



CPAs AND ADVISORS

# CITY OF DIXON, CALIFORNIA

JUNE 30, 2018

SINGLE AUDIT REPORT

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CITY OF DIXON, CALIFORNIA

SINGLE AUDIT REPORT

JUNE 30, 2018

**CITY OF DIXON**

**JUNE 30, 2018**

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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*

To the Honorable Mayor and Members of the City Council  
City of Dixon, 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 Dixon, California, (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 November 26, 2018.

### **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 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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. We did identify a deficiency in internal control that we consider to be a significant deficiency, which is addressed in the Schedule of Findings & Questioned Costs as Finding 2018-001.

### **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*.





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

### **City's Response to Findings**

The City's response to the findings identified in our audit was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **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.

*Lance, Solt & Lughard, LLP*

Brea, California  
November 26, 2018



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

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

**Report on Compliance for Each Major Federal Program**

We have audited the City of Dixon, California (the City)'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 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.



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

### **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 City's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. 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 the 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, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Dixon, California, 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 November 26, 2018, which contained an unmodified opinion on those financial statements. 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 the 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.



CPAs AND ADVISORS

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

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.

*Lance, Solt & Loughard, LLP*

Brea, California

March 14, 2019 (except for the Schedule of Expenditures of Federal awards, which is dated November 26, 2018)



CITY OF DIXON

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

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through DUNS &amp; Grant ID Number</u>	<u>Expenditures</u>
<u>U.S. Department of Housing and Urban Development</u>			
Passed through the State of California			
Department of Housing and Community Development:			
Community Development Block Grant	14.228	02-122-5490 / 13-CDBG-8969	\$ 228,658
<b>Total U.S. Department of Housing and Urban Development</b>			<b>228,658</b>
<u>U.S. Department of Transportation</u>			
Passed through the Solano Transportation Authority:			
Highway Planning and Construction	20.205	N/A / STPL-5056(020)	89,673
Passed through the State of California Department of Transportation:			
Formula Grants for Rural Areas*	20.509	84-088-1648 / 64BC15-00234	428,122
California Public Utilities	20.205	84-088-1648 / 75LZ289	38,558
<b>Total U.S. Department of Transportation</b>			<b>556,353</b>
<u>U.S. Department of Justice</u>			
Direct Program:			
Bulletproof Vest Partnership	16.607	BPV - 112	2,352
<b>Total U.S. Department of Justice</b>			<b>2,352</b>
<b>Total Federal Expenditures</b>			<b>\$ 787,363</b>
<b><u>Federal Loan Beginning Balances with a Continuing Compliance Requirement</u></b>			
Community Development Block Grant	14.228		\$ 286,832
HOME Investment Partnership Program*	14.239		15,812,705
<b>Total Federal Loan Balances with a Continuing Compliance Requirement</b>			<b>16,099,537</b>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS INCLUDING LOANS</b>			<b>\$ 16,886,900</b>

\* Major Program

Note a: Refer to Note 1 to the schedule of expenditures of federal awards for a description of significant accounting policies used in preparing this schedule.

Note b: There were no federal awards expended in the form of noncash assistance and insurance in effect during the year.

Note c: Total amount provided to subrecipients during the year was \$0.

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

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**Note 1: Summary of Significant Accounting Policies Applicable to the Schedule of Expenditures of Federal Awards**

**a. Scope of Presentation**

The accompanying schedule presents only the expenditures incurred by the City of Dixon, California, that are reimbursable under federal programs of federal financial assistance. For the purposes of this schedule, federal awards include both federal financial assistances received directly from a federal agency, as well as federal funds received indirectly by the City from a non-federal agency or other organization. Only the portion of program expenditures reimbursable with such federal funds is reported in the accompanying schedule. Program expenditures in excess of the maximum federal reimbursement authorized or the portion of the program expenditures that were funded with state, local or other non-federal funds are excluded from the accompanying schedule.

**b. Basis of Accounting**

The expenditures included in the accompanying schedule were reported on the modified accrual basis of accounting. Under the modified accrual basis of accounting, expenditures are incurred when the City becomes obligated for payment as a result of the receipt of the related goods and services. Expenditures reported included any property or equipment acquisitions incurred under the federal program.

**c. Indirect Cost Rate**

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

**Note 2: Loan Programs with Continuing Compliance Requirements**

The City participates in certain federal award programs that sponsor revolving loan programs, which are administered by the City. These programs required servicing arrangements with the City. The funds are returned to the programs upon repayment of the principal and interest. Current year transactions relating to these programs are included in the Schedule of Expenditures of Federal Awards. In accordance with 2 CFR section 200.502(b), the balance of loan program outstanding June 30, 2018 are as follows:

<u>CFDA Number</u>	<u>Program Name</u>	<b>Outstanding Balance at June 30, 2018</b>
14.228	CDBG Loans	\$ 188,652
14.239	HOME Loans	15,811,204
	Total Loans Outsatnding	<u>\$ 15,999,856</u>

**CITY OF DIXON**

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

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**SECTION I - SUMMARY OF AUDITORS' RESULTS**

Financial Statements

Type of auditors' report issued: Unmodified Opinion

Internal control over financial reporting:

- Significant deficiencies identified?  yes  no
- Material weaknesses identified?  yes  none reported

Noncompliance material to financial statements noted?  yes  no

Federal Awards

Internal control over major programs:

- Significant deficiencies identified?  yes  no
- Material weaknesses identified?  yes  none reported

Type of auditors' report issued on compliance for major programs: Unmodified Opinion

Any audit findings disclosed that are required to be reported in accordance with Section 2 CFR 200.516(a)?  yes  no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
14.239 20.509	Home Investment Partnership Program Formula Grants for Rural Areas

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

Auditee qualified as low-risk auditee?  yes  no

**CITY OF DIXON**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

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**SECTION II - FINANCIAL STATEMENT FINDINGS**

**Finding 2018-001: Unearned Revenue Adjustment (Significant Deficiency)**

**Criteria**

Funding provided by the Formula Grants for Rural Areas program operates on a reimbursement-basis and all payments received from the granting agency should therefore be recorded as revenue when earned. Unearned revenue should not be record as funding is not provided in advance.

**Condition**

As a result of our audit procedures, unearned revenue adjustments relating to various revenues were discovered in the Transit Enterprise Fund.

**Cause**

The City incorrectly recorded the revenues as unearned instead of revenue.

**Effect of Condition**

An adjusting entry was recorded to properly record revenues in fiscal year 2017-18 in the amount of \$472,226.

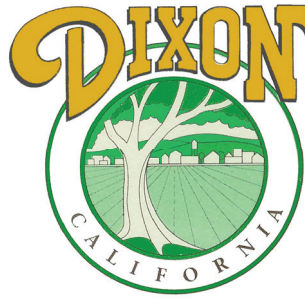
**Recommendation**

We recommend the City perform a thorough review of all journal entries to verify accounts affected are proper.

**Management's Response & Corrective Action:** City staff agrees with this finding and has made adjustments to the City of Dixon's year-end accrual procedures.

**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

No matters were reported.



**CITY OF DIXON**

**SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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**SECTION II - FINANCIAL STATEMENT FINDINGS**

**Finding 2017-001: Net position restatement (Material Weakness)**

**Criteria**

Funding provided by the Formula Grants for Rural Areas program operates on a reimbursement-basis and all revenue should therefore be recorded as revenue in the same fiscal year when the related expenditures were incurred.

**Condition**

As a result of our audit procedures, grant-funded revenues were identified as being reported in incorrect fiscal years. Revenue should be recorded when earned and in the proper period.

**Cause**

This finding was caused by lack of additional review of reimbursement requests to ensure expenditures and the reimbursed revenue were reported in the proper periods.

**Effect of Condition**

An adjusting entry was necessary to restate net position relating to grant-funded revenues in the amount of \$183,266 in the Transit Enterprise Fund. An additional adjusting entry was recorded to properly accrue revenue earned in fiscal year 2016-17 in the amount of \$253,982.

**Recommendation**

We recommend the City perform a thorough review of year-end accruals related to grant-funded expenditures to ensure items are recorded in the proper accounting period.

**Management's Response & Corrective Action:**

The City agrees with this restatement and is drafting a Grant Policy that will include procedures to improve the year-end review process.

**Finding 2017-002: Noncompliance**

**Criteria**

Section 65400 of the Government Code states if the Housing Successor is a City or County it will provide by April 1 of each year an Annual Progress Report to the legislative body, the Office of Planning and Research, and the Department of Housing and Community Development (HCD). This must also be published on the City website. The annual report is to provide: 1) the status of the General plan and progress in its implementation, 2) the progress in meeting its share of regional housing needs determined pursuant to Section 65584 and local efforts to remove governmental constraints to the maintenance, improvement, and development of housing pursuant to paragraph (3) of subdivision (c) of Section 65583, and 3) the degree to which its approved general plan complies with the guidelines developed and adopted pursuant to Section 65040.2 and the date of the last revision to the general plan.

**City of Dixon**

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CITY OF DIXON

SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

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**SECTION II - FINANCIAL STATEMENT FINDINGS (CONTINUED)**

**Condition**

We identified an instance of noncompliance related to late submittal of the Housing and Community Development (HCD) annual report.

**Cause**

This finding was caused by recent turnover in management-level staff and lack of review of reporting deadlines.

**Effect of Condition**

The City of Dixon failed to submit the HCD report due April 1, 2017.

**Recommendation**

We recommend the City implement monitoring procedures to ensure all reporting deadlines are met.

**Management's Response & Corrective Action:**

The City agrees with this finding of noncompliance. The report was delinquent as a result of a turnover in management level staff. Future reports will be prepared and submitted by the deadline.

**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

No matters were reported.