

City of Stockton

Stockton, California

Single Audit and Independent Auditors' Reports

For the Year Ended June 30, 2019



**City of Stockton
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 the Honorable Mayor and Members of City Council
of the City of Stockton
Stockton, 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 Stockton, California (the "City"), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated November 27, 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 City'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 were not identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of 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 the Honorable Mayor and Members of City Council
of the City of Stockton
Stockton, California
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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 City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "The Per Group, LLP". The signature is written in a cursive, flowing style.

Santa Ana, California
February 21, 2020



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

Independent Auditors' Report

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

Report on Compliance for Each Major Federal Program

We have audited the City of Stockton, California'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 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 condition 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; the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirement for Federal Awards* (the "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.

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 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.

Report on the Schedule of Expenditures of Federal Awards Required by Uniform Guidance

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated November 27, 2019, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming our 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 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 other 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 basic financial statements as a whole.

To the Honorable Mayor and Members of City Council
of the City of Stockton
Stockton, California
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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.

The PwC Group, LLP

Santa Ana, California
February 21, 2020

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City of Stockton
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2019

Federal Grantor/Pass-Through Grantor Program Title	CFDA Number	Grant Award Number	Federal Expenditures	Amount Provided to Subrecipients
U.S. Department of Housing and Urban Development				
<i>Direct Program:</i>				
Community Development Block Grants/Entitlement Grants	14.218	B-10-MC-06-0026	\$ 284,380	\$ -
Community Development Block Grants/Entitlement Grants	14.218	B-14-MC-06-0026	40,949	-
Community Development Block Grants/Entitlement Grants	14.218	B-15-MC-06-0026	9,671	7,817
Community Development Block Grants/Entitlement Grants	14.218	B-16-MC-06-0026	116,148	115,987
Community Development Block Grants/Entitlement Grants	14.218	B-17-MC-06-0026	1,512,925	109,223
Community Development Block Grants/Entitlement Grants	14.218	B-18-MC-06-0026	1,612,629	224,525
Neighborhood Stabilization Program	14.218	B-08-MN-06-0009	3,776	-
Neighborhood Stabilization Program	14.218	B-11-MN-06-0009	2,740	-
Total Community Development Block Grants/Entitlement Grants			3,583,218	457,552
Emergency Solutions Grant Program	14.231	E-16-MC-06-0026	1,426	-
Emergency Solutions Grant Program	14.231	E-17-MC-06-0026	644,383	628,819
Emergency Solutions Grant Program	14.231	E-18-MC-06-0026	76,380	76,380
Total Emergency Solutions Grant Program			722,189	705,199
HOME Investment Partnership Program	14.239	M-17-MC-06-0221	312,694	-
HOME Investment Partnership Program	14.239	M-18-MC-06-0221	1,759,186	-
Total HOME Investment Partnership Program			2,071,880	-
Total U.S. Department of Housing and Urban Development			6,377,287	1,162,751
U.S. Environmental Protection Agency				
<i>Direct Program:</i>				
Brownfields Assessment and Cleanup Cooperative	66.818	99T74401	5,509	-
Total U.S. Environmental Protection Agency			5,509	-
U.S. Department of Justice				
<i>Pass-Through State of California Office of Emergency Services:</i>				
Violence Against Women Formula Grants	16.588	ST17-03-8019	78,829	18,552
Total Violence Against Women Formula Grants			78,829	18,552
<i>Direct Program:</i>				
Public Safety Partnership and Community Policing Grants	16.710	2014-UL-WX-0004	397,262	-
Public Safety Partnership and Community Policing Grants	16.710	2017-CK-WX-0010	29,972	16,727
Total Public Safety Partnership and Community Policing Grants			427,234	16,727
<i>Pass-Through San Joaquin County District Attorney's Office:</i>				
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2015-DJ-BX-0679	53,167	19,725
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2016-DJ-BX-1007	110,203	77,806
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2017-DJ-BX-0982	221,602	149,997
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2018-DJ-BX-0823	41,537	-
Total Edward Bryne Memorial Justice Assistance Grant Program			426,509	247,528
<i>Equitable Sharing Agreement</i>				
Department of Justice - Asset Forfeiture	16.922	Not applicable	25,766	-
Department of Treasury - Asset Forfeiture	21.016	Not applicable	7,247	-
Total Equitable Sharing Agreement			33,013	-
Total U.S. Department of Justice			965,585	282,807

See accompanying Notes to the Schedule of Expenditures of Federal Awards.

City of Stockton
Schedule of Expenditures of Federal Awards (Continued)
For the Year Ended June 30, 2019

Federal Grantor/Pass-Through Grantor Program Title	CFDA Number	Grant Award Number	Federal Expenditures	Amount Provided to Subrecipients
U.S. Department of Transportation				
<i>Pass-Through State of California Office of Traffic Safety:</i>				
Highway Safety Cluster:				
State and Community Highway Safety	20.600	PT19118	\$ 303,009	\$ -
State and Community Highway Safety	20.600	PT18141	111,207	-
Total Highway Safety Cluster			<u>414,216</u>	<u>-</u>
<i>Pass-Through State of California Department of Transportation:</i>				
Highway Planning and Construction Cluster:				
Harding Way/El Dr Trfc Sig	20.205	HSIPL-5008(128)	8,934	-
EVP System	20.205	HSIPL-5008(125)	105,438	-
BRT IV (MLK Jr Blvd)	20.205	CML-5008(123)	57,707	-
Filbert/Miner Traffic Sig	20.205	CML-5008(130)	14,494	-
Pershing Adaptive TCS	20.205	CML-5008(126)	299,228	-
March Ln Adaptive TCS	20.205	CML-5008(127)	326,807	-
Cal St @ Wshngtn Trfc Sig	20.205	HSIPL-5008(131)	47,404	-
Arch-Airport/B St Signal	20.205	HSIPL-5008(135)	274,411	-
French Camp/I-5 Interchange	20.205	HSIPL-5008(159)	845,125	-
Rapid Flashing Beacons C6	20.205	HSIPL-5008(133)	355,673	-
RESP Traffic Sig Cntrl	20.205	HSIPL-5008(137)	147,075	-
West Lane Ped Access Imp	20.205	HSIPL-5008(136)	14,958	-
ATP-Miner Ave Complete St	20.205	CML-5008(145)	1,903	-
Tam O'Shanter /Castle Oaks	20.205	HSIPL-5008(136)	34,932	-
BUS RAPID TRANSIT I-B	20.205	CML-5008(148)	98,472	-
Bus Rapid Transit Phase V	20.205	CML-5008(149)	100,967	-
Install/Upgrade Bike FAC	20.205	CML-5008(150)	42,007	-
THORNTON At HAMMER & LOWER	20.205	CML-5008(156)	15,771	-
ST RESURFACING FED-AID	20.205	STPL-5008(147)	129,285	-
BRIDGE REHAB/REPLACEMENT	20.205	BPMP-5008(157)	112,270	-
HAWK PED SIGNAL INSTALL	20.205	HSIPL-5008(151)	12,201	-
Pre-EmpDev@ Filbert St/Xtown	20.205	HSIPL-5008(154)	1,531	-
Guardrail, Transition Rail	20.205	HSIPL-5008(152)	3,306	-
Miner Ave Complete St. Ph 1	20.205	ATPL-5008(158)	246,148	-
HUNTER ST DIET/BIKE INSTAL	20.205	HSIPL-5008(155)	29,356	-
2016-17 Street Resurfacing	20.205	STPL-5008(172)	4,236,596	-
WST LN TRS CONTROL SYS	20.205	CML-5008(165)	7,649	-
High Friction Treatment	20.205	HSIPL-5008(153)	44,882	-
Bear Crk/Pixley SI Bike	20.205	CML-5008-(175)	45,673	-
BRIDGE REHAB/REPLACEMENT	20.205	BPMP-5008(177)	98,796	-
Closing gaps to school	20.205	ATPCML-5008-(178)	43,067	-
HSIP 8 CONVT SIGNAL FR PED	20.205	HSIPL-5008(166)	79,508	-
HSIP 8 INSTALL GUARDRAILS	20.205	HSIP-5008(168)	123,156	-
HSIP 8 INSTALL PED XNG 9	20.205	HSIPL-5008(161)	108,032	-
HSIP 8 RAISED MED @ MLK	20.205	HSIPL-5008(167)	19,880	-
HSIP 8 RAISED MED @ PACIF	20.205	HSIPL-5008(164)	55,041	-
HSIP 8 RAISED MED @ EL DO	20.205	HRRRL-5008(163)	17,190	-
HSIP 8 ROAD DIET @ EL DO	20.205	HSIPL-5008(162)	26,971	-
LT TURN ADD @ VARIOUS LOC	20.205	CML-5008(169)	162,041	-
LINCOLN / 8TH ROUNDABOUT	20.205	CML-5008(176)	11,503	-
MARCH LN EBMUD BIKE & PED	20.205	CML-5008(179)	130,458	-
MONTAUBAN/HAMMERTOWN RND	20.205	CML-5008(174)	23,607	-
Pacific Ave/March Ln Intersection	20.205	CML-5008(181)	3,474	-
Real Time Traffic Flow Monitoring	20.205	CML-5008(180)	3,500	-
TAM O'SHANTER/KNICKERBOCK	20.205	CML-5008(173)	63,106	-
Safe Route > School Program	20.205	SRTSLNI-5008(121)	19,614	-
Harrison Elem Safety Improvement	20.205	SRTSL-5008(119)	1,227	-
Total Highway Planning and Construction Cluster:			<u>8,650,374</u>	<u>-</u>
Total U.S. Department of Transportation			<u>9,064,590</u>	<u>-</u>
Total Expenditures of Federal Awards			<u>\$ 16,412,971</u>	<u>\$ 1,445,558</u>

See accompanying Notes to the Schedule of Expenditures of Federal Awards.

City of Stockton
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2019

Note 1 – Reporting Entity

The financial reporting entity consists of the primary government, City of Stockton (the “City”), organizations for which the primary government is financially accountable, and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity’s financial statements to be misleading or incomplete.

The City Council acts as the governing body and is able to impose its will on the following organizations, establishing financial accountability:

- The Stockton Public Financing Authority
- Fiduciary Component Unit:
 Successor Agency of the Former Redevelopment Agency of the City of Stockton

Note 2 – Summary of Significant Accounting Policies

Basis of Accounting

Funds received under the various grant programs have been recorded within the special revenue and capital projects funds of the City. The City utilizes the modified accrual basis of accounting for the special revenue and capital projects funds. The accompanying Schedule of Expenditures of Federal Awards (the “Schedule”) is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations (CFR) Part 2, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the “Uniform Guidance”). Therefore, some amounts presented in the Schedule may differ from amounts presented in, or used in, the preparation of City’s basic financial statements.

Schedule of Expenditures of Federal Awards

The accompanying Schedule 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 State of California, is included in the Schedule. The Schedule was prepared only from the accounts of various grant programs and, therefore, does not present the financial position or results of operations of the City.

Indirect Cost Rate

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

City of Stockton
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2019

Section I – Summary of Auditor’s Results

Financial Statements

Types of report the auditors 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 federal programs:

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

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

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

Identification of major federal programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>	<u>Expenditures</u>
20.205	Highway Planning and Construction Program	\$ 8,650,374
	Total Expenditures of All Major Federal Programs	\$ 8,650,374
	Total Expenditures of Federal Awards	\$ 16,412,971
	Percentage of Total Expenditures of Federal Awards	52.70%

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

Auditee qualified as low-risk auditee under 2 CFR 500.520? No

City of Stockton
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2019

Section II – Financial Statements Findings

A. Current Year Findings and Questioned Costs – Financial Statement Findings

No current year financial statement findings and questioned costs were noted.

City of Stockton
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2019

Section II – Financial Statements Findings (Continued)

A. Prior Year Findings and Questioned Costs – Financial Statement Findings

Finding 2018-001 Accounting System

Condition:

We evaluated the financial systems employed by the City in managing its overall fiscal operations, including processing of billings and payments, preparation of financial reports, budgets, and analysis of trends. These systems form the basis for all financial reporting that is critical to the decision making process, and ultimately, the basis for the financial stability of the City. We found that the systems employed by the City are outdated and are not adequate nor are appropriate for a City of this size and complexity. Specific deficiencies of the system employed include, but are not limited to:

1. Inability to automatically post activity from outsourced operations such as banking, loan servicer, parking, parking tickets, library and other auxiliary systems.
2. There is a sufficiently high volume of manually posted transactions to record daily financial activities due to the lack of integration. Manual entries are time consuming, subject to significant risk of error, and cause delays in monthly and year end close process.
3. Complex processes for the retrieval of data that is needed on a day-to-day basis. In addition, certain key reports used for budgeting and limited financial reporting contain unresolved errors in the data.
4. The library's accounting billing and AR system is not integrated into the City's GL. The City is only able to reconcile the two systems on an annual basis due to the time it consumes.

The result of these overall system deficiencies is a significant degradation in efficiency of staff, who must utilize manual processes or other software products for the recording and reporting of routine financial activity, such as billings, personnel and payroll data, inventories, capital asset, depreciation, budgeting, etc.

Recommendation:

The City is strongly urged to begin the process of review of other software applications that are specifically designed for municipal entities and have the full functionality needed for a City of this size and complexity. These other software applications should be evaluated in light of their general acceptance in cities of this nature and size, the level of internal user support required to operate the software, the training required for users and the cost.

Status:

Finding was resolved during the year ended June 30, 2019.

City of Stockton
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2019

Section II – Financial Statements Findings (Continued)

A. Prior Year Findings and Questioned Costs – Financial Statement Findings (Continued)

Finding 2018-002 Internal Controls

Condition:

While obtaining our understanding of the preparation of the Schedule of Expenditures of Federal Awards (“SEFA”), we noted the following:

1. Public Works Department fails to take responsibility and ownership in reconciling the grant expenditures and report properly in the SEFA.
2. Public Works Department fails to provide grant-related supporting documents to the Administrative Services Department.

Recommendation:

We recommend that the City establish and follow appropriate internal control procedures to ensure that all expenditures of federal awards, grant agreements, grantors for the fiscal year are accurately reported in the SEFA.

Status:

Finding was resolved during the year ended June 30, 2019.

City of Stockton
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2019

Section III – Federal Awards Finding and Questioned Costs

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

No current year findings and questioned costs noted.

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

No prior year findings and questioned costs noted.