

CITY OF NAPA
SINGLE AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2011

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CITY OF NAPA
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For The Year Ended June 30, 2011

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CITY OF NAPA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2011**

SECTION I—SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of auditor’s report issued: Unqualified

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

Type of auditor’s report issued on compliance for major programs: Unqualified

Internal control over major programs:

- Material weakness(es) identified? Yes X No
- Significant deficiency(ies) identified? X Yes 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:

CFDA#(s)	Name of Federal Program or Cluster
<u>20.205</u>	<u>ARRA - Highway Planning and Construction</u>
<u>81.128</u>	<u>ARRA - Energy Efficiency and Conservation Block Grant Program</u>
<u>14.871</u>	<u>Section 8 Housing Choice Vouchers</u>

Dollar threshold used to distinguish between type A and type B programs: \$421,994

Auditee qualified as low-risk auditee? Yes X No

SECTION II – FINANCIAL STATEMENT FINDINGS

Our audit disclosed significant deficiencies, but not material weaknesses or instances of noncompliance material to the basic financial statements. We have also issued a separate Memorandum on Internal Control dated December 20, 2011, 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.

SA2011-01 – Unallowable Cost Charged to Grant

CFDA number: 20.205

CFDA Title: ARRA – Highway Planning and Construction

Name of Federal Agency: U.S. Department of Transportation

Name of Pass-Through Entity: State of California Department of Transportation

Criteria: According to Agency Program Requirements Section A, “Activities Allowed or Unallowed”, federal funds can be used only to reimburse costs that are in accordance with the conditions contained in the project agreement and allocable to a specific project. Per review of grant agreement for project number ESPLESTP-5042(048), City of Napa agreement no.C201046, project is for pedestrian walkway on East Avenue from Clark Street to Alta Heights Elementary School (project no SW06PW01).

Condition: During our testing of payroll expenditures charged to the above grant, we noted that there were 32 payroll pay periods charged to the grant of which we tested 4 for expenditure allowability and tracing to reimbursement requests. Out of our samples, we noted that 1 sample pay period had 64 hours charged to grant. However, upon review of employee’s timesheet, it appears that only 54 hours were allowable charges to the grant.

Questioned Costs: \$562

Effect: We determined that \$562 of payroll expenditures were unallowable expenditures charged to the grant.

Cause: An employee erroneously input ten hours into to the wrong project number when completing a timesheet. As a result of the error, ten extra hours were charged to the grant.

Recommendation: We recommend timesheets be reviewed during the preparation of the grant reimbursement requests to ensure that the correct amount is charged to the program.

View of Responsible Officials and Planned Corrective Actions

- **Name of contact person:** Sheila Esser
- **City response:**
This error occurred prior to the implementation of the City’s new Payroll system, IFAS. At the time of this error, payroll was processed in the legacy system, and labor distribution (the process by which labor transactions are charged to different projects and credited to the home account) was a manual process by which the information was entered from the timesheets manually into a spreadsheet, and uploaded as a Journal Entry into IFAS.

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

- **City response (Continued):**

The City implemented its new payroll system in January 2011. Included in this implementation was the implementation of an electronic timecard system (Timecard Online). Timecard Online allows employees to enter payroll hours worked on various projects directly into the payroll system. This timecard is then routed electronically through a workflow model that requires the supervisor to approve the entry by the employee. The timecard data, once approved, is automatically dumped into the payroll system and processed accordingly. Because the system is not entirely automated, there is no risk, once the timecard is approved, that an employee could erroneously charged time to a different project.

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

Prepared by Management

Financial Statement Prior Year Findings

There were financial statement findings reported in the prior year, the current status of which we have communicated in a separate Memorandum on Internal Control dated December 20, 2011, which is an integral part of our audits and should be read in conjunction with this report.

Federal Award Prior Year Findings and Questioned Costs

SA2010-01 – Filing of Federal Cash Transaction Report

CFDA number: 14.218 & 14.253

CFDA Title: Community Development Block Grant and ARRA – Community Development Block Grant

Name of Federal Agency: U.S. Department of Housing and Urban Development

Criteria: The OMB Circular A-133 Agency Compliance Requirement section III.L.1.d, requires the City to prepare and submit a Federal Cash Transaction Report. This report is prepared on a quarterly basis.

Condition: During our reporting testing of the single audit program, we requested from the City to provide a copy of the Federal Cash Transaction Report for the fiscal year 2009-10. The City provided us a copy of all four quarters that were dated February 25, 2011. It appears the City did not prepare and submit the reports during the program year.

Effect: Non-preparation and submittal of financial reports to the granting agency could impact future grant funding.

Cause: The Finance Department has experienced high turnover in the 2008-09 and 2009-10 fiscal years. In the midst of employees leaving and remaining employees being diverted to the implementation of the new financial and payroll software, the task of filing the quarterly cash transaction report failed to be re-assigned.

Recommendation: We recommend the City prepare the necessary financial reports.

SECTION IV - STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS (Continued)

View of Responsible Officials and Planned Corrective Actions:

- **Name of contact person:** *Roberta Meyer, Finance Manager*
- The City concurs with the recommendation of the auditors. The task of preparing and filing the quarterly cash transaction reports has been assigned, the unfiled reports for the 2009-10 fiscal year have been prepared and filed, and the report will continue to be filed on a quarterly basis as required.

Current Status: The City filed all quarterly cash transaction reports for fiscal year 2010-11.

SA2010-02: Filing of Reimbursement Requests

CFDA number: 20.205

CFDA Title: Highway Planning and Construction Grants

Name of Federal Agency: U.S. Department of Transportation

Name of Pass-through Entity: State of California/Caltrans

Criteria: Pursuant to Paragraph 11 of the Special Covenants or Remarks section of Program Supplement No. M015, Rev. 3 of the Administering Agency-State Agreement for Federal Aid Projects No. 04-5042 (Award Agreement), the City is required to submit invoices at least once every six months to CALTRANS for reimbursement of project costs.

Condition: We noted that the City filed one reimbursement request dated November 5, 2010 for the entire fiscal year rather than preparing semiannual requests as required under the Award Agreement.

Effect: Late submittal of reimbursement requests results in a material cash drain of City resources as it pays for costs throughout the fiscal year without timely reimbursement. This delay in requesting funds understates the City revenues and jeopardizes reimbursement realization.

Cause: In March 2010, FHWA conducted Construction Contractor Payment Review of City Reimbursement No. 13. In April 2010, FHWA issued their first draft report which contained findings regarding the City's improper reimbursement for utility related costs. The City disputed these programmatic findings and as a result they were unable to proceed with subsequent reimbursements until the dispute was resolved. The City resolved the dispute in October 2010 and submitted reimbursement invoice No. 14 in November 2010.

Recommendation: The City should ensure that reimbursement requests are submitted timely in accordance with the Award Agreement.

View of Responsible Officials and Planned Corrective Actions:

- **Name of contact person:** Jason Holley
- **2009 – 2010 City Response:** The City has already developed and approved an Administrative Policy on project reimbursement requests requiring quarterly invoices to be submitted for any project with funding approved from any outside agency. Training will be provided to all staff on the proper procedures for preparing reimbursement requests, and review will be conducted by the Finance Department to ensure all reimbursement requests tie to the General Ledger.

SECTION IV - STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS (Continued)

Current Status: In addition to the administrative policy already approved, the City incorporated the Finance review of reimbursement requests into the electronic workflow model for Accounts Receivable invoices in our financial system, IFAS. This requires that someone from the Finance Department prepare a reconciliation of the reimbursement request to ensure it ties to the General Leger prior to the reimbursement request being submitted to the granting authority. This will allow Finance to not only ensure the requests match the General Ledger, but also to ensure that the requests are being submitted in accordance with the administrative policy and the regulations of the granting authority.

CITY OF NAPA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Fiscal Year Ended June 30, 2011

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Federal and Pass-Through Identifying Number	Federal Expenditures
Department of Energy Direct Programs			
ARRA - Energy Efficiency and Conservation Block Grant Program	81.128	DE-SC0001395	<u>\$373,541</u>
Department of Transportation Direct Programs			
State and Community Highway Safety	20.600		<u>311,414</u>
Department of Transportation Pass-Through Programs From:			
State of California Department of Transportation			
Highway Planning and Construction Grants			
East Avenue Sidewalk	20.205	ESPLSTP-5042(048)	359,975
ARRA - Stimulus Road Rehab	20.205	ESPL-5042(049)	126,186
Cape Seal Project	20.205		<u>15,171</u>
Subtotal Department of Transportation Pass-Through Programs			<u>501,332</u>
Total Department of Transportation			<u>812,746</u>
Department of Housing and Urban Development Direct Programs			
Community Development Block Grants Cluster:			
Community Development Block Grants/Entitlement Grants	14.218	B-09-MC-06-0028	881,210
ARRA - Community Development Block Grants/Entitlement Grants	14.253		<u>43,061</u>
Total Community Development Block Grants Cluster			<u>924,271</u>
Supportive Housing for Persons with Disabilities (Section 811)	14.181		277,896
Supportive Housing Program	14.235		4,630
Shelter Plus Care Program	14.238		71,299
Section 8 Moderate Rehabilitation Single Room Occupancy	14.249		37,292
ARRA - Homeless Prevention and Rapid Re-Housing Technical Assistance	14.262		119,542
Section 8 Housing Choice Vouchers	14.871		<u>11,010,943</u>
Subtotal			<u>11,521,602</u>
HOME Investment Partnership Program	14.239		<u>359,237</u>
Total Department of Housing and Urban Development Direct Programs			<u>12,805,110</u>
Department of Justice Direct Programs			
Edward Byrne Memorial Justice Assistance Grant Cluster:			
ARRA - Edward Byrne Memorial Justice Assistance Grant (JAG)	16.804	2009-SB-B9-2672	43,360
Edward Byrne Memorial Justice Assistance Grant Program (JAG)	16.738		<u>31,696</u>
Total Department of Justice Direct Programs			<u>75,056</u>
Total Expenditures of Federal Awards			<u><u>\$14,066,453</u></u>

See Accompanying Notes to Schedule of Expenditures of Federal Awards

CITY OF NAPA

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended June 30, 2011**

NOTE 1-REPORTING ENTITY

The Schedule of Expenditure of Federal Awards (the Schedule) includes expenditures of federal awards for the City of Napa, 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 - SUBRECEIPIENTS

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 Grants/Entitlement Grants	\$198,165
16.804	ARRA - Edward Byrne Memorial Justice Assistance Grant (JAG)	14,457
20.600	State and Community Highway Safety	49,328

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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**

Honorable Mayor and City Council
of the City of Napa, California

We have audited the financial statements of the City of Napa as of and for the year ended June 30, 2011, and have issued our report thereon dated December 20, 2011. The report included a special emphasis paragraph concerning proposed redevelopment dissolution and a paragraph discussing the implementation of Governmental Accounting Standards Board Statement Number 54 (GASB 54), *Fund Balance Reporting and Governmental Fund Type Definitions*. We conducted our audit in accordance with generally accepted auditing standards 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.

Internal Control over Financial Reporting

Management of the City of Napa is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in our separately issued Memorandum on Internal Control dated, December 20, 2011, that we consider to be significant deficiencies in internal control over financial reporting: 2011-01. 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City financial statements are free of 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 instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in our separately issued Memorandum on Internal Control dated December 20, 2011, as items 2011-02, 2011-03, 2011-04, 2011-05, and 2011-06 in our separately issued Memorandum on Internal Control dated December 20, 2011.

We have also issued a separate Memorandum on Internal Control dated December 20, 2011, which is an integral part of our audits and should be read in conjunction with this report.

This report is intended solely for the information and use of City Council, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Maze & Associates

December 20, 2011

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT
COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND
ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH
OMB CIRCULAR A-133**

Honorable Mayor and City Council
of the City of Napa, California

Compliance

We have audited City of Napa'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, 2011. 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. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

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. 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. Our audit does not provide a legal determination of the City of Napa's compliance with those requirements.

In our opinion, the City of Napa 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, 2011. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, 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 items 2011-01.

Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance 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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as items 2011-01. 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.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the City as of and for the year ended June 30, 2011, and have issued our report thereon dated December 20, 2011. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of management, City Council, federal awarding agencies, and passthrough entities and is not intended to be and should not be used by anyone other than these specified parties.

Maze & Associates

March 9, 2012