

City of Coachella

Coachella, California

Single Audit and Independent Auditors' Reports

For the Year Ended June 30, 2018

City of Coachella
Single Audit Report
For the Year Ended June 30, 2018

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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 the Members of City Council
of the City of Coachella
Coachella, 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 Coachella, California (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, and have issued our report thereon dated December 20, 2018.

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 have not been identified.

To the Honorable Mayor and the Members of City Council
of the City of Coachella
Coachella, 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 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 PwC Group, LLP". The signature is written in a cursive, flowing style.

Santa Ana, California
December 20, 2018

**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 the Members of City Council
of the City of Coachella
Coachella, California

Report on Compliance for Each Major Federal Program

We have audited the City of Coachella, 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, 2018. The City's major federal programs are identified in the summary of the 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.

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; 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* (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, 2018.

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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identify certain deficiencies in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as item 2018-001, that we consider to be significant deficiencies.

The City's response to the internal control over compliance findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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.

To the Honorable Mayor and the Members of City Council
of the City of Coachella
Coachella, 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, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated December 20, 2018, 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 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 Expenditures of Federal Awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

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Santa Ana, California
December 20, 2018

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City of Coachella
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2018

Federal Grantor/Pass - Through Grantor Program Title	Federal CFDA Number	Agency or Pass - Through Number	Federal Expenditures
U.S. Department of Housing and Urban Development			
<i>CDBG - Entitlement Grants Cluster:</i>			
<i>Passed through from the County of Riverside</i>			
Community Development Block Grants/Entitlement Grants	14.218	B-17-UC-06-0506	\$ 350,047
Total CDBG Entitlement Grants Cluster			350,047
Total U.S. Department of Housing and Urban Development			350,047
U.S. Department of Transportation			
<i>Highway Planning and Construction Cluster:</i>			
<i>Passed through the State of California Department of Transportation</i>			
Highway Planning and Construction (Federal-Aid Highway Program)	20.205	SRTSL-5294 (012)	194,762
Highway Planning and Construction (Federal-Aid Highway Program)	20.205	BR-NBIL (536)	35,358
Highway Planning and Construction (Federal-Aid Highway Program)	20.205	HPLVLN-5294 (011)	147,757
Highway Planning and Construction (Federal-Aid Highway Program)	20.205	ATPL-5294 (015)	881,529
Total Highway Planning and Construction Cluster			1,259,406
Total U.S Department of Transportation			1,259,406
Total Expenditures of Federal Awards			\$ 1,609,453

City of Coachella
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2018

Note 1 – Reporting Entity

The financial reporting entity, as defined by the Governmental Accounting Standard Board (“GASB”) Codification, consists of the primary government, which is the City of Coachella, California (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 City’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 organization, establishing financial accountability:

- Coachella Sanitary District
- Coachella Water Authority
- Coachella Fire Protection District
- Coachella Financing Authority

Note 2 – Summary of Significant Accounting Policies

Basis of Accounting

Funds received under the various grant programs have been recorded within the special revenue funds and capital project funds of the City. The City’s financial statements are reported using the “*economic resources*” measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue when all eligibility requirements have been met. 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 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 passed through the County of Riverside and the State of California Department of Transportation are included in the Schedule. The Schedule was prepared from only 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 did not elect to use the 10% de minimis cost rate.

Note 3 – Subrecipients

During the year ended June 30, 2018, the District did not provide federal funds to subrecipients.

City of Coachella
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2018

Section I - Summary of Auditor's Results

Financial Statements

Type 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 Reported

Noncompliance material to financial statements noted?

No

Federal Awards

Internal control over major federal programs:

- Material weakness(es) identified?

No

- Significant deficiency(ies) identified?

2018-001

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 2 CFR 200.516(a)?

Yes

Identification of major federal programs:

CFDA Numbers	Major Program or Cluster	Federal Expenditures
20.205	<i>Highway Planning and Construction Cluster</i>	\$ 1,259,406
	Total Expenditures of All Major Federal Programs	\$ 1,259,406
	Total Expenditures of Federal Awards	\$ 1,609,453
	Percentage of Total Expenditures of Federal Awards	78.25%

Dollar threshold used to distinguish between type A and type B programs:

\$750,000

Auditee qualified as low-risk auditee in accordance with 2 CFR 200.520?

Yes

City of Coachella
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2018

Section II – Financial Statement Findings

A. Current Year Findings – Financial Statement

No current year findings were noted.

B. Prior Year Findings – Financial Statement

No prior year findings were noted.

City of Coachella
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2018

Section III – Federal Awards Findings and Questioned Costs

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

2018-001 Procurement, Suspension, and Debarment – Internal Control over Verification Against the System for Award Management (“SAM”)

Identification of the Federal Program:

Catalog of Federal Domestic Assistance (“CFDA”) Number:	20.205
CDFA Title:	Highway Planning and Construction (Federal-Aid Highway Program)
Federal Agency:	Department of Transportation
Pass-Through Entity:	State of California Department of Transportation
Federal Award Number and Award Year:	SRTSL-5294(012), BR-NBIL(536), HPLVLN-5294(011), and ATPL-5294(015)

Criteria or Specific Requirement (Including Statutory, Regulatory, or Other Citation):

Suspension and Debarment - Non-Federal entities are prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred. “Covered transactions” include those procurement contracts for goods and services awarded under a nonprocurement transaction (e.g., grant or cooperative agreement) that are expected to equal or exceed \$25,000 or meet certain other criteria as specified in 2 CFR section 180.220. All nonprocurement transactions entered into by a recipient (i.e., subawards to subrecipients), irrespective of award amount, are considered covered transactions, unless they are exempt as provided in 2 CFR section 180.215.

When a non-Federal entity enters into a covered transaction with an entity at a lower tier, the non-Federal entity must verify that the entity, as defined in 2 CFR section 180.995 and agency adopting regulations, is not suspended or debarred or otherwise excluded from participating in the transaction. This verification may be accomplished by (1) checking the System for Award Management (SAM) Exclusions maintained by the General Services Administration (GSA) and available at <https://www.sam.gov/portal/public/SAM/> (Note: The OMB guidance at 2 CFR part 180 and agency implementing regulations still refer to the SAM Exclusions as the Excluded Parties List System (EPLS)), (2) collecting a certification from the entity, or (3) adding a clause or condition to the covered transaction with that entity (2 CFR section 180.300).

Condition:

During our testing of the Highway Planning and Construction Cluster, we noted that four of the four samples selected for testing did not have documentation on verifying the vendor against the SAM to ensure they were not suspended or debarred from federally-funded programs. The City did not maintain the documentation on their review process over the vendor against the SAM.

Cause:

The City does not have formal policies and process in maintaining paper documentation in regards to their suspension and debarment review process over vendors that provides goods or services to the City’s programs.

City of Coachella
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2018

Section III – Federal Award Findings and Questioned Costs (Continued)

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

2018-001 Procurement, Suspension, and Debarment – Internal Control over Verification Against the System for Award Management (“SAM”) (Continued)

Effect or Potential Effect:

Without verifying whether vendors are suspended or debarred from working on federally-funded projects prior to the contract awarded, the City could be contracting with vendors that are prohibited from working on federally funded projects

Questioned Costs:

None noted.

Context:

See condition above for context of the finding.

Identification as a Repeat Finding, If Applicable:

Not applicable.

Recommendation:

We recommended the City retain documentation of the monitoring of the suspension and debarment process to ensure vendors are not suspended or debarred from federally-funded purchases.

View of Responsible Officials:

The Finance Department will work with the Engineering Department to implement an Internal Control that requires for all projects funded with Federal Funds a print out from the System for Award Management website with the search results to prove that contractors are not suspended or debarred from federally-funded purchases. This print out will be saved in the project file.

City of Coachella
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2018

Section III – Federal Awards Findings and Questioned Costs (Continued)

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

No prior year findings were noted.

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