

City of Napa

Napa, California

Single Audit and Independent Auditors' Reports

For the Year Ended June 30, 2019

City of Napa
Single Audit Report
For the Year Ended June 30, 2019
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**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***

Independent Auditors' Report

To Honorable Mayor and Members of the City Council
of the City of Napa
Napa, 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 Napa (the "City"), as of and for the year ended June 30, 2019, and the related notes to the basic financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated December 18, 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.

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. 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 basic 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*.

To Honorable Mayor and Members of the City Council
of the City of Napa
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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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other

The PwC Group, LLP

Walnut Creek, California
December 18, 2019



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

Independent Auditors' Report

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

Report on Compliance for Each Major Federal Program

We have audited the City of Napa's (the "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, 2019. The City's major federal programs are identified in the summary of the auditors' 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.

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 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.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2019-001. Our opinion on each major federal program is not modified with respect to these matters.

City's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. 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 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. We consider the deficiencies described as item number 2019-001 in the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies in internal control over compliance.

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 responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

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.

To Honorable Mayor and Members of the City Council
of the City of Napa
Napa, California
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Report on Schedule of Expenditures of Federal Awards

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 basic financial statements, which collectively comprise the City's basic financial statements. We have issued our report thereon dated December 18, 2019, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming our opinion on the City's financial statements. The accompanying Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the 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 basic financial statements and certain other 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 Expenditures of Federal Awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Handwritten signature in black ink that reads "The Perini Group, LLP". The signature is written in a cursive, flowing style.

Walnut Creek, California
December 18, 2019

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City of Napa
Single Audit Report
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2019

Federal Grantor/Pass-Through Grantor Program Title	Federal CFDA Number	Agency or Pass-Through Number	Federal Expenditures	Amount Provided to Subrecipients
<u>U.S. Department of Transportation</u>				
Highway Planning and Construction Cluster				
<i>Passed Through California Department of Transportation:</i>				
Highway Planning and Construction	20.205	BPMPL-5042(059)	\$ 2,299	\$ -
Highway Planning and Construction	20.205	STPL-5042 (056)	130,273	-
Highway Planning and Construction Cluster Total			<u>132,572</u>	<u>-</u>
Highway Safety Cluster				
<i>Passed Through California Department of Transportation:</i>				
State and Community Highway Safety	20.600	PT19073	18,167	-
State and Community Highway Safety	20.600	PT18100	18,591	-
Highway Safety Cluster Total			<u>36,758</u>	<u>-</u>
Minimum Penalties for Repeat Offenders for Driving While Intoxicated				
<i>Passed Through California Department of Transportation:</i>				
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	PT19073	15,788	-
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	PT18100	22,446	-
Minimum Penalties for Repeat Offenders for Driving While Intoxicated Total			<u>38,234</u>	<u>-</u>
Total U.S. Department of Transportation			<u>207,564</u>	<u>-</u>
<u>U.S. Department of Housing and Urban Development</u>				
CDBG Entitlement Grant Cluster				
<i>Direct Programs:</i>				
Community Development Block Grants/Entitlement Grants	14.218	B-18-MC-06-0028	858,536	171,071
CDBG Entitlement Grant Cluster Total			<u>858,536</u>	<u>171,071</u>
Housing Voucher Cluster:				
<i>Direct Programs:</i>				
Section 8 Housing Choice Vouchers	14.871	CA073	12,285,512	-
Mainstream Vouchers	14.879	CA073	288,995	-
Housing Voucher Cluster Total			<u>12,574,507</u>	<u>-</u>
<i>Direct Programs:</i>				
Continuum of Care Program	14.267	B-18-MC-06-0028	103,754	-
<i>Direct Programs:</i>				
Family Self Sufficiency Program	14.896	CA073	106,023	-
<i>Passed Through California Department of Housing and Community Development:</i>				
HOME Investment Partnership Program - Program Expenditures	14.239	B-09-MC-06-0028	347,186	-
HOME Investment Partnership Program - Loan Balance	14.239	B-09-MC-06-0028	1,455,753	-
HOME Investment Partnership Program - Program Income	14.239	B-09-MC-06-0028	28,189	-
HOME Investment Partnership Program Total			<u>1,831,128</u>	<u>-</u>
Total U.S. Department of Housing and Urban Development			<u>15,473,948</u>	<u>171,071</u>

City of Napa
Single Audit Report
Schedule of Expenditures of Federal Awards (Continued)
For the Year Ended June 30, 2019

Federal Grantor/Pass-Through Grantor Program Title	Federal CFDA Number	Agency or Pass-Through Number	Federal Expenditures	Amount Provided to Subrecipients
<u>U.S. Department of Justice</u>				
<i>Direct Programs:</i>				
Special Data Collections and Statistical Studies	16.734	2018-FU-CX-K010	61,016	-
<i>Direct Programs:</i>				
Bulletproof Vest Partnership Program	16.607		10,468	-
<i>Passed Through California Bureau of Justice Assistance</i>				
Law Enforcement Specialized Units Program	16.588	2018-WF-AX-0019	273,554	-
		Total U.S. Department of Justice	345,038	-
<u>U.S. Department of Homeland Security</u>				
<i>Passed through California Governor's Office of Emergency Services</i>				
Disaster Grants – Public Assistance	97.036	FEMA-4193-DR-CA	1,441,295	-
		Total U.S. Department of Homeland Security	1,441,295	-
		Total Expenditures of Federal Awards	\$ 17,467,845	\$ 171,071

City of Napa
Single Audit Report
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2019

Note 1 – Reporting Entity

The City of Napa, California (the “City”) was incorporated on March 23, 1872, under the laws of the State of California. The City’s Charter was filed on October 27, 1914. The City operates under a council-manager form of government. As required by generally accepted accounting principles, these financial statements present the City of Napa and its component units. The following component units are included in the City’s reporting entity because of the significance of their operational or financial relationships with the City.

Blended component units, although legally separate entities are, in substance, part of the City’s operations and so data from these units are combined with that of the City.

The Housing Authority of the City of Napa (the Housing Authority) was established on May 8, 1942. On July 7, 1969, the City Council declared itself to be the Board of Commissioners of the Housing Authority in accordance with Section 34920 of the Health and Safety Code of the State of California. The City of Napa has operational responsibility for the component unit.

The Parking Authority of the City of Napa (the Parking Authority) was established pursuant to the Streets and Highways Code of the State of California. The City Council established the Parking Authority on April 27, 1970 and designated itself as the governing body. The primary purpose of the Authority is to acquire, maintain and operate off-street parking facilities within the City. The Parking Authority reported no financial transactions during the year ended June 30, 2019.

Note 2 – Basis of Accounting

The City utilizes the accrual method of accounting to prepare its basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (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). Therefore, some amounts presented in the Schedule may differ from amounts presented in or used in the presentation of the City’s basic financial statements.

Note 3 – Schedule of Expenditures Federal Awards

The accompanying Schedule of Expenditures of Federal Awards (“SEFA”) presents the activity of all federal financial assistance programs of the City. Federal financial assistance received directly from federal agencies, as well as federal financial assistance passed through the California Bureau of Justice Assistance, California Department of Transportation, California Department of Housing and Community Development, and California Governor’s Office of Emergency Services are included in the SEFA. The SEFA was prepared from only the accounts of various grant programs and, therefore, does not present the financial position or results of operations of the City.

City of Napa
Single Audit Report
Notes to the Schedule of Expenditures of Federal Awards (Continued)
For the Year Ended June 30, 2019

Note 4 – Subrecipients

During the year ended June 30, 2019, the City provided federal funds to the following subrecipients:

<u>CFDA Number(s)</u>	<u>Program Name / Subrecipient Names</u>	<u>Amount Provided to Subrecipients</u>
14.218	Community Development Block Grants/Entitlement Grants	
	Adobe Services	\$ 62,159
	Catholic Charities of the Diocese of Santa Rosa	8,288
	Fair Housing Napa Valley	14,914
	NEWS – Domestic Violence and Sexual Abuse Services	29,010
	Napa Valley Community Housing	56,700
	Total Amount Provided to Subrecipients	\$ 171,071

Note 5 – Indirect Cost Rate

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

Note 6 – Outstanding Loans of Federal Funds

The following schedule represents the amount of outstanding loans by CFDA No. that have continuing compliance requirements. The loans are provided by the U.S Department of Housing and Urban Development (HUD):

<u>CFDA Number</u>	<u>Name of Federal Program</u>	<u>Balance at June 30, 2019</u>
14.239	HOME Investment Partnership Program	\$ 1,483,942

City of Napa
Single Audit Report
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2019

Section I – Summary of Auditors’ Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: Unmodified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted? No

Federal Awards

Internal control over major programs:

- Material weakness (es) identified? No
- Significant deficiency (ies) identified? 2019-001

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

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? Yes

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>	<u>Expenditures</u>
14.871/14.879	Housing Vouchers Cluster	\$ 12,574,507
97.036	Disaster Grants – Public Assistance	1,441,295
	Total Expenditures of All Major Federal Programs	\$ 14,015,802
	Total Expenditures of Federal Awards	\$ 17,467,845
	Percentage of Total Expenditures of Federal Awards	80.24%

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

Auditee qualified as low-risk auditee in accordance with 2 CFR 200.520? Yes

City of Napa
Single Audit Report
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2019

Section II – Financial Statement Findings

A. Current Year Financial Statement Findings

No financial statement findings were noted for the year ended June 30, 2019.

B. Prior Year Financial Statement Findings

No financial statement findings were noted for the year ended June 30, 2018.

City of Napa
Single Audit Report
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2019

Section III – Federal Awards Findings and Questioned Costs

A. Current Year Findings and Questioned Costs – Major Federal Award Program Audit

Finding 2019-001 Housing Quality Standards Inspections and Enforcement

Criteria:

Pursuant to the Uniform Guidance August 2019 Compliance Supplement, Housing Voucher Cluster, Housing Quality Standards (“HQS”) Enforcement:

For units under Housing Assistance Payment (“HAP”) contract that fail to meet HQS, the Public Housing Agency (“PHA”) must require the owner to correct any life threatening HQS deficiencies within 24 hours after the inspections and all other HQS deficiencies within 30 calendar days or within a specified PHA-approved extension. If the owner does not correct the cited HQS deficiencies within the specified correction period, the PHA must stop (abate) HAPs beginning no later than the first of the month following the specified correction period or must terminate the HAP contract. The owner is not responsible for a breach of HQS as a result of the family’s failure to pay for utilities for which the family is responsible under the lease or for tenant damage. For family-caused defects, if the family does not correct the cited HQS deficiencies within the specified correction period, the PHA must take prompt and vigorous action to enforce the family obligations (24 CFR sections 982.158(d) and 982.404).

Condition:

During our audit procedures we noted the following:

- Two (2) of the six (6) samples selected for life threatening deficiencies testing did not meet the 24 hours correction requirement.
- Two (2) of the thirty-four (34) samples selected for all other HQS deficiencies did not meet the 30 calendar days correction requirement. We found in one (1) of the two (2) selections the PHA did not send out a re-inspection notice to the owner after the owner failed the initial inspection. No re-inspection was performed. In addition, in one (1) of the two (2) selections the tenant failed the re-inspection on August 28, 2018 and was given a specified PHA-approved extension on October 16, 2018 for corrective action. However, the PHA did not follow up with the tenant until the next annual inspection on July 16, 2019.

Question Costs:

None.

Context:

See condition above for context of the finding.

City of Napa
Single Audit Report
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2019

Section III – Federal Awards Findings and Questioned Costs (Continued)

A. Current Year Findings and Questioned Costs – Major Federal Award Program Audit (Continued)

Finding 2019-001 Housing Quality Standards Inspections and Enforcement (Continued)

Effect:

The City is not in compliance with provisions of 24 CFR sections 982.305, 982.405, and the Uniform Guidance. In addition, due to the non-compliance tenants may not be eligible to receive HAPs but are receiving payment.

Identification as a Repeat Finding:

Not applicable.

Cause:

The City did not enforce the policies and process in regards to their HQS inspection and enforcement process.

Recommendation:

We recommended the City enforce the policies and process of HQS inspection and enforcement process to ensure tenants are in compliance and eligible to receive HAPs.

View of Responsible Officials and Planned Corrective Actions:

The City agrees with the finding and the recommendation.

B. Prior Year Findings and Questioned Costs – Major Federal Award Program Audit

No findings or questioned costs were noted on the City's major programs for the year ended June 30, 2018.