

CITY OF SALINAS
SINGLE AUDIT
of
FEDERALLY ASSISTED GRANT PROGRAMS
JUNE 30, 2017

McGILLOWAY, RAY, BROWN & KAUFMAN
ACCOUNTANTS & CONSULTANTS

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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

The Honorable Mayor and
Members of City Council
of the City of Salinas
Salinas, 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 Salinas, California (the City), as of and for the fiscal year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City of Salinas' basic financial statements and have issued our report thereon dated December 19, 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.

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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*.

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.

McGilloway, Ray, Brown & Kaufman

McGilloway, Ray, Brown & Kaufman
Salinas, California
December 19, 2017



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

The Honorable Mayor and
Members of City Council
of the City of Salinas
Salinas, California

Report on Compliance for Each Major Federal Program

We have audited the City of Salinas, California's (the City) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have direct and material effect on each of the City's major federal programs for the fiscal year ended June 30, 2017. 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 the 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 Requirement, 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.

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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 Programs

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 each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The 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, business-type activities, each major fund, and the aggregate remaining fund information of the City's 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 19, 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 City's 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 expenditure of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

McGilloway, Ray, Brown & Kaufman

McGilloway, Ray, Brown & Kaufman
Salinas, California
December 19, 2017

CITY OF SALINAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2017

Federal Grantor, Pass Through Grantor, Cluster, Program Title	Catalog of Federal Domestic Assistance (CFDA) Number	Grant or Pass-Through Number	Federal Expenditures	Amount Provided to Subrecipients
Direct Federal Awards				
U.S. Department of Housing and Urban Development				
Office of Community Planning and Development				
CDBG - Entitlement Grant Cluster				
Community Development Block Grants/Entitlement Grants Cluster	14.218	B-14-MC-06-0005	\$ 552,580	
		B-15-MC-06-0005	596,823	
		B-16-MC-06-0005	543,113	
		Program Income	318,707	
Total CDBG - Entitlement Grant Cluster - CFDA No. 14.218			2,011,223	\$ 636,481
Emergency Solutions Grant Program	14.231	E-16-MC-06-0005	178,203	
		16-ESG-11118	53,442	
Total Emergency Solutions Grant Program - CFDA No. 14.231*			231,645	215,958
Home Investment Partnerships Program	14.239	M10-MC-06-0212	17,024	
		M11-MC-06-0212	132,022	
		M12-MC-06-0212	77,329	
		M13-MC-06-0212	127,246	
		M14-MC-06-0212	260,007	
		M15-MC-06-0212	492,121	
		M16-MC-06-0212	391,731	
		Program Income	176,421	
Total Home Investment Partnerships Program - CFDA No. 14.239*			1,673,901	1,479,500
U.S. Department of Justice				
Office of Juvenile Justice & Delinquency Prevention				
Evaluation of the Strategic Work Plan for the Reduction of Youth Violence	16.541	2012-NY-FX-0003	1,552	-
Office on Violence Against Women				
Salinas/Monterey County Interlink Project	16.590	2013-WE-AX-0007	98,920	96,323
Bureau of Justice Assistance				
FY 15 Smart Supervision: Reducing Prison Populations, Saving Money, and Creating Safer Communities	16.812	2015-SM-BX-0005	31,169	-

* Denotes major program

See accompanying notes to schedule of expenditures of federal awards

CITY OF SALINAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2017

Federal Grantor, Pass Through Grantor, Cluster, Program Title	Catalog of Federal Domestic Assistance (CFDA) Number	Grant or Pass- Through Number	Federal Expenditures	Amount Provided to Subrecipients
Direct Federal Awards, continued				
Bureau of Justice, Office of Justice Programs - JAG Program				
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2013-DJ-BX-0749	\$ 24,415	
		2015-DJ-BX-0655	491	
		2016-DJ-BX-0614	92,064	
Total Edward Byrne Memorial Justice Assistance Grant Program - CFDA No. 16.738			116,970	\$ 17,607
U.S. Department of Transportation Federal Aviation Administration				
Airport Improvement Program	20.106	AIP 3-06-0206-22	2,580	
		AIP 3-06-0206-23	12,455	
		AIP 3-06-0206-24	8,487	
		AIP 3-06-0206-25	650,453	
Total Airport Improvement Program - CFDA No. 20.106			673,975	-
U.S. Department of Homeland Security				
Federal Emergency Management Agency Staffing for Adequate Fire and Emergency Response	97.083	EMW-2013-FH-00454	581,183	-
Assistance to Firefighters Grant	97.044	EMW-2015-FO-05457	89,860	-
Federal Reimbursements	UNKNOWN	UNKNOWN	6,936	-
Total Direct Federal Awards			5,517,334	2,445,869
Indirect Federal Awards				
U.S. Department of Housing and Urban Development				
Passed through California Department of Housing and Community Development State-Administered CDBG Cluster				
Neighborhood Stabilization Program	14.228	Program Income	100,371	-
U.S. Department of Transportation				
Highway Planning and Construction Cluster				
Passed through Federal Highway Administration	20.205	BPMPL-5045-(034)	40,000	
	20.205	HSIPL 5045 (027)	35,474	
	20.205	HSIPL 50456 (026)	18,009	
	20.205	74A0907	5,835	

* Denotes major program

See accompanying notes to schedule of expenditures of federal awards

CITY OF SALINAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2017

Federal Grantor, Pass Through Grantor, Cluster, Program Title	Catalog of Federal Domestic Assistance (CFDA) Number	Grant or Pass-Through Number	Federal Expenditures	Amount Provided to Subrecipients
Indirect Federal Awards, continued				
U.S. Department of Transportation				
Passed through California Department of Transportation				
HSIP Sanborn/John Street Intersection	20.205	ATPL-5045 (030)	60,000	
HSIP Sanborn Road Improvements	20.205	HSIPL 5045 (032)	72,780	
Passed through Transportation Agency for Monterey County				
Active Transportation Program, Fremont/El Sausal Safe	20.205	ATPL 6143(064)	<u>766,669</u>	
Total Highway Planning and Construction Cluster - CFDA No. 20.205			998,767	-
Passed through State and Community Highway Safety Highway Safety Cluster				
Selective Traffic Enforcement Program	20.600	PT17105 PT1696	34,123 <u>41,651</u>	
Total Highway Safety Cluster - CFDA No. 20.600			75,774	-
Minimum Penalties for Repeat Offenders for Driving While Intoxicated				
DUI Avoid Campaign	20.608	AL1638	74,239	
Selective Traffic Enforcement Program	20.608	PT17105 PT1696	26,963 <u>3,288</u>	
Total Minimum Penalties for Repeat Offenders for Driving While Intoxicated - CFDA No. 20.608			30,251	-
			104,490	26,573
U.S. Department of Justice				
Passed through California Governors Office of Emergency Services				
Project Safe Neighborhood	16.609	US15 02 7902	107,751	-
U.S. Department of Health and Human Services				
Passed through Monterey County Health Department				
Injury Prevention and Control Research and State and Community Based Programs	93.136	5U81CE002072	8,000	-
U.S. Department of Homeland Security				
Passed through California Office of Emergency Services Homeland Security Grant Program*	97.067	2015-00078	<u>234,240</u>	-
Total Indirect Awards			<u>1,629,393</u>	<u>26,573</u>
Total Direct and Indirect Federal Awards			<u>\$ 7,146,727</u>	<u>\$ 2,472,442</u>

* Denotes major program

See accompanying notes to schedule of expenditures of federal awards

CITY OF SALINAS
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2017

1. Summary of Significant Accounting Policies Applicable to the Schedule of Expenditures of Federal Awards

A. Scope of Presentation

The accompanying Schedule of Expenditures of Federal Awards (Schedule) presents the expenditures incurred by the City of Salinas, California (the City) that are reimbursable under programs of federal agencies providing federal awards. For the purposes of this schedule, Federal awards include both federal financial assistance received directly from a federal agency, as well as federal funds received indirectly by the City from a nonfederal 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 was funded with other state, local or other nonfederal funds are excluded.

B. Basis of Accounting

The accompanying schedule of expenditures of federal awards is presented using the modified accrual basis of accounting for governmental funds, which is described in Note 1 of the City's basic financial statements. Such expenditures, as the federal awards were both awarded prior to and after December 24, 2014, are recognized following the cost principles contained in the Uniform Guidance and OMB A-87, Cost Principles for State, Local, and Indian Tribal Governments, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

A. Direct and Indirect (Pass-Through) Federal Awards

Federal awards may be granted directly to the City by a federal granting agency or may be granted to other government agencies which pass-through federal awards to the City. The Schedule includes both of these types of Federal awards programs when they occur.

B. Indirect Cost Rate

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

C. Relationship to Federal Financial Reports

Grant expenditure reports for the year ended 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. The reports will agree at termination of the grant as the discrepancies, if any, are for timing difference.

D. HUD Section 108 Loan

The City has one Section 108 loan outstanding at June 30, 2017. The City has pledged current and future Community Development Block Grants (CDBG) (CFDA #14.218) funds as principal security for the loan. On March 28, 2015, the City executed a note numbered B-12-MC-06-0005 (Community and Economic Development Fund – Industrial Waste Water Conveyance System Project) in the principal amount of \$4,000,000. During the fiscal year ending June 30, 2017, \$77,274 in interest and \$378,000 in principal were paid through the Industrial Waste Fund. As of June 30, 2017, \$3,622,000 of the loan balance is outstanding.

CITY OF SALINAS
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2017

E. Sub-recipients

The City provided federal awards to sub-recipients as follows:

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Amount Provided</u>
U.S. Department of Housing and Urban Development		
Office of Community Planning and Development		
Community Development Entitlement Grant Program	14.218	
Special Programs		
Legal Services for Seniors		\$ 20,000
Alliance on Aging		20,000
Boys and Girls Clubs		20,000
Girls Inc of the Central Coast		10,000
Community Human Services Project		10,000
Food Bank		20,000
Franciscan Workers for Junipero Serra		100,000
Girl Scouts of Monterey Bay		20,000
Grid Alternatives		50,000
Multi Family Housing		300,637
Meals on Wheels		15,000
Partners for Peace		15,844
Suicide Prevention & Crisis Center		15,000
Sunrise House JPA		<u>20,000</u>
Total CFDA No. 14.218		636,481
U.S. Department of Housing and Urban Development		
Emergency Shelter Grants Program	14.231	
Special Programs		
Franciscan Workers for Junipero Serra		69,532
Housing Resource Center of Monterey County		57,087
Interim-Mental Health Wellness		79,724
Community Human Services Project		<u>9,615</u>
Total for CFDA No. 14.231		215,958

CITY OF SALINAS
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2017

Program Title	Federal CFDA Number	Amount Provided
Home Investments Partnership Program	14.239	
Special Programs		
Laguna Haciendas		\$ 7,000
Laguna Haciendas Phase 3		1,015,476
Vista De La Terraza		457,024
Total for CFDA No. 14.239		1,479,500
Total sub-recipients for U.S. Department of Housing and Urban Development		2,331,939
U.S. Department of Justice		
Salinas/Monterey County Community Interlink Project	16.590	
Community Safety Division		
Monterey County District Attorney		874
Monterey County Probation Department		328
United Farm Workers Foundation		5,715
YWCA of Monterey County		89,406
Total for CFDA No. 16.590		96,323
Edward Byrne Memorial Justice Assistance Grant Program	16.738	
Bureau of Justice, Office of Justice Programs - JAG Program		
Monterey County Sheriff's Office		17,607
Total for CFDA No. 16.738		17,607
Total sub-recipients for U.S. Department of Justice		113,930
U.S. Department of Transportation		
Allied Agencies, Outside Services		
DUI Avoid Campaign	20.608	
City of Gonzales		3,451
City Carmel by the Sea		7,907
City of Marina		6,819
City of Seaside		3,487
City of Soledad		895
Monterey County Sheriff's Office		4,014
Total for CFDA No. 20.608		26,573
Total sub-recipients for U.S. Department of Transportation		26,573
Total all sub-recipient awards		\$ 2,472,442

F. Contingencies

Under the terms of federal and state grants, additional audits may be requested by the grantor agencies, and certain costs may be questioned as not being appropriate expenditures under the terms of the grants. Such audits could lead to a request for reimbursement to the grantor agencies.

CITY OF SALINAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2017

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:

Unmodified

Internal control over financial reporting:

Material weakness(es) identified?

☐ Yes ☒ No

Significant deficiency(ies) identified that are not
considered to be material weaknesses?

☐ Yes ☒ None reported

Noncompliance material to financial statements noted?

☐ Yes ☒ No

Federal Awards

Internal control over major programs:

Material weakness(es) identified?

☐ Yes ☒ No

Significant deficiency(ies) identified that are not
considered to be material weaknesses?

☐ Yes ☒ None reported

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

Unmodified

Any audit finding disclosed that are required to be reported in
accordance with 2 CFR Section 500.516(a) of the Uniform Guidance?

☐ Yes ☒ No

Identification of Major Programs

CFDA Number

14.231	U.S. Department of Housing and Urban Development, Emergency Solutions Grants Program
14.239	U.S. Department of Housing and Urban Development, Home Investment Partnerships Program
97.067	U.S. Department of Homeland Security, Homeland Security Grant Program

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

Auditee qualified as low-risk auditee?

☒ Yes ☐ No

Section II – Financial Statement Findings

No financial statements findings for FY 16-17.

Section III – Federal Award Findings and Questioned Costs

No Federal award findings and questioned costs for FY 16-17.

Section IV – Prior Year Findings and Questioned Costs (June 30, 2016) and Current Year Status

No prior year findings or questioned costs.