
**CITY OF GRIDLEY
SINGLE AUDIT AND OTHER REPORTS
FOR THE YEAR ENDED
JUNE 30, 2019**

**MANN, URRUTIA, NELSON, CPAS & ASSOCIATES, LLP
1760 CREEKSIDE OAKS DRIVE, SUITE 160
SACRAMENTO, CALIFORNIA 95833**

**CITY OF GRIDLEY
SINGLE AUDIT AND RELATED REPORTS
FOR THE YEAR ENDED JUNE 30, 2019**

TABLE OF CONTENTS

	<u>Page</u>
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 - 2
Independent Auditor's Report on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance	3 - 4
Schedule of Expenditures of Federal Awards	5
Notes to the Schedule of Expenditures of Federal Awards	6
Schedule of Findings and Questioned Costs	7 - 9
Schedule of Prior Year Findings and Questioned Costs	10 - 11



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

To the City Council of
the City of Gridley
Gridley, 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 Gridley, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the City of Gridley's basic financial statements, and have issued our report thereon dated May 13, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Gridley'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 of Gridley's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Gridley'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 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2019-001 and 2019-002 that we consider significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Gridley'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 of Gridley's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. City of Gridley's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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.

Mann, Urrutia, Nelson CPAs

Sacramento, California
May 13, 2020



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

To the City Council of
the City of Gridley
Gridley, California

Report on Compliance for Each Major Federal Program

We have audited the City of Gridley'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 of Gridley's major federal programs for the year ended June 30, 2019. City of Gridley'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 of Gridley'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 of Gridley'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 of Gridley's compliance.

Opinion on Each Major Federal Program

In our opinion, City of Gridley 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 an instance of noncompliance which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2019-003. Our opinion on each major federal program is not modified with respect to this matter.

City of Gridley's response to the noncompliance finding identified in our audit is described in the accompanying schedule of finding and questioned costs. City of Gridley'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 City of Gridley, 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 of Gridley'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 of Gridley'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 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.

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 of Gridley, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the City of Gridley's basic financial statements. We issued our report thereon dated April 1, 2020, 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.

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.

Mann, Ustrutia, Nelson CPAs

Sacramento, California
May 13, 2020

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

<u>Federal Grantor/Pass-Through Grantor Program</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number/Grant Number</u>	<u>Federal Expenditures</u>
U.S Department of Housing and Urban Development			
Pass-Through State of California Department of Housing and Community Development Block Grant:			
Community Development Block Grants	14.228	Beginning Loan Balance	\$ 2,690,967
Community Development Block Grants	14.228	Program Income	119,406
HOME Investment Partnership Program	14.239	Beginning Loan Balance	<u>7,080,000</u>
Total U.S. Department of Housing and Urban Development			<u>9,890,373</u>
Total Expenditures of Federal Awards			<u><u>\$ 9,890,373</u></u>

**CITY OF GRIDLEY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2019**

NOTE 1: REPORTING ENTITY

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal financial assistance programs of the City of Gridley. The City of Gridley reporting entity is defined in Note 1 of the City's basic financial statements. All federal awards received directly from federal agencies as well as federal awards passed through other government agencies are included on the schedule. When federal awards were received from a pass-through entity, the Schedule of Expenditures of Federal Awards shows, if available, the identifying number assigned by the pass-through entity.

NOTE 2: BASIS OF ACCOUNTING

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the City and is presented on accounting principles generally accepted in the United States of America. The information in this schedule is presented on the accrual basis of accounting and in accordance with requirements of Title 2, U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Costs Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*.

NOTE 3: RELATIONSHIP TO FINANCIAL STATEMENTS

The amounts reported in the accompanying Schedule of Expenditures of Federal Awards agree, in all material respects, to amounts reported within the City's basic financial statements. Federal award revenues are reported principally in the City's financial statements as intergovernmental revenues in the governmental funds.

NOTE 4: CLAIMS

The City of Gridley has received federal grants for specific purposes that are subject to review and audit by the Federal Government pass-through entity. Although such audits could result in expenditure disallowance under grant terms, any required reimbursements are not expected to be material which have not already been recorded.

NOTE 5: INDIRECT COSTS

The City elected not to use the 10% de minimus indirect cost rate, and did not charge indirect costs to federal grants during the year ended June 30, 2019.

NOTE 6: LOANS OUTSTANDING

The programs listed below had the following aggregate Federally funded loans outstanding as of June 30, 2019:

Federal CFDA Number	Program Title	Amount Outstanding
14.228	Community Development Block Grants	\$ 2,690,967
14.239	HOME Investment Partnership Program	<u>7,080,000</u>
		<u>\$ 9,770,967</u>

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

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
Significant deficiencies?	Yes
Material weaknesses?	No
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Significant deficiencies?	None reported
Material weaknesses?	No
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with section 200.516 of the Uniform Guidance?	Yes
Identification of Major Programs:	
HOME Investment Partnerships Program, CFDA - 14.239	
Dollar threshold used to distinguish between type A and type B programs:	\$750,000
Auditee qualified as low-risk auditee?	No

**CITY OF GRIDLEY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
CURRENT YEAR FINDINGS
FOR THE YEAR ENDED JUNE 30, 2019**

SECTION II: FINANCIAL STATEMENT FINDINGS

Findings related to the financial statements which are required to be reported in accordance with Generally Accepted *Government Auditing Standards*:

Finding 2019-001 Negative pooled cash balances (Significant Deficiency)

Criteria

An effective internal control system and timely financial reporting provides reasonable assurance for the safeguarding of assets, the reliability of financial information, and compliance with laws and regulation.

Condition

During our audit procedures to test cash and pooled cash balances, we identified the following:

- We noted 20 funds as of year-end which contained negative pooled cash balances. Many of these funds reported the same negative pooled cash balance in the prior year. This resulted in management proposing a significant number of adjustments to record due to/due from entries to offset the negative pooled cash balances. Many of these adjustments were repeat adjustments from the prior year.

Cause

The City does not have adequate controls in place to effectively monitor pooled cash balances for individual funds.

Effect

The financial statements as presented to the auditors contained misstatements that required adjustments.

Recommendation

- Management needs to improve the City's year-end financial close procedures to review pooled cash balances to ensure funds which should not have pooled cash entries do not contain such balances.
- Management needs to perform procedures to review all funds with negative pooled cash balances and determine if the negative balances and due to/due from entries are appropriate. A due to/due from balance should only be recorded for less than one year. If a due to/due from is recorded for longer than one year, the due to/due from needs to be converted to a formal loan agreement between the funds.

Views of Responsible Officials

We are in agreement and will strive to address this finding and have started to complete a documented process to use in the completion of the 2019-2020 audit.

Finding 2019-002 Funds with negative fund balances and no current year activity (Significant Deficiency)

Criteria

GASB 54: *Fund Balance Reporting and Governmental Fund Type Definitions*, defines special revenue funds as funds used to report proceeds of specific revenue sources that are restricted or committed for specified purposes, other than capital projects or debt service.

Condition

During our audit procedures, we noted that the City's general ledger contains multiple funds designated as special revenue funds which either have had no activity for multiple years, have negative pooled cash balances, have a negative fund balance, or a combination of these three issues. There are 15 special revenue funds which have one or more of these characteristics.

**CITY OF GRIDLEY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
CURRENT YEAR FINDINGS (continued)
FOR THE YEAR ENDED JUNE 30, 2019**

Cause

The City does not have adequate controls in place to ensure accounting records are closed timely and accurately.

Effect

The financial statements as presented to the auditors contained misstatements that required adjustments. The City's financial statement also may not be in compliance with GASB 54.

Recommendation

Management needs to perform procedures to review all open funds in the City and close funds which no longer have activity or a purpose. If there are special revenue funds with negative cash balances which should remain open, management needs to determine if the revenue source for which the fund was opened still exists, or if the General Fund is inappropriately financing the activity of the fund. If the City no longer expects that a substantial portion of the inflows will derive from restricted or committed resources, the fund should be closed and remaining resources should be reported in the general fund or another fund type.

Views of Responsible Officials

We are in agreement and will strive to address this finding and have started to complete a documented process to use in the completion of the 2019-2020 audit.

SECTION III: FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Findings and questioned costs for Federal Awards, which includes audit findings and defined in Section 200.516 of the Uniform Guidance.

Finding 2019-003 Federal Grant Procedures Manual (Uniform Guidance Compliance)

Criteria

Office of Management and Budget (OMB), Title 2 of the U.S. Code of Federal Regulations, Part 200, Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance), subpart D, sections 200.317 - 200.326.

Condition

The City has not updated their procurement policy in accordance with the Uniform Guidance standards.

Cause

City management was unaware of the Uniform Guidance procurement requirements and implementation dates.

Effect

The City's procurement policies and procedures are not in compliance with the Uniform Guidance.

Recommendation

We recommend the City review the Uniform Guidance procurement requirements and update their policy.

Views of Responsible Officials

We are in agreement and will strive to address this finding and have started to complete a documented process to use in the completion of the 2019-2020 audit.

**CITY OF GRIDLEY
SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
JUNE 30, 2019**

Finding 2018-001 Negative pooled cash balances (Significant Deficiency - Repeat Finding)

Condition

During our audit procedures to test cash and pooled cash balances, we identified the following:

- We noted two funds (980 and 982) incorrectly had pooled cash balances as of year-end.
- We noted 20 funds as of year-end which contained negative pooled cash balances. Many of these funds reported the same negative pooled cash balance in the prior year. This resulted in management proposing a significant number of adjustments to record due to/due from entries to offset the negative pooled cash balances. Many of these adjustments were repeat adjustments from the prior year.

Recommendation

- Management needs to improve the City's year-end financial close procedures to review pooled cash balances to ensure funds which should not have pooled cash entries do not contain such balances.
- Management needs to perform procedures to review all funds with negative pooled cash balances and determine if the negative balances and due to/due from entries are appropriate. A due to/due from balance should only be recorded for less than one year. If a due to/due from is recorded for longer than one year, the due to/due from needs to be converted to a formal loan agreement between the funds.

Status

Not implemented

Finding 2018-002 Funds with negative fund balances and no current year activity (Significant Deficiency - Repeat Finding)

Condition

During our audit procedures, we noted that the City's general ledger contains multiple funds designated as special revenue funds which either have had no activity for multiple years, have negative pooled cash balances, have a negative fund balance, or a combination of these three issues. There are 14 special revenue funds which have one or more of these characteristics.

Recommendation

Management needs to perform procedures to review all open funds in the City and close funds which no longer have activity or a purpose. If there are special revenue funds with negative cash balances which should remain open, management needs to determine if the revenue source for which the fund was opened still exists, or if the General Fund is inappropriately financing the activity of the fund. If the City no longer expects that a substantial portion of the inflows will derive from restricted or committed resources, the fund should be closed and remaining resources should be reported in the general fund or another fund type.

Status

Not Implemented.

CITY OF GRIDLEY
SCHEDULE OF PROIR YEAR FINDINGS AND QUESTIONED COSTS (continued)
JUNE 30, 2019

Finding 2018-003 Financial close - beginning net assets do not agree to the prior year ending balances (Significant Deficiency)

Condition

During our procedures to import the City's trial balance, we noted beginning net assets did not agree to the prior year ending net assets in the June 30, 2017 audited financial statements. Upon inquiry with management, it was discovered that multiple audit adjustments from the June 30, 2017 audit had not been properly posted to the City's June 30, 2017 general ledger. Consequentially, financial reports that are being used to make decisions throughout the year do not reflect accurate balances.

Recommendation

As part of the City's year-end financial close process, management needs to perform procedures to ensure beginning net assets for all funds agrees to the prior year ending net assets from the audited financial statements.

Status

Implemented.

Finding 2018-004 Financial Close - Due to/due from account not in balance (Significant Deficiency)

Condition

During our audit procedures to test due to/due from accounts, we noted these accounts did not balance to \$0 in the original trial balance provided to us.

Recommendation

As part of the City's year-end financial close process, management needs to perform procedures to ensure due to/due from accounts balance to \$0 and represent valid short-term borrowings.

Status

Implemented.