

Federal Awards Reports in Accordance
with the Uniform Guidance
June 30, 2020

City of Fairfield, California

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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 Fairfield, California

We have audited, in accordance with 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 Fairfield, 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 December 3, 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) 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. 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.

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*.

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 "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Sacramento, California
December 3, 2020



Independent Auditor's 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

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

Report on Compliance for Each Major Federal Program

We have audited the City of Fairfield, 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 program is 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 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.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2020-001 and 2020-002. Our opinion on each major federal program is not modified with respect to these matters.

The City's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs and separate corrective action plan. 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.

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 and 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, described in the accompanying schedule of findings and questioned costs as items 2020-001 and 2020-002 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 and separate corrective action plan. 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.

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, 2020, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated December 3, 2020, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. 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.

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

Sacramento, California
March 25, 2021

City of Fairfield, California
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2020

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Expenditures	Amounts Passed- Through to Subrecipients
<u>U.S. Department of Housing and Urban Development</u>				
Direct Programs:				
CDBG-Entitlement Grants Cluster:				
Community Development Block Grant/Entitlement Grants	14.218	B-19-MC-06-0027	\$ 201,025	\$ 46,913
Community Development Block Grant/Entitlement Grants	14.218	Program Income	40,352	-
Subtotal CDBG-Entitlement Grants Cluster			241,377	46,913
Continuum of Care Program	14.267	FR-6200-N-25	62,999	60,225
Housing Voucher Cluster:				
Section 8 Housing Choice Vouchers	14.871	N/A	9,758,365	-
Covid -19 Section 8 Housing Choice Vouchers	14.871	N/A	171,902	-
Subtotal Housing Voucher Cluster			9,930,267	-
Passed through the California Department of Housing and Community Development:				
Home Investment Partnerships Program	14.239	Program Income	422,338	-
Total U.S. Department of Housing and Urban Development			10,656,981	107,138
<u>U.S. Department of Justice</u>				
Direct Programs:				
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2017-DJ-BX-0983	27,224	-
Body Worn Camera Policy and Implementation	16.835	2017-BC-BX-0002	66,360	-
Coronavirus Emergency Supplemental Funding Program	16.034	2020-VD-BX-1538	113,806	-
Total U.S. Department of Justice			207,390	-
<u>U.S. Department of Transportation</u>				
Direct Programs:				
Federal Transit Cluster:				
Federal Transit Formula Grant	20.507	CA-2019-004-01	2,011,458	-
Covid-19 Federal Transit Formula Grant	20.507	CA-2020-085-00	2,002,985	-
Federal Transit Formula Grant	20.507	CA-15-X004	156,873	-
Subtotal Federal Transit Cluster			4,171,316	-
Passed through the California Department of Transportation:				
Highway Planning and Construction Cluster:				
Highway Planning and Construction	20.205	STPL-5132 (045)	1,716,561	-
Total U.S. Department of Transportation			5,887,877	-
<u>U.S. Department of Homeland Security</u>				
Direct Programs:				
Assistance to Firefighters Grant	97.044	EMW-2017-FR-00254	83,875	-
Covid-19 Assistance to Firefighters Grant	97.044	EMW-2020-FG-03100	14,440	-
Subtotal Assistance to Firefighters Grant			98,315	-
Total U.S. Department of Homeland Security			98,315	-
Total Federal Expenditures			\$ 16,850,563	\$ 107,138

Note 1 - Reporting Entity

The financial reporting entity consists of (a) the primary government, City of Fairfield, California (the “City”), (b) organizations for which the primary government is financially accountable, which include the Fairfield Public Financing Authority, Fairfield Municipal Park Improvement District No. 1, Fairfield Storm Drain Facilities Improvement District No. 1, Fairfield Water Facilities Improvement District No. 1, Fairfield Community Facilities Districts and the Housing Authority of the City of Fairfield, and (c) other organizations for which the primary government is not accountable, but for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity’s financial statements to be misleading or incomplete.

Note 2 - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the “Schedule”) includes the federal award activity of the City under programs of the federal government for the year ended June 30, 2020. 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.

Note 3 - Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting for governmental funds and the accrual basis of accounting for proprietary funds, except for subrecipient expenditures, which are reported on the cash basis. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts, if any, shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

Note 4 - Indirect Cost Rate

For the year ended June 30, 2020, the City did not have any federal award activity that included an indirect cost rate, therefore, the City did not elect to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

Section I – Summary of Auditor’s Results

FINANCIAL STATEMENTS

Type of auditor's report issued	Unmodified
Internal control over financial reporting:	
Material weaknesses identified	No
Significant deficiencies identified not considered to be material weaknesses	None reported
Noncompliance material to financial statements noted?	No

FEDERAL AWARDS

Internal control over major program:	
Material weaknesses identified	No
Significant deficiencies identified not considered to be material weaknesses	Yes
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 Uniform Guidance 2 CFR 200.516(a)?	Yes

Identification of major programs:

<u>Name of Major Federal Program (Cluster)</u>	<u>CFDA Number</u>
Housing Voucher Cluster	14.871
Dollar threshold used to distinguish between type A and type B programs:	\$750,000
Auditee qualified as low-risk auditee?	Yes

Section II – Financial Statement Findings

None reported

Section III – Federal Award Findings and Questioned Costs

2020-001 **Program:** Housing Voucher Cluster
CFDA Number: 14.871
Federal Agency: U.S. Department of Housing and Urban Development
Pass-through: N/A
Award Year: 2019/20
Compliance Requirement: Special Tests and Provisions – Selection from the Waiting List
Type of Finding: *Significant Deficiency, Instance of Noncompliance*

Criteria:

24 CFR 982.204(a) states that participants must be selected from the Public Housing Authority's (PHA) waiting list, and the PHA must select participants must be selected in accordance with admission policies in the PHA's administrative plan.

When selecting for admission using local preferences, 24 CFR 982.207(e) states that the method for selecting applicants from a preference category must leave a clear audit trail that can be used to verify that each applicant has been selected in accordance with the method specified in the administrative plan.

Per 2 CFR 200.303, the non-Federal entity must establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. This includes internal controls over maintaining eligibility records, including documents to support the agency's eligibility determination and information about each individual and benefits paid to or on behalf of the individual.

Condition:

We found 10 instances in which documentation showing that the new admissions applicants were selected from the waiting list in accordance with the PHA's wait list tenant selection policy was unavailable. Additionally, we found 2 instances in which no documentation was available to evidence that the applicants that reached the top of the wait list was selected for admission in accordance with the PHA's tenant selection policy. Furthermore, we found no evidence of review of tenants selected from the wait list by a person separate from the selection process to determine whether the tenants were selected in accordance with the PHA's tenant selection policy.

Cause:

The documentation of the selection of the applicant from the wait list was not available.

Effect:

The City has not complied with the requirements of 24 CFR 982.204(a), 24 CFR 982.207(e), 2 CFR 200.303, and the special tests and provisions – selection from the waiting list.

Questioned Costs:

None reported.

Context/Sampling:

A nonstatistical sample of 10 new admissions out of 66 new admissions were selected for special tests and provisions – selection from wait list testing (new admissions).

Management asserted that selections from the wait list were conducted twice in 2019/20. We selected 2 out of the 2 selection periods for special tests and provisions – selection from the wait list testing (top applicants). For each selection period, we selected the top applicant from the wait list.

Repeat Finding from Prior Year(s):

No.

Recommendation:

We recommend that the City strengthen its procedures related to documenting the selection of new admissions from the wait list to evidence compliance with the PHA's tenant selection policy and establish documented internal controls to evidence review of the tenant selections from the wait list by an individual separate from the selection process. We also recommend that the City establish procedures to ensure that the documentation be accessible to multiple employees in the event that the responsible individual is unavailable.

Views of Responsible Officials and Plan Correction Action:

Management's Response:

We concur.

Views of Responsible Official and Correction Action Plan:

The PHA concurs with the finding indicated above. The FHA is a small full service PHA with minimal staff to run and operate the Section 8 Housing Choice Voucher program. PHA management will therefore initiate the following corrective action to prevent such occurrences in the future.

PHA staff has already re-sorted the waitlist in numerical order in accordance with the FHA Administrative Plan (eg; position on waitlist, date, time, and preference). The re-sort did not alter recipients place on the waitlist, rather it made it easy to identify recipients in numerical order related to their placement. A dated digital and hard copy of the waitlist will be maintained in secure folders at the PHA to ensure that appropriate staff has access to the information.

A sign off sheet has been created that requires both a Lead Specialist and Section 8 manager's review and signature of all waitlist actions. In the event of a waitlist pull, both signatures will be required to provide checks and balances that actions associated with the waitlist are consistent with the FHA's Administrative Plan. The sign off sheet will allow PHA staff to include comments to highlight any irregularities associated with each pull. Monthly, the Director of Housing Services will review the waitlist folder to ensure that the process is consistently maintained.

Name of Responsible Individual:
Nicole Holloway, Housing Division Manager

Anticipated Implementation Date:
March 22, 2021

See separate corrective action plan.

2020-002

Program: Housing Voucher Cluster

CFDA Number: 14.871

Federal Agency: U.S. Department of Housing and Urban Development

Pass-through: N/A

Award Year: 2019/20

Compliance Requirement: Special Tests and Provisions – Reasonable Rent

Type of Finding: *Significant Deficiency, Instance of Noncompliance*

Criteria:

24 CFR 982.128(f)(7) states that records to document the basis for PHA determination that rent to owner is a reasonable rent (initially and during the term of a housing assistance payment (HAP) contract).

Condition:

We found an instance in which the evidence of the determination of the reasonable rent to the owner at an initial leasing was not retained by the PHA.

Cause:

The documentation to evidence the determination of the reasonable rent to the owner at an initial leasing was not retained by the PHA.

Effect:

The City has not complied with the requirements 24 CFR 982.128(f)(7) and the special tests and provisions – reasonable rent.

Questioned Costs:

None reported.

Context/Sampling:

A nonstatistical sample of 14 new admissions out of 66 new admissions were selected for special tests and provisions – reasonable rent.

Repeat Finding from Prior Year(s):

No.

Recommendation:

We recommend that the City strengthen its procedures to ensure that documentation of the determination of the reasonable rent at the initial leasing is retained.

Views of Responsible Officials and Plan Correction Action:

Management's Response:
We concur.

Views of Responsible Official and Correction Action Plan:

The PHA concurs with the finding indicated above. The Rent Reasonableness assessments were available for all of the sample files with the exception of one. This Rent Reasonableness Assessment for this one item was unfortunately misplaced.

Going Forward, PHA Staff will increase training and review of files to ensure that all required documents and forms are maintained for each program recipient. PHA Administrative staff will also try to maximize the use of the HAPPY software program and digitize file documents to ensure backup documents are maintained outside of the hard copy files.

Name of Responsible Individual:
Nicole Holloway, Housing Division Manager

Anticipated Implementation Date:
March 22, 2021

See separate corrective action plan.

None reported.