

City of Merced

Merced, California

Single Audit Report

For the year ended June 30, 2018

City of Merced
Single Audit Report
For the year ended June 30, 2018

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**INDEPENDENT AUDITORS' 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 Honorable Mayor and Members of the City Council
of the City of Merced
Merced, 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 Merced, California (City), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated March 18, 2019.

Internal Control Over Financial Reporting

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

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

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

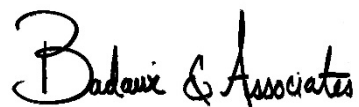
To the Honorable Mayor and Members of the City Council
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Merced, California
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Compliance and Other Matters

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.

A handwritten signature in cursive script that reads "Badawi & Associates".

Badawi & Associates, CPAs
Oakland, California
March 18, 2019



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

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

Report on Compliance for Each Major Federal Program

We have audited the City of Merced, California (City)'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's major federal programs for the year ended June 30, 2018. 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 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 Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

To the Honorable Mayor and Members of the City Council
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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, 2018.

Other Matters

The results of our auditing procedures disclosed no instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance.

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.

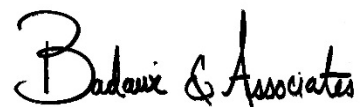
Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any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

To the Honorable Mayor and Members of the City Council
of the City of Merced
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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, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated March 18, 2019, 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.



Badawi & Associates, CPAs
Oakland, California
March 18, 2019

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City of Merced
Schedule of Expenditures of Federal Awards
For the year ended June 30, 2018

Grantor Agency and Grant Title	Federal Catalog Number	Agency or Pass-Through Grantor's Number	Expenditures	Subrecipient Expenditures
U.S. Department of Housing and Urban Development:				
<i>CDBG Entitlement Grants Cluster</i>				
<i>Direct Program</i>				
Community Development Block Grant	14.218	B-15-MC-06-0044	72,307	9,638
Community Development Block Grant	14.218	B-16-MC-06-0044	80,192	12,000
Community Development Block Grant	14.218	B-17-MC-06-0044	754,784	505,208
Neighborhood Stabilization Program	14.218	B-11-MN-06-0012	9,734	-
Subtotal CDBG Entitlement Cluster			917,017	526,846
<i>Direct Program</i>				
HOME Investment Partnership	14.239	M15-MC060227	16,270	13,537
HOME Investment Partnership	14.239	M17-MC060227	30,500	25,000
Subtotal CFDA 14.239			46,770	38,537
Total U.S. Department of Housing and Urban Development			963,787	565,383
U.S. Department of Justice:				
<i>Direct Programs</i>				
COPS Hiring Program (CHP)	16.710	2012UMWX0029	205,347	-
Justice Assistance Grant	16.738	2016-DJ-BX-0526	9,020	-
Total U.S. Department of Justice			214,367	-
U.S. Department of Transportation:				
<i>Highway Planning and Construction Cluster</i>				
<i>Passed through State of California Department of Transportation</i>				
Highway Planning and Construction-CMAQ-Bear Creek Bike Path	20.205	CML- 5085(29)	4,834	-
Highway Planning and Construction-CMAQ-Traffic Signal Synchronization	20.205	CML- 5085(35)	132,980	-
Highway Planning and Construction-CMAQ Traffic Signal at Hwy 59/16 th St	20.205	CML- 5085(40)	2,519	-
Highway Planning and Construction-CMAQ Sidewalk Infill on Oleander Ave	20.205	CML- 5085(43)	52,734	-
Highway Planning and Construction-CMAQ R-turn at Hwy 59/16 th St	20.205	CML- 5085(44)	2,504	-
Highway Planning and Construction-Multi Use Path Crossing	20.205	ATPL- 5085(45)	29,575	-
Subtotal Highway Planning and Construction Cluster			225,146	-
<i>Highway Safety Cluster</i>				
<i>Passed through State of California Office of Traffic Safety</i>				
Selective Traffic Enforcement Program (STEP)	20.600	PT18093	61,239	-
Subtotal Highway Safety Cluster			61,239	-
<i>Passed through California Governor's Office of Emergency Services</i>				
Hazardous Materials Emergency Preparedness (HMEP) Grant	20.703	HM-HMP-0578-16-01	19,904	-
Total U.S. Department of Transportation			306,289	-
Department of Homeland Security				
<i>Federal Emergency Management Agency</i>				
<i>Pass through California Governor's Office of Emergency Services</i>				
Disaster Grants - Public Assistance	97.036	FEMA-4301-DR-CA, CALOES ID: 047-46898	111,570	-
Disaster Grants - Public Assistance	97.036	FEMA-4301-DR-CA, CALOES ID: 047-46898	21,421	-
Total U.S. Department of Homeland Security			132,991	-
Executive Office of the President				
<i>Direct Program</i>				
High Intensity Drug Trafficking Areas Program	95.001	G17CV0004A	14,091	-
Total Executive Office of the President			14,091	-
Total Expenditures of Federal Awards			\$ 1,631,525	\$ 565,383

See accompanying Notes to Schedule of Expenditures of Federal Awards.

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City of Merced

Notes to the Schedule of Expenditures of Federal Awards For the year ended June 30, 2018

1. REPORTING ENTITY

The City of Merced (City) was incorporated in 1889 as a charter city. It has a council-manager form of government. The City Council is composed of six district members elected to serve four-year terms, and the mayor who is elected to serve a two-year term. The City Council appoints the City Manager, City Attorney and Finance Officer. The financial reporting entity consists of: (1) the City; (2) organizations for which the City is financially accountable; and (3) organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The following entities are component units of the City:

- The City of Merced Public Financing and Economic Development Authority
- The City of Merced Parking Authority

Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. In addition, component units can be other organizations for which the primary government's exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

Funds received under various grant programs have been recorded within the General, Special Revenue, Capital Projects, and Enterprise funds of the City. The City utilizes the modified accrual method of accounting for General, Special Revenue and Capital Projects funds and accrual basis of accounting for Enterprise funds. The accompanying Schedule of Expenditures of Federal Awards (SEFA) is presented in accordance with the requirements of the *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in the Schedule of Expenditures of Federal Awards may differ from amounts presented in, or used in, the presentation of the City's basic financial statements.

Schedule of Expenditures of Federal Awards

The accompanying Schedule of Expenditures of Federal Awards 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 of Expenditures of Federal Awards.

The Schedule of Expenditures of Federal Awards was prepared only from accounts of various grant programs and, therefore, does not present financial position or results of operations of the City.

City of Merced

Notes to the Schedule of Expenditures of Federal Awards For the year ended June 30, 2018

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 financial statements. Federal award revenues are reported principally in the City's financial statements as intergovernmental revenues in the General, Special Revenue, Capital Projects, and Enterprise funds.

4. PASS-THROUGH ENTITIES' IDENTIFYING NUMBER

When federal awards were received from a pass-through, the Schedule of Expenditures of Federal Awards shows, if available, the identifying number assigned by the pass-through entity.

5. OUTSTANDING LOANS OF FEDERAL FUNDS AT JUNE 30, 2018

The City administers federal award programs that fund revolving loans. The principal and interest payments collected are returned to the programs. The loans are not considered to have any significant continuing compliance requirements other than the requirement to repay the loans.

The City does monitor loans for income eligibility by reviewing:

- 1). Multi-Family Loans every 3 years, including profit and loss statements and repayment schedules.
- 2). Homeowner Rehabilitation Loans every 5 years.
- 3). First Time Homebuyer Loans every 5 years.

New loans that have been made during the fiscal year are included as part of the schedule of expenditures of federal awards.

The following is a summary of loan programs maintained by the City and their balance as of June 30, 2018.

Program Title	CFDA Number	Amount Outstanding	Prior Year Loans	New Loans
Community Development Block Grants/ Entitlement Grants	14.218	\$ 6,230,049	\$ 5,812,749	\$ 77,190
HOME Investment Partnership Program	14.239	10,885,290	11,501,637	13,558
Community Development Block Grants/ State's Program and Non-Entitlement Grants in Hawaii	14.228	1,508,655	1,541,563	
		<u>\$ 18,623,994</u>	<u>\$ 18,855,949</u>	<u>\$ 90,748</u>

6. INDIRECT COSTS

The City did not elect to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance, and currently does not charge any indirect costs to federal programs.

City of Merced
Schedule of Findings and Questioned Costs
For the year ended June 30, 2018

Section I - Summary of Auditor's Results

Financial Statements

Types of auditors' report issued on whether 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 noted

Any noncompliance material to the financial statements noted No

Federal Awards

Internal control over major programs:

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

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(a) No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster	Expenditures
16.710	Public Safety Partnership and Community Policing Grants	\$ 205,347
20.205	Highway Planning and Construction	225,146
Total Expenditures of All Major Federal Programs		\$ 430,493
Total Expenditures of Federal Awards		\$ 1,631,525
Percentage of Total Expenditures of Federal Awards		26%

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

Auditee qualified as low-risk auditee under section 200.520? Yes

City of Merced
Schedule of Findings and Questioned Costs
For the year ended June 30, 2018

Section II – Current Year Findings

A. Current Year Findings – Financial Statement Audit

No financial statement findings in the current year.

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

No major federal award program findings in the current year.

Section III- Prior Year Findings

A. Prior Year Findings – Financial Statement Audit

No financial statement findings in the prior year.

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

No major federal award program findings in the prior year.