

**CITY OF HIGHLAND  
HIGHLAND, CALIFORNIA**

**SINGLE AUDIT OF FEDERALLY  
ASSISTED GRANT PROGRAMS**

**JUNE 30, 2014**

CITY OF HIGHLAND

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

The Honorable Mayor and City Council  
City of Highland  
Highland, 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, each major fund, and the aggregate remaining fund information of the City of Highland (the City), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated November 17, 2014.

**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.

## **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 cursive script that reads "White Nelson Dick Evans LLP".

Irvine, California  
November 17, 2014

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR  
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER  
COMPLIANCE REQUIRED BY OMB CIRCULAR A-133 AND ON THE  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The Honorable Mayor and City Council  
City of Highland  
Highland, California

**Report on Compliance for Each Major Federal Program**

We have audited the City of Highland's (the City) compliance with the types of compliance requirements described in the *OMB Circular A-133 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, 2014. The City's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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, 2014.

## **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 OMB Circular A-133, 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

## Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Highland, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated November 17, 2014, 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 OMB Circular A-133 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.

*White Nelson Dick Evans LLP*

Irvine, California  
November 17, 2014

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
AND  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

CITY OF HIGHLAND

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended June 30, 2014

Federal Grantor / Pass - Through Grantor / Program	Catalog of Federal Domestic Assistance Number	Program Identification Number	Federal Expenditures	Amount Provided to Subrecipients
<u>U.S. Department of Housing and Urban Development:</u>				
Passed Through the County of San Bernardino:				
Community Development Block Grant	14.218	118-21235/1355	\$ 123,997	\$ 123,997
		118-20927/1219	23,000	23,000
		118-30127/2620	9,030	9,030
		118-39127/3690	5,000	5,000
		118-29127/2443	11,143	11,143
		118-38105/3671	111	-
		118-37105/3624	357,800	-
Total U.S. Department of Housing and Urban Development			<u>530,081</u>	<u>172,170</u>
<u>U.S. Department of Justice:</u>				
Direct Assistance:				
Edward Byrne Memorial Justice Assistance Grant	16.738	2010-08	2,284	-
		2011-DJBX-2642	4,470	-
Total U.S. Department of Justice			<u>6,754</u>	<u>-</u>
<u>U.S. Department of Transportation:</u>				
Passed-through the California State Department of Transportation:				
Highway Planning & Construction	20.205	BRLO-5449 (014)	1,237,677	-
		BRLO-5449 (015)	4,038,806	-
		HSIPRLE 5449 (023)-L22E	238,124	-
Total U.S. Department of Transportation			<u>5,514,607</u>	<u>-</u>
<u>U.S. Department of Homeland Security:</u>				
Passed-through the County of San Bernardino:				
Homeland Security Grant Program	97.036	2013-00110	20,798	-
Total U.S. Department of Homeland Security			<u>20,798</u>	<u>-</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 6,072,240</u>	<u>\$ 172,170</u>

See Accompanying Independent Auditors' Report on Compliance for Each Major Program and on Internal Control over Compliance Required by OMB Circular A-133 and on the Schedule of Expenditures of Federal Awards (pages 3 through 5) and Notes to Schedule of Expenditures of Federal Awards (page 7).

CITY OF HIGHLAND

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended June 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES APPLICABLE TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:

A. Scope of Presentation:

The accompanying Schedule of Expenditures of Federal Awards presents only the expenditures incurred by the City of Highland (the City) that are reimbursable under programs of federal agencies providing federal awards. For the purposes of this schedule, federal awards include both federal financial assistance received directly from a federal agency, as well as federal funds received indirectly by the City from a non-federal agency or other organization. Only the portion of program expenditures reimbursable with such federal funds is reported in the accompanying schedule. Program expenditures in excess of the maximum federal reimbursement authorized or the portion of the program expenditures that were funded with other state, local or other non-federal funds are excluded from the accompanying schedule.

B. Basis of Accounting:

The accompanying Schedule of Expenditures of Federal Awards is presented using the modified accrual basis of accounting for governmental funds, which is described in the Note 1 of the notes to the City's financial statements.

C. Relationship to Comprehensive Annual Financial Report:

Amounts reported in the accompanying Schedule of Expenditures of Federal Awards agree to amounts reported within the City's Comprehensive Annual Financial Report.

D. Relationship to Federal Financial Report:

Amounts reported in the accompanying Schedule of Expenditures of Federal Awards agree with amounts reported in federal financial reports.

E. Contingencies:

Under the terms of federal and state grants, additional audits may be requested by the grantor agencies, and certain costs may be questioned as not being appropriate expenditures under the terms of the grants. Such audits could lead to a request for reimbursement to the grantor agencies.

See Accompanying Independent Auditors' Report on Compliance for Each Major Program and on Internal Control over Compliance Required by OMB Circular A-133 and on the Schedule of Expenditures of Federal Awards (pages 3 through 5) and Schedule of Expenditures of Federal Awards (page 6).



CITY OF HIGHLAND

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(CONTINUED)

For the year ended June 30, 2014

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS:

None noted.

3. FINDINGS AND QUESTIONED COSTS FOR MAJOR FEDERAL AWARDS PROGRAMS:

None noted.

See Accompanying Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing* Standards and Independent Auditors' Report on Compliance for Each Major Program and on Internal Control over Compliance Required by OMB Circular A-133 and on the Schedule of Expenditures of Federal Awards (pages 1 through 5).

CITY OF HIGHLAND

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

For the year ended June 30, 2014

There were no findings or questioned costs reported for the year ended June 30, 2013.

See Accompanying Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing* Standards and Independent Auditors' Report on Compliance for Each Major Program and on Internal Control over Compliance Required by OMB Circular A-133 and on the Schedule of Expenditures of Federal Awards (pages 1 through 5).