

CITY OF SANTA CRUZ, CALIFORNIA
SINGLE AUDIT REPORT
FISCAL YEAR ENDED JUNE 30, 2018

CITY OF SANTA CRUZ, CALIFORNIA

FISCAL YEAR ENDED JUNE 30, 2018

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VAVRINEK, TRINE, DAY & CO., LLP
Certified Public Accountants

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**INDEPENDENT AUDITORS' 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***

The Honorable Mayor and
Members of the City Council
City of Santa Cruz, 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 Santa Cruz, California (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 31, 2018. Our report included an emphasis-of-matter regarding the City's adoption of Government Accounting Standards (GASB) Statement No. 75, *Accounting and Financial Reporting for Post-Employment Benefit Plans Other than Pension Plans*, as of July 1, 2017.

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*.

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 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.

Vavrinck, Trine, Day & Co. LLP

Palo Alto, California
December 31, 2018



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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE

The Honorable Mayor and
Members of the City Council
City of Santa Cruz, California

Report on Compliance for Each Major Federal Program

We have audited the City of Santa Cruz, California's (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 auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the 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 of 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.

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 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.

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 31, 2018, which contained unmodified opinions on those financial statements. Our report included an emphasis of matter regarding the City's adoption of Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. Our audit was conducted for the purpose of forming opinions 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 basic 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 basic 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 basic financial statements or to the basic 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.

Vavrinek, Trine, Day & Co. LLP

Palo Alto, California
December 31, 2018

CITY OF SANTA CRUZ, CALIFORNIA

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Grant Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
Direct Program:			
CDBG - Entitlement Grants Cluster:			
		B-13-MC-66-0024 & B-15-MC-06-0024	
Community Development Block Grants/Entitlement Grants	14.218		\$ 690,435
Subtotal - CDBG - Entitlement Grants Cluster			<u>690,435</u>
		M-13-MC-06-0236 & M-15-MC-06-0236	
Home Investment Partnerships Program	14.239		<u>1,295,054</u>
Total U.S. Department of Housing and Urban Development			<u>1,985,489</u>
U.S. DEPARTMENT OF TRANSPORTATION			
Passed through the State of California			
Department of Transportation:			
Highway Planning and Construction Cluster:			
Murray St. Bridge Seismic Retrofits	20.205	STPLX-5025(048)	66,351
Citywide Traffic Signal Improvements	20.205	HSIPL-5025 (062)	325,876
Bay Street Sidewalk Completion Infill	20.205	HSIP7-05-004	14,114
Bay and King St. Protected Left Turns	20.205	HSIP7-05-005	<u>9,756</u>
Total Highway Planning and Construction Cluster			<u>416,097</u>
Total U.S. Department of Transportation			<u>416,097</u>
U.S. DEPARTMENT OF HOMELAND SECURITY			
Passed through the California Governor's Office of Emergency Services			
Federal Emergency Management Agency:			
Disaster Grants - Public Assistance:			
Citywide tree response and removal	97.036	DR 4305 PW 418	10,016
Tree Response and Landslide Debris	97.036	DR 4301 PW 650	6,343
Santa Cruz Wharf	97.036	DR 4308 PW 649	1,468
Citywide tree response and mudslide	97.036	DR 4308 PW 672	98,127
Ocean and Plymouth Street	97.036	DR 4305 PW 344	35,643
Parkway headwall at Allerton St	97.036	DR 4301 PW 450	3,900
Pump Station 1 at Laurel and Front levee	97.036	DR 4301 PW 321	17
Upper Park Road	97.036	DR 4308 PW 271	370,882
Paradise Park Highway 9	97.036	DR 4305 PW 469	614
San Lorenzo River near Felton	97.036	DR 4308 PW 419	7,854
Carbonera Tank	97.036	DR 4308 PW 763	8,431
Pipeline Rd Leak #1 Culverts #1	97.036	DR 4301 PW 852	266,050
5 Coast Pump Station & Tait Well 4	97.036	DR 4308 PW 1075	<u>5,551</u>
Total U.S. Department of Homeland Security			<u>814,896</u>
Total Expenditures of Federal Awards			<u><u>\$ 3,216,482</u></u>

See the accompanying notes to the Schedule of Expenditures and Federal Awards.

CITY OF SANTA CRUZ, CALIFORNIA

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General – The accompanying Schedule of Expenditures of Federal Awards presents the activity of all Federal awards programs of the City of Santa Cruz (City).

Basis of Accounting – The accompanying Schedule of Expenditures of Federal Awards is presented using the modified accrual basis of accounting except for programs reported in the City's enterprise funds, which are presented using the accrual basis of accounting, which is described in Note 1 to the City's basic financial statements. The information in this 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).

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

Relationship to Basic Financial Statements – The amounts reported in the accompanying Schedule of Expenditures of Federal Awards agrees, in all material respects, to amounts reported within the City's financial statements. Federal award revenues are reported principally in the City's financial statements as intergovernmental revenues in the General and Special Revenue funds.

CITY OF SANTA CRUZ, CALIFORNIA

**SUMMARY OF AUDITORS' RESULTS
FOR THE YEAR ENDED JUNE 30, 2018**

I. SUMMARY OF AUDITORS' RESULTS

FINANCIAL STATEMENTS

Type of auditor's report issued on whether the financial statements audited were prepared in accordance with GAAP:	<u>Unmodified</u>
Internal control over financial reporting:	
Material weaknesses identified?	<u>No</u>
Significant deficiencies identified?	<u>None Reported</u>
Noncompliance material to financial statements noted?	<u>No</u>

FEDERAL AWARDS

Internal control over major federal programs:	
Material weaknesses identified?	<u>No</u>
Significant deficiencies identified?	<u>None Reported</u>
Type of auditor's report issued on compliance for major federal programs:	<u>Unmodified</u>
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a) of the Uniform Guidance?	<u>No</u>

Identification of major federal programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
<u>97.036</u>	<u>Disaster Grants - Public Assistance</u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 750,000</u>
Auditee qualified as low-risk auditee?	<u>Yes</u>

CITY OF SANTA CRUZ, CALIFORNIA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018**

II. FINANCIAL STATEMENT FINDINGS

None reported.

CITY OF SANTA CRUZ, CALIFORNIA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018**

III. FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

None reported.

CITY OF SANTA CRUZ, CALIFORNIA

**SCHEDULE OF PRIOR YEAR AUDIT FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018**

None reported.