

CITY OF GRASS VALLEY, CALIFORNIA



**SINGLE AUDIT ACT
REPORTS AND SCHEDULES
FOR THE YEAR ENDED
JUNE 30, 2020**

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CITY OF GRASS VALLEY
Single Audit Act
For the Year Ended June 30, 2020

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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 the City Council
City of Grass Valley
Grass Valley, 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 Grass Valley, California, (City) as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated May 4, 2021.

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) as a basis for designing 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 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 items 2020-001 through 2020-005 that we consider to be significant deficiencies.

To the Honorable Mayor and Members of the City Council
City of Grass Valley
Grass Valley, California

Compliance and Other Matters

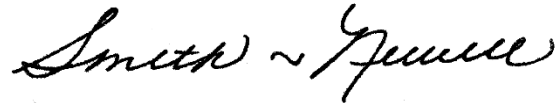
As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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 Responses to Findings

The City's responses to the findings identified in our audit are described in the accompanying management's corrective action plan. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

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



Smith & Newell CPAs
Yuba City, California
May 4, 2021

**INDEPENDENT AUDITOR'S 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
City of Grass Valley
Grass Valley, California

Report on Compliance for Each Major Federal Program

We have audited the City of Grass Valley, 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, 2020. 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, 2020.

To the Honorable Mayor and Members of the City Council
City of Grass Valley
Grass Valley, California

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.

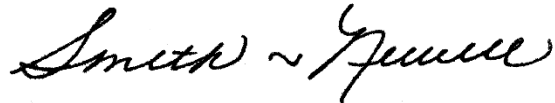
Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any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

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 Members of the City Council
City of Grass Valley
Grass Valley, California

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Grass Valley, California, (City) as of and for the year ended June 30, 2020 and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated May 4, 2021, 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.



Smith & Newell CPAs
Yuba City, California
May 4, 2021

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CITY OF GRASS VALLEY
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2020

<u>Federal Grantor/Pass Through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Grantor/ Pass-Through Grantor Number</u>	<u>Disbursements/ Expenditures</u>
U.S. Department of Housing and Urban Development			
Passed through State Department of Housing and Community Development:			
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	Outstanding Loans	\$ 1,828,477
Home Investment Partnerships Program	14.239	Outstanding Loans	<u>7,914,235</u>
Total U.S. Department of Housing and Urban Development			<u>9,742,712</u>
U.S. Department of Transportation			
Passed through State Office of Traffic Safety:			
Highway Planning and Construction	20.205	CML-5023 (019)	2,277
Highway Planning and Construction	20.205	CML-5023 (021)	<u>4,821</u>
Total U.S. Department of Transportation			<u>7,098</u>
Environmental Protection Agency			
Direct Program:			
Brownfields Assessment and Cleanup Cooperative Agreement	66.818		<u>172,759</u>
Total Environmental Protection Agency			<u>172,759</u>
Total Expenditures of Federal Awards			<u>\$ 9,922,569</u>

See the accompanying Notes to Schedule of Expenditures of Federal Awards

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CITY OF GRASS VALLEY
Notes to Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2020

1. REPORTING ENTITY

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal financial assistance programs of the City of Grass Valley, California (City). The City's reporting entity is defined in Note 1 to the City's basic financial statements. All federal awards received directly from federal agencies as well as federal awards passed through other government agencies are included on the Schedule of Expenditures of Federal Awards. The information in this Schedule is presented in accordance with the 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). Because the Schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position, changes in net position or cash flows of the City.

2. BASIS OF ACCOUNTING

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus applied. The accompanying Schedule of Expenditures of Federal Awards, is presented using the modified accrual basis of accounting for grants accounted for in the governmental fund types and the accrual basis of accounting for grants accounted for in the proprietary fund types, as described in the notes to the City financial statements. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowed or are limited as to reimbursements. In addition, the outstanding balance of prior years' loans that have significant continuing compliance requirements have been included in total federal expenditures.

3. INDIRECT COST RATE

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

4. RELATIONSHIP TO FEDERAL FINANCIAL REPORTS

The amounts reported in the accompanying Schedule of Expenditures of Federal Awards agree or can be reconciled with amounts reported in the related federal financial assistance reports.

5. RELATIONSHIP TO BASIC FINANCIAL STATEMENTS

The amounts reported in the accompanying Schedule of Expenditures of Federal Awards agree or can be reconciled with amounts reported in the City's basic financial statements.

6. PASS-THROUGH ENTITIES' IDENTIFYING NUMBER

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

CITY OF GRASS VALLEY
Notes to Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2020

7. LOANS WITH CONTINUING COMPLIANCE REQUIREMENTS

The City participates in certain federal award programs that sponsor revolving loan programs, which are administered by the City. These programs require servicing arrangements with the City. The funds are returned to the programs upon repayment of the principal and interest. In accordance with Section 200.510 of the Uniform Guidance, the City has reported the outstanding balance of loans from previous years that have significant continuing compliance requirements as of June 30, 2020, along with the value of total outstanding and new loans made during the current year.

The programs listed below had the following aggregate, federally funded loans outstanding at June 30, 2020:

Federal CFDA Number	Program Title	Amount Outstanding	
		July 1, 2019	June 30, 2020
14.228	Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	\$ 1,828,477	\$ 1,704,534
14.239	Home Investment Partnerships Program	<u>7,914,235</u>	<u>8,065,608</u>
	Total Loans Outstanding	<u>\$ 9,742,712</u>	<u>\$ 9,770,142</u>

8. CORONAVIRUS RELIEF FUNDS

The City was certified to receive funding through the Coronavirus Relief Funds passed through the State of California. Expenditures incurred from March to June 2020, will be reported on the City's Schedule of Expenditures of Federal Awards for the fiscal year ending June 30, 2021.

CITY OF GRASS VALLEY
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2020

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements	<u>Status</u>
1. Type of auditor's report issued	Unmodified
2. Internal controls over financial reporting:	
a. Material weaknesses identified?	No
b. Significant deficiencies identified and not considered to be material weaknesses?	Yes
3. Noncompliance material to financial statements noted?	No

Federal Awards

1. Internal control over major programs:	
a. Material weaknesses identified?	No
b. Significant deficiencies identified and not considered to be material weaknesses?	No
2. Type of auditor's report issued on compliance for major programs:	Unmodified
3. Any audit findings disclosed that are required to be reported in accordance with 2 CFR Section 200.516(a)?	No
4. Identification of major programs: 14.239 Home Investment Partnerships Program	
5. Dollar threshold used to distinguish between Type A and Type B programs?	\$750,000
6. Auditee qualified as a low-risk auditee under 2 CFR Section 200.520?	Yes

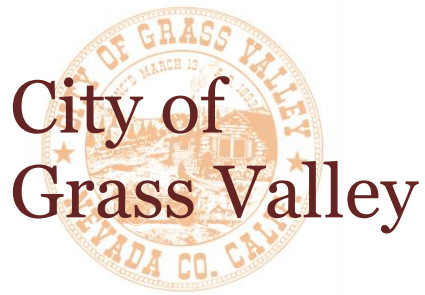
SECTION II - FINANCIAL STATEMENT FINDINGS

Prior Period Adjustment	2020-001
Audit Adjustments	2020-002
Deposits Payable	2020-003
Budget	2020-004
Utility Billing	2020-005

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

None

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**ADMINISTRATIVE
SERVICES DEPARTMENT**

CITY OF GRASS VALLEY, CALIFORNIA

Status of Prior Year Findings and Questioned Costs

And

Corrective Action Plan

For the Year Ended June 30, 2020

Compiled by: Andy Heath, Finance Director

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CITY OF GRASS VALLEY
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2020

2020-001 Prior Period Adjustment (Significant Deficiency)

Criteria

Generally Accepted Accounting Principles require that errors in the prior year ending balances be corrected by a prior period adjustment to beginning fund balance/net position.

Condition

During our audit we noted that the City had reclassified an internal service fund to a special revenue fund, two funds in the prior year had not been included in the audited financial statements, and capital leases had not been adjusted to accurately reflect the balance at the end of the fiscal year.

Cause

Year-end balances were not reviewed for accuracy as of June 30, 2019.

Effect

Beginning fund balance/net position was misstated and required adjustment.

Questioned Cost

No questioned costs were identified as a result of our procedures.

Context

Not applicable.

Repeat Finding

Not a repeat finding.

Recommendation

We recommend that the City review year-end balances to determine that they are correctly stated and adjusted accordingly, as well as appropriately classified.

Views of Responsible Officials and Planned Corrective Action

Refer to separate Management's Corrective Action Plan for views of responsible officials and management's responses.

2020-002 Audit Adjustments (Significant Deficiency)

Criteria

Government auditing standards require independent auditors to evaluate all unadjusted misstatements of financial statements. Also, producing timely audited financial statements is more difficult when adjustments are not recorded prior to the start of the annual audit.

CITY OF GRASS VALLEY
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2020

2020-002 Audit Adjustments (Significant Deficiency) (Continued)

Condition

At the time of our audit, we noted that the financial statements as presented to us for audit contained misstatements in accounts receivable, capital assets, accounts payable, payroll liabilities unavailable revenues, and revenues/expenditures/expenses that required adjustment.

Cause

The City had not reconciled and adjusted all accounts in the general ledger.

Effect

The financial statements as presented to us contained misstatements that required adjustment.

Questioned Cost

No questioned costs were identified as a result of our procedures.

Context

Not applicable.

Repeat Finding

Not a repeat finding.

Recommendation

We recommend that the City reconcile all accounts in a timely manner so that required adjustments can be recorded prior to the start of the annual audit.

Views of Responsible Officials and Planned Corrective Action

Refer to separate Management's Corrective Action Plan for views of responsible officials and management's responses.

2020-003 Deposits Payable (Significant Deficiency)

Criteria

Good internal control over deposits requires that they be reviewed periodically to determine if any amount should be forfeited or refunded.

Condition

We noted that the City is holding deposits for various departments that needed to be refunded.

CITY OF GRASS VALLEY
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2020

2020-003 Deposits Payable (Significant Deficiency) (Continued)

Cause

Deposit balances at year-end had not been reviewed for accuracy.

Effect

The City is holding deposits that should be forfeited or refunded.

Questioned Cost

No questioned costs were identified as a result of our procedures.

Context

Not applicable.

Repeat Finding

Not a repeat finding.

Recommendation

We recommend that deposits payable be reviewed and determined if there are monies that should be forfeited or refunded.

Views of Responsible Officials and Planned Corrective Action

Refer to separate Management's Corrective Action Plan for views of responsible officials and management's responses.

2020-004 Budget (Significant Deficiency)

Criteria

California Government Code requires that appropriate operating budgets be adopted and amended as needed and that expenditures not exceed the approved budget.

Condition

For the year ended June 30, 2020, we noted that the City incurred expenditures in excess of appropriations of \$395,003 in the General fund.

Cause

The City did not amend its budget for changes in the estimate of expenditures during the fiscal year.

CITY OF GRASS VALLEY
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2020

2020-004 Budget (Significant Deficiency) (Continued)

Effect

Expenditures exceeded appropriations by \$395,003 in the General fund.

Questioned Cost

No questioned costs were identified as a result of our procedures.

Context

Not applicable.

Repeat Finding

Not a repeat finding.

Recommendation

We recommend that the City control and monitor expenditures so that they do not exceed the approved budget. If budget revisions are required, we recommend that the City take appropriate action to amend the budget.

Views of Responsible Officials and Planned Corrective Action

Refer to separate Management's Corrective Action Plan for views of responsible officials and management's responses.

2020-005 Utility Billing (Significant Deficiency)

Criteria

Good internal controls over receivables requires that the City maintain adequate supporting documentation to support receipts and billings.

Condition

During fieldwork, we noted that the City did not provide adequate documentation to verify utility billings.

Cause

The City did not provide adequate supporting documentation to verify receipts for utility billing.

Effect

Receipts could not be verified due to lack of supporting documentation.

CITY OF GRASS VALLEY
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2020

2020-005 Utility Billing (Significant Deficiency) (Continued)

Questioned Cost

No questioned costs were identified as a result of our procedures.

Context

We systematically selected 25 receipts to test internal controls over utility billing receipts. Sampling was a statistically valid sample.

Repeat Finding

Not a repeat finding.

Recommendation

We recommend that the City maintain adequate documentation for all receipts to support utility billings.

Views of Responsible Officials and Planned Corrective Action

Refer to separate Management's Corrective Action Plan for views of responsible officials and management's responses.

CITY OF GRASS VALLEY
Management's Corrective Action Plan
For the Year Ended June 30, 2020

2020-001 Prior Period Adjustment (Significant Deficiency)

We recommend that the City review year-end balances to determine that they are correctly stated and adjusted accordingly, as well as appropriately classified.

Management's Response: The City had ceased using the Internal Service Fund for vehicles several years ago and correctly reclassified the fund to a Special Revenue Fund during FY 2019-20 as City implemented a new financial system. Additionally, during the transition to and reconciliation of the financial system, the City found that two Assessment District Funds had not been presented as part of prior financials. Finally, capital leases were not specifically stated as capital leases in the fixed assets ledger.

Responsible Individual: Andy Heath, Finance Director

Corrective Action Plan: Given the transition to the new financial system is completed, these errors will not occur in the future.

Anticipated Completion Date: FY 2020-21

2020-002 Audit Adjustments (Significant Deficiency)

We recommend that the City reconcile all accounts in a timely manner so that required adjustments can be recorded prior to the start of the annual audit.

Management's Response: The City transitioned to a new financial system at the end of FY 2019-20 that required an extraordinary amount of reconciliation and updating of procedures typically used to perform pre-audit work.

Responsible Individual: Andy Heath, Finance Director

Corrective Action Plan: Given the transition to the new financial system is completed, procedures will be updated for pre-audit tasks to assure a seamless FY 2020-21 audit process.

Anticipated Completion Date: FY 2020-21

CITY OF GRASS VALLEY
Management's Corrective Action Plan
For the Year Ended June 30, 2020

2020-003 Deposits Payable (Significant Deficiency)

We recommend that deposits payable be reviewed and determined if there are monies that should be forfeited or refunded.

Management's Response: The City has a number of deposit types currently tracked in the financial system. The majority of the deposits are related to developments that are currently in process and certain developments currently on hold. The City also has certain deposits held for property awaiting adjudication to determine disposition of the funds.

Responsible Individual: Andy Heath, Finance Director

Corrective Action Plan: During FY 2020-21, the City will be reviewing all deposits being held to determine current status and whether or not the funds should continue to be held or recognized as revenue or returned.

Anticipated Completion Date: FY 2020-21

2020-004 Budget (Significant Deficiency)

We recommend that the City control and monitor expenditures so that they do not exceed the approved budget. If budget revisions are required, we recommend that the City take appropriate action to amend the budget.

Management's Response: During FY 2019-20 the City issued a Pension Obligation Bond in which to pay off a portion of the retirement unfunded liability. As a result, the debt service requirements for FY 2019-20 and associated transaction with the new bond issue were not budgetarily adjusted when the transaction occurred.

Responsible Individual: Andy Heath, Finance Director

Corrective Action Plan: During FY 2020-21, staff will assure the budgets for debt service are appropriately stated.

Anticipated Completion Date: FY 2020-21

CITY OF GRASS VALLEY
Management's Corrective Action Plan
For the Year Ended June 30, 2020

2020-005 Utility Billing (Significant Deficiency)

We recommend that the City maintain adequate documentation for all receipts to support utility billings.

Management's Response: During FY 2019-20 the City was required to migrate to a new utility billing system as a result of the company managing the then-existing system going bankrupt. During the transition, many difficulties were experienced as the City worked to reconcile the databases from one system to another and create a documentation process.

Responsible Individual: Andy Heath, Finance Director

Corrective Action Plan: During FY 2020-21, staff will be reconciling the utility billing database and will also be migrating to a new system that will integrate with the recently updated financial system (Tyler Technologies).

Anticipated Completion Date: FY 2020-21