

CITY OF NAPA
SINGLE AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2010

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CITY OF NAPA
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For The Year Ended June 30, 2010

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CITY OF NAPA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2010**

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? X Yes No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? 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: Unqualified

Internal control over major programs:

- Material weakness(es) identified? Yes X No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? 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:

<u>CFDA#(s)</u>	<u>Name of Federal Program or Cluster</u>
<u>20.205</u>	<u>Highway Planning and Construction</u>
<u>14.871</u>	<u>Section 8 Housing Choice Vouchers</u>
<u>14.218</u>	<u>Community Development Block Grant</u>

Dollar threshold used to distinguish between type A and type B programs: \$522,717

Auditee qualified as low-risk auditee? Yes X No

SECTION II – FINANCIAL STATEMENT FINDINGS

Our audit did disclose significant deficiencies and material weaknesses to the basic financial statements. We have also issued a separate Memorandum on Internal Control dated February 1, 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.

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.

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.

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

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*
- 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 –
Prepared by Management

Financial Statement Prior Year Findings

Our audit did disclose significant deficiencies, material weaknesses, but no instances of noncompliance material to the basic financial statements. We have communicated the significant deficiencies and material weaknesses along with other matters in a separate Memorandum on Internal Control dated February 1, 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

SA09-01: Filing of Reimbursement Requests

Federal Agency: US Department of Transportation

Granting Agency: California Department of Transportation

Program Name: Highway Planning and Construction Grants (CFDA #20.205)

Project Name: 1st Street Bridge at Napa River Project

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.

Requests for reimbursement should reflect allowable Federal expenditures that agree to the City's general ledger or other supporting documentation.

Condition: We noted that the City filed one reimbursement request dated October 28, 2009 for the entire fiscal year rather than preparing semiannual requests as required under the Award Agreement. We also noted that the amount claimed for reimbursement on the request totaled \$8,609,688 which was \$308,952 less than total expenditures in the City's general ledger project account.

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: During FY08-09, the 1st Street Bridge Project was accelerated by external scheduling factors that unexpectedly required continuous monitoring by staff up to seven days per week. Staff became overloaded with daily activities and deemed the task of submitting reimbursement requests a lower priority than other tasks, such as contract management, cost containment, and quality control. The result is staff completed only one (1) reimbursement request instead of two (2) requests at six month intervals.

In addition, the amount of the reimbursement request is for expenses as tracked by the Public Works Department, which included expenditures on the cash basis and therefore did not include a large contractor payment made in September 2009 and partially accrued back to fiscal 2008-09.

Recommendation: The City should ensure that reimbursement requests are submitted timely in accordance with the Award Agreement. Reimbursement requests should include all eligible federal expenditures that agree to supporting documentation such as the City's general ledger. Each Program or Project Manager should agree requests for reimbursement to the general ledger before submitting them.

Management Response: The Public Works Department, in conjunction with the Finance Department, will provide additional staff training to 1) Prioritize reimbursement requests and; 2) Establish new protocols and oversight to ensure all reimbursement requests prepared by the Public Works Department are tied out to the General Ledger prior to submission.

Current Status: See finding #SA2010-02

CITY OF NAPA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2010

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Identifying Number</u>	<u>Federal Expenditures</u>
U.S. Department of Housing and Urban Development, Direct Programs			
Supportive Housing for Persons with Disabilities (Section 811)	14.181		<u>\$270,300</u>
Supportive Housing Program	14.235		<u>3,218</u>
Community Development Block Grant - Cluster			
Program Expenditures	14.218		607,936
ARRA - Community Development Block Grant	14.253		<u>140,688</u>
Program Subtotal			<u>748,624</u>
Shelter Plus Care Program	14.238		<u>83,705</u>
HOME Investment Partnership Program	14.239		<u>441,644</u>
ARRA - Homeless Prevention and Rapid Re-Housing Technical Assistance	14.262		<u>132,079</u>
Section 8			
Section 8 Moderate Rehabilitation	14.249		<u>44,050</u>
Section 8 Housing Choice Vouchers	14.871		<u>9,886,698</u>
Subtotal Department of Housing and Urban Development			<u>11,610,318</u>
U.S. Department of Justice			
ARRA - Bureau of Justice	16.804	2009-SB-B9-2672	<u>69,815</u>
U.S. Department of Transportation			
Highway Planning and Construction (Federal-Aid Highway Program)			
Pass-Through the State of California/Caltrans			
1st Street Bridge over Napa Creek	20.205	BRLS-5042(038)	2,812,884
Soscol/Browns Valley Overlay	20.205	STPL-5042(047)	1,233,567
East Avenue Sidewalk	20.205	ESPLSTP-5042(048)	27,139
ARRA - Stimulus Road Rehab	20.205	ESPL-5042(049)	<u>1,554,087</u>
Program Subtotal			<u>5,627,677</u>
State and Community Highway Safety, Direct Program	20.600		<u>89,388</u>
Subtotal Department of Transportation			<u>5,717,065</u>
U.S. Department of Energy			
Energy Projects	81.128	DE-SC0001395	<u>26,716</u>
Total Expenditures of Federal Awards			<u>\$17,423,914</u>

CITY OF NAPA

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended June 30, 2010**

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 Grant	\$120,164
14.253	ARRA - Community Development Block Grant	25,452

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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, 2010, and have issued our report thereon dated February 1, 2011. 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

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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.

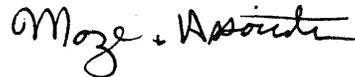
Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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*.

We have also issued a separate Memorandum on Internal Control dated February 1, 2011 which is an integral part of our audits and should be read in conjunction with this report.

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 response and, accordingly, we express no opinion on it.

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.

A handwritten signature in black ink, appearing to read "Moze + Associates". The signature is written in a cursive, flowing style.

February 1, 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, 2010. 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's compliance with those requirements.

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, 2010. 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 SA2010-01 and SA2010-02.

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 SA2010-01 and SA2010-02. 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, 2010, and have issued our report thereon dated February 1, 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.

Moze + Associates

March 9, 2011