

CITY OF SOUTH SAN FRANCISCO
SINGLE AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2018

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CITY OF SOUTH SAN FRANCISCO

**SINGLE AUDIT REPORT
For The Year Ended June 30, 2018**

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CITY OF SOUTH SAN FRANCISCO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2018

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? _____ Yes X 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:

<u>CFDA#(s)</u>	<u>Name of Federal Program or Cluster</u>
16.922	Equitable Sharing Program

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 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 December 13, 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: 2018-001 Compliance with Federal Guidelines

CFDA number 16.922

CFDA Title *Equitable Sharing Program*

Name of Federal Agency *Department of Justice*

Federal Award Identification number: CA0411700

Criteria In accordance with Department of Justice (DOJ) Grants Financial Guide section III (3.8), DOJ funds generally cannot be used for land acquisition unless specifically permitted under the awarding program or terms of the award. In addition, the Guide to Equitable Sharing, section V (C.1) requires that justification and approval from the City Council to Money Laundering and Asset Recovery Section (MLARS) be obtained when requesting tangible property for official use. Agencies must include the asset identification number, intended use, funding source for the federal share and potential storage fees, and approval from the City Council.

Condition In fiscal year 2017-18, the City completed a land purchase from the Successor Agency to the former Redevelopment Agency of the City of South San Francisco for the purpose of building a new police station and other civic buildings. The City decided to use funds from the Equitable Sharing Program, in the amount of \$2,236,224, to fund a portion of the land purchase. However, the City did not submit the required information to MLARS or notify DOJ before proceeding with using the Equitable Sharing funds.

Effect The City is out of compliance with the requirements set forth in the DOJ Grants Financial Guide and the Guide to Equitable Sharing.

Cause It appears that the City's Finance Department made adjustments to the Equitable Sharing program's general ledger account without informing the police department staff who had the proper program requirement knowledge of the Equitable Sharing Program. Finance staff was not aware of the requirements set forth in the DOJ Grants Financial Guide and the Guide to Equitable Sharing.

Recommendation It is recommended that the City contact MLARS to rectify the unauthorized purchase of land. We also recommend that all staff involved with the oversight or accounting of the Equitable Sharing Program be educated about the requirements set forth in the Guide to Equitable Sharing and DOJ Grants Financial Guide.

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

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

Finding reference number: 2018-002 Accuracy of Required Reports Submitted to Grantor

CFDA number 16.922

CFDA Title *Equitable Sharing Program*

Name of Federal Agency *Department of Justice*

Federal Award Identification number: CA0411700

Criteria The Guide to Equitable Sharing, section VII (A) states that the City must file the Equitable Sharing Agreement and Certification (ESAC) report on an annual basis in order to maintain compliance. The ESAC includes the City's annual Affidavit and details the City's receipts and expenditures of equitably shared funds for the Department of Justice Equitable Sharing Program.

Condition During our examination of the ESAC report for the period ending June 30, 2018, we noted total expenditures reported on the ESAC did not agree to the City's general ledger account for the Equitable Sharing Program. Expenditures reported on the ESAC appear to be understated by \$2,691,398.

Effect The City did not accurately report Equitable Sharing Program activity to the DOJ for the period ending June 30, 2018.

Cause Finance department staff posted entries to the Equitable Sharing Programs general ledger account after the ESAC had been submitted to the DOJ. It appears Finance staff was not aware of the reporting requirements of the Equitable Sharing Program.

Recommendation It is recommended that the City contact the DOJ to have the ESAC either amended for fiscal year 2018 or at DOJ's recommendation report the missed fiscal year 2018 activity on the fiscal year 2019 ESAC report.

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

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

Finding reference number: 2018-003 Accuracy of Overtime Charged to Grant

CFDA number 16.922

CFDA Title *Equitable Sharing Program*

Name of Federal Agency *Department of Justice*

Federal Award Identification number: CA0411700

Criteria In accordance with OMB’s Uniform Guidance at 2 CFR §200.430 (h(4(iv))) wages as supplemented must fall within the salary structure and pay ranges established by and documented in writing or otherwise applicable to the City.

Condition During our testing of overtime charged to the grant for the pay period ending October 19, 2017, it was noted that four of the twenty-five payroll transactions tested appeared to have enhanced rates that were not supported by the Personnel Action Forms (PAF). The City could not provide documentation supporting the payroll module’s higher rates. Therefore, the City cannot substantiate \$394 out of the \$13,778 payroll expense we tested. In fiscal year 2017-18, \$500,493 of payroll related expenditures was charged to this grant.

Effect The City overpaid certain employee’s payroll compensation in fiscal year 2018 and was not in compliance with 2 CFR §200.430 (h(4(iv))).

Cause The above payroll transactions were processed by the City’s previous payroll module which has since been replaced by a new system in fiscal year 2018-19. Due to the replacement of the system, the City cannot access the old system to research on what caused the differential noted above.

Recommendation It is recommended that the City periodically perform an internal audit to verify that the payroll module is accurately calculating the enhanced rate for the calculation of employee’s overtime.

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

CITY OF SOUTH SAN FRANCISCO

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2018

Federal Grantor/ Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Identifying Number	Pass-Through To Subrecipients	Federal Expenditures
Department of Housing and Urban Development Direct Program:				
Community Development Block Grants/Entitlement Grants	14.218		\$ 170,205	\$ 864,353
Department of Agriculture Pass-Through Program From:				
California Department of Education				
Child and Adult Care Food Program	10.558	4129261k		28,438
Department of Justice Direct Program:				
Equitable Sharing Program	16.922			3,280,596
Department of Transportation Pass-Through Programs From:				
California State Department of Transportation				
Highway Planning and Construction				
Department of Transportation - West Orange Ave. From B Street to C Street	20.205	SRTSL-5177 (030)		1,022,589
South Airport Blvd. Bridge Replacement	20.205	BRLS-5177 (030)		140,124
Highway Safety Improvement Program (HSIP) - Evergreen Mission Traffic Signal	20.205	HSIPL-5177 (031)		27
Highway Safety Improvement Program (HSIP) - Grand Avenue/Magnolia Avenue	20.205	HSIPL-5177 (028)		155
Junipero Serra/King Drive Intersection Improvement	20.205	HSIPL-5177 (034)		664,699
Total U.S Department of Transportation				<u>1,827,594</u>
Institute of Museum and Library Services Pass-Through Program From:				
California State Library Foundation:				
Grants to States				
LSTA Grant - Veterans Connect	45.310	40-8437		5,646
LSTA Grant - Voices of Our Community	45.310	40-8437		24,263
Subtotal State and Community Highway Safety Grants				<u>29,909</u>
Corporation for National and Community Services Direct Program:				
Social Innovation Fund - Big Lift	94.019			96,681
Department of Homeland Security Direct Program:				
Port Security Grant Program	97.056			126,709
Department of Human Services Pass-Through Programs From:				
County of San Mateo				
Special programs for the Aging - Title III, Part B, Grants for Supportive Services and Senior Centers				
Adult Day Care	93.044	68151		17,309
Transportation	93.044	68151		16,009
Total Department of Health and Human Services				<u>33,318</u>
Total Expenditure of Federal Awards			<u>\$ 170,205</u>	<u>\$ 6,287,598</u>

See Accompanying Notes to Schedule of Expenditures of Federal Awards

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CITY OF SOUTH SAN FRANCISCO

**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 South San Francisco, California, and its component units as disclosed in the notes to the Basic Financial Statements.

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.

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**INDEPENDENT AUDITOR'S REPORT ON
INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS***

To the Honorable Members of the City Council
City of South San Francisco, 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 aggregate discretely presented component units, 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 13, 2018. Our report 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. 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*. We have also issued a separate Memorandum on Internal Control dated December 13, 2018 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.

Maze & Associates

Pleasant Hill, California
December 13, 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 South San Francisco, California

Report on Compliance for Each Major Federal Program

We have audited City of South San Francisco'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 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 items SA 2018-001, SA 2018-002, and SA 2018-003. 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 Corrective Action Plan separately prepared by the City. 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 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 have not been 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 as items SA 2018-001, SA 2018-002, and SA 2018-003 that we consider to be significant deficiencies.

The City's response to the internal control over compliance findings identified in our audit are described in the Corrective Action Plan separately prepared by the City. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of and for the year ended June 30, 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 13, 2018 which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion 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 the Uniform Guidance 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
March 19, 2019

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