.

To the Honorable Mayor and Members of City Council
of the City of Patterson
Patterson, California
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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.

The PwC Group, LLP

Walnut Creek, California
January 30, 2019



**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM,
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE,
AND ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

Independent Auditors' Report

To the Honorable Mayor and Members of City Council
of the City of Patterson
Patterson, California

Report on Compliance for Each Major Federal Program

We have audited the City of Patterson, California's (the "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, 2018. The City's major federal programs are identified in the summary of the auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' 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 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.

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 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 City's internal control over compliance.

To the Honorable Mayor and Members of City Council
of the City of Patterson
Patterson, California
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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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Schedule of Expenditures of Federal Awards

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 have issued our report thereon dated January 30, 2019 which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming our opinion on the City's financial statements. The accompanying Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, is presented for purposes of additional analysis 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 basic financial statements and certain other 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 basic financial statements as a whole.

A handwritten signature in black ink that reads "The PwC Group, LLP". The signature is written in a cursive, flowing style.

Walnut Creek, California
January 30, 2019

City of Patterson
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2018

Federal Grantor/Passed through Grantor Program Title	CFDA Number	Grant Award Number	Federal Expenditures
U.S. Department of Housing and Urban Development:			
Community Development Block Grant - Entitlement Cluster:			
<i>Passed Through Stanislaus County:</i>			
Community Development Block Grant	14.218	B-14-UC-06-0100	\$ 464,711
Total Community Development Block Grant - Entitlement Cluster			<u>464,711</u>
Total U.S. Department of Housing and Urban Development			<u>464,711</u>
U.S. Department of Transportation:			
Highway Planning and Construction Cluster:			
<i>Passed Through State of California Department of Transportation:</i>			
Ward and Las Palmas Intersection Project	20.205	CML-5244 (033)	79,321
Sperry and Del Puerto Intersection Project	20.205	CML-5244 (027)	1,386,149
Rogers Road DMC Bridge	20.205	BRLS-5244 (032)	23,956
Safety Improvements Ward/Las Palams	20.205	ATPL-5244 (034)	59,713
Total Highway Planning and Construction Cluster			<u>1,549,139</u>
U.S. Department of Homeland Security:			
Staffing for Adequate Fire and Emergency Response (SAFER) Grant Program:			
<i>Direct Program:</i>			
SAFER Hiring Grant	97.083	EMW-2016-FH-00493	67,045
Total SAFER Grant Program			<u>67,045</u>
Total U.S. Department of Homeland Security			<u>67,045</u>
Total Expenditures of Federal Awards			<u><u>\$ 2,080,895</u></u>

See accompanying Notes to the Schedule of Expenditures of Federal Awards

City of Patterson
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2018

Note 1 – Reporting Entity

The financial reporting entity consists of the primary government, City of Patterson (the “City”), organizations for which the primary government is financially accountable, and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity’s financial statements to be misleading or incomplete.

Note 2 – Basis of Accounting

The various grant programs have been recorded within the general fund and special revenue funds of the City. The City utilizes the modified accrual method of accounting for the general fund and special revenue funds. The accompanying Schedule of Expenditures of Federal Awards (“Schedule”) is presented in accordance with the 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). Therefore, some amounts presented in the schedule may differ from amounts presented in, or used in, the preparation of the City’s basic financial statements.

Note 3 – Schedule of Expenditures of Federal Awards

The accompanying Schedule presents the activity of all federal financial assistance programs of the City. Federal financial assistance received directly from federal agencies as well as federal financial assistance passed through the State of California, Turlock County and Stanislaus County is included in the Schedule. The Schedule was prepared from only the accounts of various grant programs and, therefore, does not present the financial position, change in fund balance, or results of operations of the City.

Note 4 – Subrecipients

During the fiscal year ended June 30, 2018, there were no amounts provided to subrecipients.

Note 5 – Indirect Cost Rate

The City has not elected to use the 10-percent de minimis indirect rate as allowed under the Uniform Guidance.

City of Patterson
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2018

Section I – Summary of Auditors’ Result

Financial Statements

Types of auditors’ 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 programs:

- Material weakness(es) identified? No
- Significant deficiency(ies) identified? None reported

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 2 CFR 200.516(a)? No

Identification of major programs:

Major Program	Federal CFDA #	Federal Expenditures
Highway Planning and Construction Cluster	20.205	\$ 1,549,139
Total major program expenditures		\$ 1,549,139
Total expenditures of federal awards		\$ 2,080,895
Percent of total federal award expenditures		74.45%

Dollar threshold used to distinguish between type A and type B program: \$750,000

Auditee qualified as low-risk auditee in accordance with 2 CFR 200.520? No

City of Patterson
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2018

Section II – Financial Statement Findings

No financial statement findings were noted for the year ended June 30, 2018.

Section III – Federal Awards Findings and Questioned Costs

No findings or questioned costs were noted on the City's major federal program for the year ended June 30, 2018.

PRIOR AUDIT FINDINGS STATUS

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City of Patterson
Prior Year Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2018

Section I – Financial Statement Findings

Finding: 2017-001 Internal Control Over Financial Reporting

Criteria:

Management is responsible for designing, implementing, and maintaining appropriate internal control over financial reporting and compliance.

Internal control is defined as a process implemented and monitored by the City Council, management, and other personnel. The Internal Control System should be designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- Reliability of financial reporting;
- Effectiveness and efficiency of operations; and
- Compliance with applicable laws and regulations.

The Internal Control Framework would include establishing or enhancing guidance in the following areas:

- *Control environment* sets the tone of an organization, influencing the control consciousness of its people. It is the foundation for all other components of internal control, providing discipline and structure.
- *Risk assessment* is the entity’s identification and analysis of relevant risks to achievement of its objectives, forming a basis for determining how the risks should be managed.
- *Control activities* are the policies and procedures that help ensure that management directives are carried out.
- *Information and communication* systems support the identification, capture, and exchange of information in a form and time frame that enable people to carry out their responsibilities.
- *Monitoring* is a process that assesses the quality of internal control performance over time.

Condition and Context:

During the performance of the year-end audit, we noted below:

1. Capital Assets:
 - The City does not have formal capital assets policy.
 - The City did not capitalize the total assets value as of the date of purchase. During the audit, we noted the capital assets items was split and capitalized in two fiscal years.
 - The City did not properly classified capital lease transaction and are recording the transaction using “pay-as-you-go” methodology.
2. Accounts Payable
 - The City performed their year-end accruals of its accounts payable based on budget. Therefore, the City did not properly accrue 100% of the invoices for the goods or services that were fulfilled prior to June 30.
3. Interest Payable
 - The City did not properly accrued interest payable for its long-term debt on the Government-Wide Financial Statements. Therefore, the liability as of June 30, 2016 was understated by \$1.4 Million.

City of Patterson
Prior Year Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2018

Section I – Financial Statement Findings (Continued)

Finding: 2017-001 Internal Control Over Financial Reporting (Continued)

Cause:

The City lacks the understanding and awareness of the importance to adhere to a year-end closing procedures checklist that has been established in FY 2016-17 to ensure all accruals are properly reported in the general ledger.

Effect:

Without compliance of implementation of the formal and comprehensive policies and procedures regarding internal control over the overall financial reporting and each individual transaction cycle could lead to inconsistency in processing transactions or to process transactions without proper approvals or with human errors and reversals.

Lacking of reviewing process led to misstatements to the financial statements and significant number of adjusting journal entries and reversal entries were posted after the commencement of the audit.

Recommendation:

We recommend the City to educate City staff the importance of adherence to year end closing procedures checklist. We also recommend that the City adopt formal reviewing procedures to minimize the risk of misstatements over financial reporting.

View of Responsible Officials and Planned Corrective Actions:

The City is in agreement with this finding and recommendation. Management has reviewed year end close process and improvement has been made and established the following mid fiscal year 2018.

- Establish Year-end close procedure and checklist during fiscal year 2018. However, additional training will be provided to department staff to strengthen the understanding and awareness of the importance to adhere to year end close procedure and checklist.
- Management is aware of inadequate resource in Finance to observe segregation of duties, where reviewer and preparer role can be established in fiscal year 2018. Council approved an Accounting Technician position (payroll and capital assets) in November 2016 and the position is filled in April 2018.
- A qualified accounting personnel is essential to maintaining effective internal controls and accurate financial statements. The City completed a full evaluation and revision of the Accountant job description that incorporates more stringent minimum requirements for accounting educational coursework to attract a more focused and experienced professional workforce. The Accountant position recruitment is expected to be completed in Spring 2018.

Status:

Implemented.

City of Patterson
Prior Year Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2018

Section II – Federal Awards Findings and Questioned Costs

Finding: 2017-002 Suspension and Debarment

Criteria:

Suspension and Debarment - Non-Federal entities are prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred. “Covered transactions” include those procurement contracts for goods and services awarded under a nonprocurement transaction (e.g., grant or cooperative agreement) that are expected to equal or exceed \$25,000 or meet certain other criteria as specified in 2 CFR section 180.220. All nonprocurement transactions entered into by a recipient (i.e., subawards to subrecipients), irrespective of award amount, are considered covered transactions, unless they are exempt as provided in 2 CFR section 180.215.

When a non-Federal entity enters into a covered transaction with an entity at a lower tier, the non-Federal entity must verify that the entity, as defined in 2 CFR section 180.995 and agency adopting regulations, is not suspended or debarred or otherwise excluded from participating in the transaction. This verification may be accomplished by (1) checking the System for Award Management (SAM) Exclusions maintained by the General Services Administration (GSA) and available at <https://www.sam.gov/portal/public/SAM/> (Note: The OMB guidance at 2 CFR part 180 and agency implementing regulations still refer to the SAM Exclusions as the Excluded Parties List System (EPLS)), (2) collecting a certification from the entity, or (3) adding a clause or condition to the covered transaction with that entity (2 CFR section 180.300).

Condition:

The City did not performed suspension and debarment review of the vendors through the SAM’s system, however the City does include a vendor certification statement for ‘Debarment and Suspension Certificate’ in the project Bid package (page 55-56) for all contracted vendors of federally funded projects.

Cause:

The City utilizes the ‘Debarment and Suspension Certificate’ as its formal policy and process in maintaining proper documentation in regards to their suspension and debarment review process over vendors that the City contracted with federally-funded projects.

Effect:

Without verifying whether vendors are suspended or debarred from working on federally-funded projects prior to the contract awarded, the City could be contracting with vendors that are prohibited from working on federally funded projects.

Identification as a Repeat Finding, if Applicable:

Not applicable.

Recommendation:

We recommend the City to incorporate the signed ‘Debarment and Suspension Certificate’ statement as part of the binding contract between the City and vendor for federally funded projects.

City of Patterson
Prior Year Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2018

Section II – Federal Awards Findings and Questioned Costs (Continued)

Finding: 2017-002 Suspension and Debarment (Continued)

View of Responsible Officials and Planned Corrective Actions:

The City is in agreement with the findings and recommendation. A Correction Action Plan will be in effect date as of 3/15/18. The City’s “Notice of Award Contract Document Checklist” will now include a checkbox with the following:

- Documentation of the monitoring of the suspension/debarment process to ensure Contractors/Vendors are not suspended or debarred from federally-funded purchases.
(*SAM.gov website “No Suspension Debarment – Exclusions”*)
- The ‘Debarment and Suspension Certificate’ signed statement will be included in to the federally funded project binders.

Status:

Implemented.