

City of El Cerrito

El Cerrito, California

Single Audit Reports

For the year ended June 30, 2019



City of El Cerrito
Single Audit Reports
For the year ended June 30, 2019
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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**

To the Honorable Mayor and Members of City Council
of the City of El Cerrito
El Cerrito, 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 El Cerrito, California (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 January 31, 2020.

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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiencies described as items 2019-002 in the accompanying schedule of findings and responses to be material weaknesses.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. 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 item 2019-001 that we consider to be significant deficiencies.

To the Honorable Mayor and Members of City Council
of the City of El Cerrito
El Cerrito, 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.

City's Response to Findings

City's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Badawi & Associates". The signature is stylized, with a large, looped "B" at the beginning and a cursive "Badawi & Associates" following.

Badawi & Associates
Certified Public Accountants
Berkeley, CA
March 23, 2020



**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**

To the Honorable Mayor and Members of City Council
of the City of El Cerrito
El Cerrito, California

Report on Compliance for Each Major Federal Program

We have audited the City of El Cerrito, California's (City) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on 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 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.

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 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.

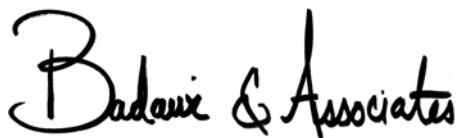
Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any 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 City Council
of the City of El Cerrito
El Cerrito, California
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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, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated January 31, 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.

A handwritten signature in black ink that reads "Badawi & Associates". The signature is stylized, with a large, looped "B" at the beginning.

Badawi and Associates
Certified Public Accountants
Berkeley, California
March 23, 2020, except for the schedule of expenditures of
federal awards, which is as of January 31, 2020

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City of El Cerrito
Schedule of Expenditures of Federal Awards
For the year ended June 30, 2019

Grantor Agency and Grant Title	CFDA Number	State Pass-through Number	Program Expenditures	Subrecipient Payments
U.S. Department of Transportation				
<i>Passed Through the State of California Department of Transportation</i>				
Highway Planning and Construction	20.205	CML-5239 (025)	\$ 1,959,571	-
Subtotal Highway Planning and Construction Grants			1,959,571	-
Total U.S. Department of Transportation			1,959,571	-
Total Expenditures of Federal Awards			\$ 1,959,571	\$ -

See accompanying Notes to Schedule of Expenditures of Federal Awards.

City of El Cerrito

Notes to the Schedule of Expenditures of Federal Awards

For the year ended June 30, 2019

A. Reporting Entity

The City was incorporated on August 1, 1917, under the laws of the State of California and operates under a Council-Manager form of government. The City Council consists of five elected members. The following services are provided by the City to its citizens: public safety, recreation, streets and highways, recycling, public improvements, planning and zoning, and general administration services.

B. Basis of Accounting

Funds received under the various grant programs have been recorded within the general, special revenue, and capital projects funds of the City. The City utilizes the modified accrual basis of accounting for the general, special revenue, and capital projects funds. Expenditures of federal awards reported on the Schedule of Expenditures of Federal Awards (Schedule) are recognized when incurred.

C. Relationship of Schedule of Expenditures of Federal Awards to Financial Statements

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.

D. Pass-Through Entities' Identifying Number

When federal awards were received from a pass-through entity, the Schedule shows, if available, the identifying number assigned by the pass-through entity. When no identifying number is shown, the City determined that no identifying number is assigned for the program or the City was unable to obtain an identifying number from the pass-through entity.

E. Indirect Costs

The City did not elect to use the 10% de minimis indirect cost rate.

City of El Cerrito
Single Audit Reports
Schedule of Findings and Questioned Costs
For the year ended June 30, 2019

Section I - Summary of Auditor's Results

Financial Statements

Types of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? Yes
- Significant deficiency(ies) identified? Yes

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
20.205	Highway Planning and Construction	\$ 1,959,571
	Total Expenditures of All Major Federal Programs	\$ 1,959,571
	Total Expenditures of Federal Awards	\$ 1,959,571
	Percentage of Total Expenditures of Federal Awards	100.0%

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

Auditee qualified as low-risk auditee under
 section 200.520? No

City of El Cerrito
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Schedule of Findings and Questioned Costs
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Section II – Current Year Findings

A. Financial Statement Audit Finding

2019-001 GRANT MANAGEMENT AND ACCOUNTING

Criteria:

Adequate grant management and accounting procedures are necessary to ensure compliance with grant requirements and proper reporting on the financial statements.

Condition:

During the audit, we noted that some grants were tracked by departments other than the Finance Department. There were no communications between the tracking departments and the Finance Departments regarding those grants which resulted in the grant revenue not being accurately reflected in the financial statement. Also, we noted the City accounted for certain grants revenue in special revenue funds but the related expenditures were recorded in the general fund which caused both the special revenue funds and the General Fund equities to be misstated.

Effect:

The lack of adequate grant management and accounting has caused the prior year grant revenues reported on the financial statements to be misstated, equity in the General Fund and some special revenue funds were also misstated and finally the City was not in compliance with the Single Audit requirement in the prior year as a result of not recognizing the grant revenue timely.

Cause:

The above conditions were caused by the lack of communication between departments and the lack of grant tracking and accounting processes.

Recommendation:

We recommend the City to implement adequate tracking and accounting procedures to ensure that the City will remain in compliance with various grant requirements and to ensure proper financial reporting of grant transactions.

Management Response:

The Public Works Department has set up a shared file folder with Finance for all grant reimbursement invoices and grant agreements. Finance will request all grant recipients in other departments to use a unique project code to track grant revenue and expenditures and also set up a shared file folder so that Finance can monitor grant activity. The departments, in consultation with Finance, may elect to use the 10% de minimis indirect cost rate for grant claims.

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2019-002 ABILITY OF THE CITY TO CONTINUE AS A GOING CONCERN

Criteria:

General purpose local governments, regardless of size, at a minimum should maintain a fund balance in the general fund of either 1) no less than 5 to 15 percent of regular general fund operating revenues, or 2) no less than 1 to 2 months of regular general fund operating expenditures.

Condition:

The City's available fund balance in the General Fund was a deficit \$1,707,620. The ability of the City to continue as a going concern and meet required operating obligations is dependent on the City's ability to develop and implement a plan that will successfully increase cash flows.

Cause:

The City has either overspend its budget in the past or the budget was not balanced which depleted available fund balance.

Context and Effect:

Deficiency in fund balances may require significant cost cutting measures to reach a budget that will recoup the negative fund balance as well as provide the necessary revenues and financing for continued operations of the City.

Recommendation:

We recommend the City continue to analyze all potential cost cutting measures and revenue sources, and review options to establish a budget plan for the General Fund and other funds to recoup the deficit fund balance as well as provide continued financing for City operations.

Management Response:

The City was successful in passing a Real Property Transfer Tax measure in November 2018 that has is expected to generate about \$2.7 million cash annually. Additionally, in FY18 the City had already begun receiving about \$0.3 million in cash from its share of sales taxes from the City of Richmond, for sales at Home depot. These two sources combined are expected to generate a steady \$3.0 million in additional General Fund cash annually.

Besides these sources of additional cash flow, several large development/building projects have been permitted recently. These too are expected to generate large one-time fees and ongoing property taxes on completion that will benefit the General Fund for years to come. The City will be taking steps to restore a positive fund balance position through the upcoming biennial budget cycle and expects to successfully achieve this by FY 2021.

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Schedule of Findings and Questioned Costs
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B. Federal Award Program Audit Finding

No findings or questioned costs were noted in the current year.

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Section III - Prior Year Findings

A. Financial Statement Audit Finding

2018-001 FINANCIAL CLOSING AND REPORTING

Criteria:

The City is responsible for fair presentation of the financial statements in conformity with accounting principles generally accepted in the United States of America. In addition, an effective internal control system over financial closing and reporting provides reasonable assurance for the safeguarding of assets, the reliability of financial information, and compliance with laws and regulations.

Condition:

During the performance of the audit, we noted that the City's closing process didn't capture the following year-end closing adjustments:

- Approximately \$970,000 vendor services performed in FY2018 but paid in FY2019 was not accrued as expenditure in FY2018, which also causing the adjustments to capital assets as these expenditures were related to construction services.
- Collection of governmental receivables after 60 days of fiscal year end was not determined as unavailable revenue.

Cause:

The City didn't have procedures and controls implemented to ensure the year-end closing process is completed.

Context and Effect:

Incomplete closing entries increased the risk of misstatement of financial statements.

Recommendation:

We recommend that the City enhance its internal control over financial reporting to ensure complete and accurate financial reporting. The City can accomplish this by expanding its year-end closing procedures to ensure that all nonroutine and nonsystematic transactions were accounted for, the appropriate accounting standards were applied, and transactions were accounted for in the proper period.

Status: Implemented by the City

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2018-002 ABILITY OF THE CITY TO CONTINUE AS A GOING CONCERN

Criteria:

General purpose local governments, regardless of size, at a minimum should maintain a fund balance in the general fund of either 1) no less than 5 to 15 percent of regular general fund operating revenues, or 2) no less than 1 to 2 months of regular general fund operating expenditures.

Condition:

The City's available fund balance in the General Fund was a deficit \$2,233,507. The ability of the City to continue as a going concern and meet required operating obligations is dependent on the City's ability to develop and implement a plan that will successfully increase cash flows.

Cause:

The City has either overspend its budget in the past or the budget was not balanced which depleted available fund balance.

Context and Effect:

Deficiency in fund balances may require significant cost cutting measures to reach a budget that will recoup the negative fund balance as well as provide the necessary revenues and financing for continued operations of the City.

Recommendation:

We recommend the City continue to analyze all potential cost cutting measures and revenue sources, and review options to establish a budget plan for the General Fund and other funds to recoup the deficit fund balance as well as provide continued financing for City operations.

Status: See response to finding 2019-002

City of El Cerrito
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2018-003 INTERFUND BORROWINGS

Criteria:

Long term borrowings between City funds should be approved by the City Council with agreed upon repayment schedules. In addition, classification of interfund borrowings as due to other funds and due from other funds is intended solely for borrowings that are expected to be repaid in a relative short period of time (i.e. less than one year); borrowings that will be repaid over many years should be classified as advances from other funds and advances to other funds.

Condition:

During the performance of the audit, we noted that there was an advance in the General Fund due from the El Cerrito Redevelopment Agency Successor Agency Fund, this advance was not been approved by the City Council.

We also noted that the Capital Improvement Capital Projects Fund and the Integrated Waste Management Enterprise Fund has significant borrowings from the General Fund of \$670,384, and \$317,967 respectively that are classified as due to other funds. We reclassified these inter-fund borrowings as advance to and from on the financial statements, however, the City didn't have a repayment schedule for these borrowings.

Cause:

The borrowing between the General Fund and the El Cerrito Redevelopment Agency Successor Agency Fund was created when there were insufficient monies in the El Cerrito Redevelopment Agency Successor Agency Fund to make payments due to the State of California Department of Finance, as a result a borrowing from the General Fund was recorded.

The City's Capital Project Fund and Integrated Waste Management Fund have been incurring more expenditures than funded, creating an accounting negative cash position in the fund that is reclassified as a due to other fund (i.e. General fund).

Context and Effect:

The classification of these interfund borrowings may be misunderstood to be short term and mislead management and users of the financial statements to believe the General Fund's cash will be returned in a relative short period of time. Not addressing the repayment of these borrowings may cause them to increase in future years and cause cash flow difficulties and possible General Fund borrowings from restricted resources.

Recommendation:

We recommend that the interfund borrowings noted above be formally approved with repayment schedules.

Status: The City determined the funds which didn't have the ability to pay and wrote the borrowing off in the general fund.

City of El Cerrito
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B. Federal Award Audit Finding

Finding: 2018-004

Awarding Agency	U.S. Department of Transportation
Passed through	State Department of Transportation
Program	Highway Planning and Construction
CFDA#	20.205

Criteria:

Per 2 CFR section 200.501 (b), "Single audit. A non-Federal entity that expends \$750,000 or more during the non-Federal entity's fiscal year in Federal awards must have a single audit conducted in accordance with § 200.514 Scope of audit except when it elects to have a program-specific audit conducted in accordance with paragraph (c) of this section."

Per 2 CFR section 200.502(b), "the auditee must also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements which must include the total Federal awards expended as determined in accordance with § 200.502 Basis for determining Federal awards expended."

Per 2 CFR section 200.502, "the determination of when a Federal award is expended must be based on when the activity related to the Federal award occurs."

Condition:

During our audit, we noted that the City had federal awards expended in fiscal years 2018 which were not reported on the Schedules of Expenditures of Federal Awards covering fiscal years 2018 and no single audit was conducted as required.

Cause:

Based on the City's understanding of the preparation of the SEFA, the Federal awards expenditures were reported when the reimbursement requests were submitted rather than when the activity related to the Federal award occurred.

Questioned Costs:

Total federal awards expended under Highway Planning and Construction program but not reported on the SEFA in fiscal years 2018 were \$812,584.

Context and Effect:

The Schedules of Expenditures of Federal Awards for fiscal years 2018 did not report all federal awards expended during those fiscal years as per the criteria above. Also, no single audit was conducted as required.

**City of El Cerrito
Single Audit Reports
Schedule of Findings and Questioned Costs
For the year ended June 30, 2018**

Section III - Prior Year Findings, Continued

B. Federal Award Audit Finding, Continued

Recommendation:

We recommend that the City change its process of preparing the SEFA to ensure that all federal awards expended are reported accurately and timely as prescribed per federal regulations.

Status:

No such instance in the current year.