



CITY OF DIXON, CALIFORNIA

JUNE 30, 2019

SINGLE AUDIT REPORT

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CITY OF DIXON, CALIFORNIA

SINGLE AUDIT REPORT

JUNE 30, 2019

CITY OF DIXON

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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, 2019, 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 20, 2019.

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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We did identify a deficiency in internal control that we consider to be a material weakness, which is addressed in the Schedule of Findings & Questioned Costs as Finding 2019-001.

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. 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 2019-002.



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

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*.

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.

A handwritten signature in black ink that reads "Lance, Soll & Lughard, LLP". The signature is written in a cursive, flowing style.

Sacramento, California
November 20, 2019



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 (the City), California'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, 2019. 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 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, 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, 2019.





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 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 solely 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.

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, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated November 20, 2019, 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 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.



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 & Lughard, LLP

Sacramento, California

March 6, 2020 (except for our report on the Schedule of Expenditures of Federal Awards, for which the date is November 20, 2019)

CITY OF DIXON

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through DUNS & Grant ID Number	Expenditures
<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	Program Income	\$ 5,930
HOME Investment Partnership Program*	14.239	Program Income	<u>829</u>
Total U.S. Department of Housing and Urban Development			<u>6,759</u>
<u>U.S. Department of Transportation</u>			
Passed through the State of California			
Office of Traffic Safety:			
<i>Highway Planning and Construction Cluster:</i>			
California Public Utilities	20.205	84-088-1648 / 75LZ289	26,015
Passed through the State of California			
Department of Transportation:			
Formula Grants for Rural Areas	20.509	84-088-1648 / 64BC15-00234	<u>203,324</u>
Total U.S. Department of Transportation			<u>229,339</u>
Total Federal Expenditures			<u>\$ 236,098</u>
<u>Federal Loan Beginning Balances with a Continuing Compliance Requirement</u>			
Community Development Block Grant*	14.228		\$ 188,652
HOME Investment Partnership Program*	14.239		<u>15,811,205</u>
Total Federal Loan Balances with a Continuing Compliance Requirement			<u>15,999,857</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS INCLUDING LOANS			<u>\$ 16,235,955</u>

* 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, 2019**

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 at June 30, 2019, are as follows:

<u>CFDA Number</u>	<u>Program Name</u>	<u>Outstanding Balance at June 30, 2019</u>
14.228	CDBG Loans	\$ 163,368
14.239	HOME Loans	15,713,204
	Total Loans Outstanding	<u>\$ 15,876,572</u>

CITY OF DIXON

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unmodified Opinion

Internal control over financial reporting:

- Significant deficiencies identified? yes none reported
 - Material weaknesses identified? yes no
- Noncompliance material to financial statements noted? yes no

Federal Awards

Internal control over major programs:

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

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>
14.228 14.239	Community Development Block Grant Home Investment Partnership Program

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, 2019**

SECTION II - FINANCIAL STATEMENT FINDINGS

Finding 2019-001: Grants Receivable Adjustment (Material Weakness)

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 and in the proper period.

Condition

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

Cause

The City incorrectly excluded the corresponding revenues from the June 30th trial balance.

Effect of Condition

Revenues in the Transit Enterprise Fund were understated by \$29,711. A correcting journal entry was recorded to properly record revenues in fiscal year 2018-19 in the amount of \$29,711.

Recommendation

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

Management's Response & Corrective Action

City staff agrees with this finding. The Finance Department has added additional tracking mechanisms to be maintained throughout the year to assist with year-end calculations.

Finding 2019-002: Permit Fees Adjustment (Significant Deficiency)

Criteria

Rates and fees input and used within the City's permitting software should agree to the fees approved by the governing body and published in accordance with applicable laws and regulations.

Condition

As a result of our audit procedures, various overcharges were discovered in the calculation of permits that were issued to City residents. In addition, in attempts to refund the affected customers, an incorrect multiplier was erroneously applied to the refunds issued during the subsequent fiscal year causing an overpayment of \$134,716.

Cause

Rates and fees in the permitting software were not agreed to approved rates during the issuance of permits. In addition, the City's software incorrectly multiplied the payment amounts after the correct amounts were imported into the City's accounts payable module.

Effect of Condition

Controls surrounding the City's fees and permit revenue were not found to be operating effectively. In addition, the City incorrectly overpaid various refunds to City residents. The City is currently in the process of recuperating the overpayment of \$134,716.40 during the subsequent fiscal year.

CITY OF DIXON

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

SECTION II - FINANCIAL STATEMENT FINDINGS (CONTINUED)

Recommendation

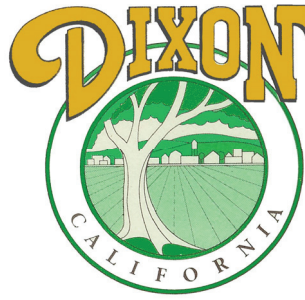
We recommend the City perform a thorough review of the fee schedule and ensure that the total is proper.

Management's Response & Corrective Action

City staff agrees with this finding and the building division staff have reviewed all fees within the permitting software and will compare it against the fee schedule to ensure proper charges in the future.

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, 2018**

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.

Status of Prior Period Finding

This is not a repeat finding for fiscal year ending June 30, 2019.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

City of Dixon

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