



City of Simi Valley, California
Single Audit Report
Year Ended June 30, 2017
with Report of Independent Auditors

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**Report of Independent Auditors 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 City Council
City of Simi Valley, 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 Simi Valley, California (the City), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated February 27, 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 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 noted certain other matters that we reported to management of the City of Simi Valley in a separate letter dated February 27, 2018.

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.

Vasquez + Company LLP

**Los Angeles, California
February 27, 2018**

**Report of Independent Auditors on Compliance for Each Major Federal Program,
on Internal Control over Compliance, and on the Schedule of Expenditures
of Federal Awards Required the Uniform Guidance**

**The Honorable Mayor and Members of City Council
City of Simi Valley, California**

Report on Compliance for Each Major Federal Program

We have audited the City of Simi Valley, California (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, 2017. The City's major federal programs are identified in the summary of auditors' 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.

Auditors' 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 programs 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, 2017.

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 its major federal programs 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. 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, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated February 27, 2018, which contained unmodified opinions 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 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 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 expenditure of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Vasquez + Company LLP

Los Angeles, California

March 27, 2018 (except for the Schedule of Expenditures of Federal Awards, as to which the date is February 27, 2018)

City of Simi Valley
Schedule of Expenditures of Federal Awards
Year ended June 30, 2017

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Catalog of Federal Domestic Assistance Number</u>	<u>Program Identification Number</u>	<u>Passed Through to Subrecipients</u>	<u>Federal Expenditures</u>
<u>U.S. Department of Housing and Urban Development</u>				
Direct Assistance:				
Community Development Block Grants/Entitlement Grants	14.218	B-16-MC-06-0535	\$ 130,320	\$ 518,013 *
Passed through the State of California Department of Housing and Community Development:				
Home Investment Partnerships Program	14.239	03-HOME-0681	-	181,327
Total U.S. Department of Housing and Urban Development			<u>130,320</u>	<u>699,340</u>
<u>U.S. Department of Justice</u>				
Direct Assistance:				
Equitable Sharing Program -Federal Asset Forfeiture Program	16.922	N/A	-	979,120 *
Passed through the City of Oxnard:				
Edward Byrne Memorial Justice Assistance Grant Program	16.738	A-7885	-	10,467
Total U.S. Department of Justice			<u>-</u>	<u>989,587</u>
<u>U.S. Department of Transportation</u>				
Direct Assistance:				
Federal Transit Formula Grants	20.507	Unknown	-	2,565,795
Federal Transit Formula Grants	20.507	CA-95-X221	-	2,285
Federal Transit Formula Grants	20.507	CA-95-X121	-	2,267
			<u>-</u>	<u>2,570,347</u>
Passed through the State of California, Department of Transportation:				
Highway Planning & Construction	20.205	HSIPL-5405 (083)	-	324,133
Highway Planning & Construction	20.205	ATPL-5405 (082)	-	779,788
Highway Planning & Construction	20.205	STPL-5405 (084)	-	446,875
Highway Planning & Construction	20.205	STPL-5405 (085)	-	585,231
			<u>-</u>	<u>2,136,027</u>
Passed through the State of California Office of Traffic Safety:				
State and Community Highway Safety	20.600	PT16129/PT17124	-	18,322
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	PT16129/PT17124	-	44,174
			<u>-</u>	<u>62,496</u>
Total U.S. Department of Transportation			<u>-</u>	<u>4,768,870</u>
<u>U.S. Department of Treasury</u>				
Direct Assistance:				
Federal Asset Forfeiture Program	21.000	N/A	-	5,049
Total U.S. Department of Treasury			<u>-</u>	<u>5,049</u>
<u>U.S. Institute of Museum and Library Services</u>				
Passed through CA State Library:				
Library Services & Technology Act	45.310	LS-00-14-0005-14	-	996
Library Services & Technology Act	45.310	LS-00-15-0005-15	-	8,409
Library Services & Technology Act	45.310	LS-00-16-0005-16	-	9,861
Total U.S. Institute of Museum and Library Services			<u>-</u>	<u>19,266</u>
<u>U.S. Department of Health and Human Services</u>				
Passed through the County of Ventura Area Agency on Aging:				
Special Programs for the Aging, Title III, Part C Nutrition Services	93.045	3C-011-071212	-	147,286
Total U.S. Department of Health and Human Services			<u>-</u>	<u>147,286</u>
<u>U.S. Department of Homeland Security</u>				
Passed through the County of Ventura Sheriff's Department:				
Emergency Management Performance Grants	97.042	2016-0010-111-00000	-	32,744
State Homeland Security Program (SHSP)	97.067	2015-0078-111-00000	-	28,421
Total U.S. Department of Homeland Security			<u>-</u>	<u>61,165</u>
Total expenditures of federal awards			<u>\$ 130,320</u>	<u>\$ 6,690,563</u>

* Denotes major program

See accompanying Notes to Schedule of Expenditures of Federal Awards and the Report of Independent Auditors on Compliance for Each Major Program on Internal Control over Compliance and on the Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Scope of Presentation

The accompanying schedule presents the activity of all federal award programs of the City of Simi Valley, California (City). For the purposes of this schedule, financial awards include federal awards received directly from a federal agency and federal funds received indirectly by the City from a nonfederal agency or other organization. Only the portions of program expenditures reimbursable with federal funds are reported in the accompanying schedule. Program expenditures in excess of the maximum reimbursement authorized or the portion of the program expenditures that were funded with other state, local or other nonfederal funds are excluded from the accompanying schedule.

Basis of Accounting

The expenditures included in the accompanying schedule were reported on the modified accrual basis of accounting, which is defined in Note 1 to the City's basic financial statements. Expenditures reported include any property or equipment acquisitions incurred under the federal programs.

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

NOTE 2 RELATIONSHIP TO FEDERAL FINANCIAL REPORTS

Grant expenditure reports as of June 30, 2017, which have been submitted to grantor agencies, will, in some cases, differ from amounts disclosed herein. The reports prepared for grantor agencies are typically prepared at a later date and often reflect refined estimates of the year-end accruals.

NOTE 3 RELATIONSHIP TO THE BASIC FINANCIAL STATEMENTS

In accordance with the Governmental Accounting Standards Board's Statement No. 61, *Financial Reporting Entity* and Statement No. 39, *Determining Whether Certain Organizations are Component Units – an Amendment of GASB Statement No.14* activities relating to all federal financial assistance programs are blended in the City's financial statements as special revenue funds.

NOTE 4 LOANS RECEIVABLE

Loans made with CDBG funds in the amount of \$446,804, which includes interest of \$78,482, and loans made with HOME funds in the amount of \$1,667,834, which includes interest of \$108,107, are outstanding as of June 30, 2017. During fiscal year 2016-17, there were no new loans made with CDBG funds.

Section I – Summary of Auditors’ Results

Financial Statements

Type of auditors’ report issued on the financial statements: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? No
- Significant deficiency(ies) identified? None reported

Noncompliance material to the financial statements noted? No

Federal Awards

Internal control over its major programs:

- Material weakness(es) identified? No
- Significant deficiency(ies) identified? None reported

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

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of the Uniform Guidance? Yes
(2017-001 through 2017-002)

Identification of Major Programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
14.218	Community Development Block Grant
16.922	Equitable Sharing Program – Federal Asset Forfeiture Program

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as a low-risk auditee: Yes

Section II – Financial Statement Findings

There were no financial statement findings noted during the fiscal year ended June 30, 2017.

Section III – Federal Award Findings

Finding No. 2017-001 – Subrecipient Monitoring

Federal Program Information

<i>Federal Catalog Number:</i>	14.218
<i>Federal Program Title:</i>	Community Development Block Grant
<i>Federal Agency:</i>	U.S. Department of Housing and Urban Development

Criteria

OMB Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (2 CFR 200) (Uniform Guidance), specifically §200.331, requires pass-through entities to evaluate each subrecipient's risk of noncompliance in order to determine the appropriate monitoring level, monitor the activities of subrecipient organizations to ensure that the subaward is in compliance with applicable federal statutes and regulations and terms of the subaward, and verify that subrecipients are audited as required by Subpart F of the Uniform Guidance.

As set forth in the Uniform Guidance (2 CFR 200.331), the City must ensure that every subaward is clearly identified to the subrecipient as a subaward and includes the following information at the time of the subaward and, if any of these data elements change, includes the changes in subsequent subaward modification. When some of this information is not available, the pass-through entity must provide the best information available to describe the Federal award and subaward. Required information includes:

Federal Award Identification:

- (i) Subrecipient name (which must match the name associated with its unique entity identifier);
- (ii) Subrecipient's unique entity identifier;
- (iii) Federal Award Identification Number (FAIN);
- (iv) Federal Award Date (see §200.39 Federal award date) of award to the recipient by the Federal agency;
- (v) Subaward Period of Performance Start and End Date;
- (vi) Amount of Federal Funds Obligated by this action by the pass-through entity to the subrecipient;
- (vii) Total Amount of Federal Funds Obligated to the subrecipient by the pass-through entity including the current obligation;
- (viii) Total Amount of the Federal Award committed to the subrecipient by the pass-through entity;
- (ix) Federal award project description, as required to be responsive to the Federal Funding Accountability and Transparency Act (FFATA);
- (x) Name of Federal awarding agency, pass-through entity, and contact information for awarding official of the Pass-through entity;
- (xi) CFDA Number and Name; the pass-through entity must identify the dollar amount made available under each Federal award and the CFDA number at time of disbursement;
- (xii) Identification of whether the award is R&D; and
- (xiii) Indirect cost rate for the Federal award (including if the de minimis rate is charged per §200.414 Indirect (F&A) costs)

Finding No. 2017-001 – Subrecipient Monitoring (Continued)

In addition, 24 CFR Section 570.501 states that the recipient is responsible for ensuring that CDBG funds are used in accordance with all program requirements. The use of designated public agencies, subrecipients, or contractors does not relieve the recipient of this responsibility. The recipient is also responsible for determining the adequacy of performance under subrecipient agreements and procurement contracts, and for taking appropriate action when performance problems arise.

The City's subrecipient monitoring activities and policies include on-site monitoring visits conducted at least annually.

Condition

Two (2) of the two (2) subrecipient agreements inspected did not include the following required subaward information: federal award identification, subrecipient's unique entity identifier, federal award identification number, and CFDA number and name.

Also, during our audit, we noted that the City did not conduct on-site monitoring for one of its subrecipient.

Cause

Procedures were not properly implemented to comply with federal compliance requirements on subrecipient monitoring. In addition, the City personnel responsible for creating the subrecipient agreement were not aware of the subrecipient information requirements.

Effect

Noncompliance with the above requirements may result in subrecipient compliance deficiencies not being properly identified and corrected by the subrecipients and the City.

Questioned Costs

Not applicable.

Recommendation

The City should ensure that all required information is identified and communicated to the subrecipient at the time the subaward is granted. With respect to existing agreements, the City should consider providing a supplementary communication setting forth the previously omitted information.

The City should also consider conducting a training session for grant program managers to ensure that the grant managers are aware of all the federal compliance requirements applicable to the federal grants the City receives.

In addition, the City should make sure sufficient controls are implemented over subrecipient monitoring. On-site monitoring visits should be performed annually.

Views of Responsible Officials and Planned Corrective Action

The City concurs with the finding. The City will develop a Risk Analysis tool and evaluate if on-site monitoring is required on an annual or bi-annual basis for each CDBG funded project and program within a fiscal year.

Finding No. 2017-001 – Subrecipient Monitoring (Continued)

Although the subaward information is not included on the subrecipient agreements examined, the data is collected and noted on both the SF 424 Application for Federal Assistance 2016-17 Action Plan and all of the 2016-17 Subrecipient Applications. Based on this finding, the City will revise its existing Written Agreements and Memorandum of Understandings Boiler Plates to include the following identifying number on each written agreement and MOU for FY 2018-19 and future contracts:

1. Catalog of Federal Domestic Assistance Number and Name;
2. Federal Award Identification Number;
3. City's Employer/Taxpayer Identification Number;
4. City's DUNS Number;
5. Subrecipient Organization's DUNS number; and
6. Subrecipient Organization's Employer/Taxpayer Identification Number

Finding No. 2017-002 – Equipment Management – Policies and Procedures

Federal Program Information

<i>Federal Catalog Number:</i>	16.922
<i>Federal Program Name:</i>	Federal Asset Forfeiture Program
<i>Federal Agency:</i>	U.S. Department of Justice

Criteria

The Guide to Equitable Sharing for State and Local Law Enforcement Agencies, Section IX (p. 26) states that all participating state and local law enforcement agencies must implement standard accounting procedures and internal controls (e.g., tracking share requests and receipts, electronically depositing shares into a separate revenue account or accounting code) to track equitably shared monies and tangible property. This provision includes items received for official use purposes. Standard accounting procedures and internal controls for federally funded programs refer to the regulations set forth by the agency responsible for the program when such policies are not specifically described within the program guidance and when there is no equivalent internal control policy set forth by the City itself.

As such, Title 28 – Judicial Administration, Part 66 – *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments, Subpart C – Post-Award Requirements Changes, Property, and Subawards*, Section 66.32d Equipment Management Requirements is applicable and states the following:

Procedures for managing equipment (including replacement equipment), whether acquired in whole or in part with grant funds, until disposition takes place will, as a minimum, meet the following requirements:

- (1) Property records must be maintained that include a description of the property, a serial number or other identification number, the source of the property, who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property.

Finding No. 2017-002 – Equipment Management – Policies and Procedures (Continued)

- (2) A physical inventory of the property must be taken and the results reconciled with the property records at least once every two (2) years.
- (3) A control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of the property. Any loss, damage, or theft shall be investigated.
- (4) Adequate maintenance procedures must be developed to keep the property in good condition.
- (5) If the grantee or subgrantee is authorized or required to sell the property, proper sales procedures must be established to ensure the highest possible return.

Condition

The City does not conduct physical inventory of property and reconcile the results with the property records at least once every two (2) years. We further noted that four (4) out of eight (8) program assets tested, the City's property records were missing essential data elements required by the federal regulations.

Cause

Procedures and controls were not properly implemented to comply with federal compliance requirements on equipment management.

Effect

The lack of controls over updating inventory records and safeguarding of capital assets may increase the risk of theft/misappropriation of program equipment occurring and remaining undetected, and results in a violation of federal program guidelines.

Questioned Costs

Not applicable.

Recommendation

We recommend that the City strengthen its policy over tracking and recording of capital assets. These policies should include appropriate identification, tracking, physical inventories, and reconciliations to promote accurate reporting and reduce the risk of misappropriation of program assets.

Views of Responsible Officials and Planned Corrective Action

The City concurs with the finding.

The City will conduct inventory of property every two (2) years. Data elements required by the federal regulations such as accurate equipment location will be updated contemporaneously.

Section II – Financial Statement Findings

There were no findings noted during the fiscal year ended June 30, 2016.

Section III – Federal Award Findings

There were no findings noted during the fiscal year ended June 30, 2016.



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