

CITY OF PLEASANT HILL

Single Audit Reports

For the Year Ended June 30, 2017



Certified
Public
Accountants

CITY OF PLEASANT HILL

For the Year Ended June 30, 2017

Table of Contents

	<i>Page</i>
Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	1
Independent Auditor’s Report on Compliance for the Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance.....	3
Schedule of Expenditures of Federal Awards	5
Notes to the Schedule of Expenditures of Federal Awards.....	7
Schedule of Findings and Questioned Costs	8
Summary Schedule of Prior Audit Findings	10
Corrective Action Plan.....	10



**Independent Auditor's 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***

Honorable Mayor and Members
of the City Council
City of Pleasant Hill, 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 Pleasant Hill, California (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 December 29, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the 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 have not been identified. We did identify a deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2017-001 that we consider to be a material weakness.

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 Finding

The City's response to the finding identified in our audit is described in the accompanying corrective action plan. The City's response 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 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 purpose.

A handwritten signature in black ink that reads "Macias Gini & O'Connell LLP". The signature is written in a cursive, slightly slanted style.

Walnut Creek, California
December 29, 2017



Independent Auditor’s Report on Compliance for the Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

Honorable Mayor and Members
of the City Council
City of Pleasant Hill, California

Report on Compliance for the Major Federal Program

We have audited the City of Pleasant Hill, California’s (City) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the City’s major federal program for the year ended June 30, 2017. The City’s major federal program is identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

Management’s Responsibility

Management is responsible for compliance with the federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor’s Responsibility

Our responsibility is to express an opinion on compliance for the City’s major federal program 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 the major federal program. However, our audit does not provide a legal determination of the City’s compliance.

Opinion on the 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 the major federal program 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 the major federal program to determine the

auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the 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 were not 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 December 29, 2017, 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.

Macias Gini & O'Connell LLP

Walnut Creek, California
March 30, 2018

CITY OF PLEASANT HILL

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2017

Federal Grantor/Pass-Through Grantor/Program	Catalog of Federal Domestic Assistance Number (CFDA)	Grant Identifying Number or Pass-Through Entity Number	Federal Expenditures
U.S. Department of Justice			
Direct Program:			
Bulletproof Vest Partnership Program	16.607	Not Available	\$ 24,957
Total U.S. Department of Justice			<u>24,957</u>
U.S. Department of Transportation			
Pass-Through State of California Department of Transportation:			
Highway Planning and Construction	20.205	BRLS-5375 (009)	215,693
Highway Planning and Construction	20.205	HSIPL-5375 (032)	1,365,228
Highway Planning and Construction	20.205	CMSTPL-5375 (030)	<u>722,425</u>
Total U.S. Department of Transportation			<u>2,303,346</u>
			<u>\$ 2,328,303</u>

See accompanying notes to the schedule of expenditures of federal awards.

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CITY OF PLEASANT HILL

Notes to the Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2017

(1) GENERAL

The accompanying schedule of expenditures of federal awards (SEFA) presents the activity of the federal award programs of the City of Pleasant Hill, California (the City). The City's reporting entity is defined in Note 1 to its basic financial statements. The SEFA includes all federal awards received directly from federal agencies and federal awards passed through from other governmental agencies.

(2) BASIS OF PRESENTATION

The accompanying SEFA is presented using the modified accrual basis of accounting for program expenditures accounted for in the governmental funds as described in Note 1 to the City's basic financial statements.

(3) RELATIONSHIP TO THE BASIC FINANCIAL STATEMENTS

Expenditures of federal awards are reported in the City's basic financial statements as expenditures in the governmental funds. Federal award expenditures agree or can be reconciled with the amounts reported in the City's basic financial statements.

(4) RELATIONSHIP TO FEDERAL FINANCIAL REPORTS

Amounts reported in the SEFA agree to or can be reconciled with the amounts reported in the related federal financial reports.

(5) INDIRECT COSTS

The City did not elect to use the 10% de minimis cost rate as covered in 2 CFR section 200.414 Indirect (F&A) costs.

CITY OF PLEASANT HILL

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2017

Section I Summary of Auditor's Results

Financial Statements

Type of auditor's report issued on whether the financial statements audited were prepared in accordance with accounting principles generally accepted in the United States of America: Unmodified

Internal control over financial reporting:

- ◆ Material weaknesses identified? Yes
- ◆ Significant deficiencies identified? None reported

Noncompliance material to the financial statements noted? No

Federal Awards

Internal control over major programs:

- ◆ Material weaknesses identified? No
- ◆ Significant deficiencies identified? None reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings required to be reported in accordance with 2 CFR 200.516(a)? No

Identification of major programs:

Catalog of Federal Domestic Assistance Number	Name of Federal Program or Cluster
20.205	Highway Planning and Construction

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

Auditee qualified as a low-risk auditee? Yes

CITY OF PLEASANT HILL

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2017

Section II Financial Statement Finding

2017-001 Material Weakness In Financing Reporting Internal Controls over Financial Reporting of Year-End Accrual

The U.S. Office of Management and Budget defines internal control as the steps an entity takes to provide reasonable assurance that the entity's objectives are achieved through 1) effective and efficient operations, 2) reliable financial reporting, and 3) compliance with laws and regulations. Over the years, the City has established an internal control assessment process, documented its controls for significant accounts and transactions, and evaluated the effectiveness of its internal control over financial reporting.

Internal controls should be continuously assessed and evaluated in order to adapt to the City's changes in its controls over initiating, recording, processing, and reconciling account balances, classes of transactions and disclosure and related assertions included in the financial statements; controls related to the initiation and processing of routine and non-routine transactions; and controls related to the selection and application of appropriate accounting policies.

As part of our audit, we assessed the effectiveness of the City's internal controls over financial reporting. If controls do not exist, are poorly designed or not operating effectively, we must evaluate the control deficiency and report the deficiency to management, including whether the control deficiency is considered a significant deficiency or material weakness.

The City's financial statements are reported using the accrual basis of accounting, except for governmental funds financial statement which are reported using the modified accrual basis of accounting. Expenses and expenditures are recorded at the time liabilities are incurred, regardless of when the related cash flows take place.

During our audit, we noted that the City's year-end financial reporting processes and procedures failed to identify and accrue significant expenditures/expenses incurred for the year that were paid after year-end. We identified several understatements of year-end accruals that were material to the City's financial statements. The City subsequently recorded these audit adjustments to properly reflect the balances for the year ended June 30, 2017.

We recommend the City to revisit and revise its year-end financial reporting processes and procedures over expenditures/expenses accrual to ensure that all significant transactions are properly reported. The City's Finance department should also collaborate with other departments that expect to receive invoices from vendors and evaluate the need of estimate and accruals to ensure the financial statements are not materially misstated.

Section III Federal Awards Findings and Questioned Costs

No current year findings are reported.



City of Pleasant Hill

Summary Schedule of Prior Audit Findings

There were no financial statement nor federal award findings for the year ended June 30, 2016.

Corrective Action Plan

2017-001 Material Weakness Over Financing Reporting Internal Controls over Financial Reporting of Year-End Accrual

We will revisit and revise year-end accrual processes and procedures to ensure that all material expenditures/expenses are reported in the proper period.

Contact person responsible for corrective action: Mary McCarthy, Finance Manager

Anticipated completion date: Year ending June 30, 2018