

**CITY OF HIGHLAND
HIGHLAND, CALIFORNIA**

**SINGLE AUDIT OF FEDERALLY
ASSISTED GRANT PROGRAMS**

JUNE 30, 2016

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, 2016, 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 7, 2016.

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be a material weakness. See Finding Number 2016-001.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

City's Response to Finding

The City's response to the finding 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 the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.

White Nelson Dickel Evans LLP

Irvine, California
November 7, 2016

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE AND ON
THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

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 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, 2016. 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 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* (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, 2016.

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.

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

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, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated November 7, 2016, 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.

White Nelson Dick Evans LLP

Irvine, California
November 7, 2016

**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, 2016

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	HIGH-15-1-15Z/1355	\$ 123,997	\$ -
		HIGH-15-1-05A/1219	24,000	24,000
		HIGH-15-2-05D/2620	6,530	6,530
		HIGH-15-1-05D/3690	7,000	7,000
		HIGH-15-2-05Z/2443	11,632	11,632
		HIGH-15-1-05H/7507	12,000	12,000
		118-38105/3671	45,185	-
Total U.S. Department of Housing and Urban Development			<u>230,344</u>	<u>61,162</u>
<u>U.S. Department of Justice:</u>				
Passed Through the County of San Bernardino:				
Edward Byrne Memorial Justice Assistance Grant	16.738	2013-DJBX-0874	10,153	-
		2014-DJBX-0716	12,307	-
Total U.S. Department of Justice			<u>22,460</u>	<u>-</u>
<u>U.S. Department of Transportation:</u>				
Passed Through the California State Department of Transportation:				
Highway Planning and Construction	20.205	BRLO-5449 (015)	487,866	-
		BRLSN-5449 (034)	3,207	-
		BR-NBIL (505)	8,887	-
		PNRSL 5449 (033)	1,462	-
		HISPL 5449 (011)	20,425	-
		HSIPL 5449 (025)	25,993	-
		SRTSL 5449 (027)	1,587	-
		SRTSL 5449 (026)	837	-
Total U.S. Department of Transportation			<u>550,264</u>	<u>-</u>
<u>U.S. Department of Homeland Security:</u>				
Passed Through the San Bernardino County Fire Protection District:				
Homeland Security Grant Program	97.067	2014-00093	15,255	-
		2015-00093	14,472	-
Total U.S. Department of Homeland Security			<u>29,727</u>	<u>-</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 832,795</u>	<u>\$ 61,162</u>

See accompanying notes to schedule of expenditures of federal awards.

CITY OF HIGHLAND

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended June 30, 2016

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

A. Basis of Presentation:

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of the City of Highland (the City) under programs of the federal government as well as federal financial assistance passed through other government agencies for the year ended June 30, 2016. 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 statements of the City. The City's reporting entity is defined in Note 1 of the notes to the City's financial statements.

B. Summary of Significant Accounting Policies:

Expenditures reported on the Schedule are reported using the modified accrual basis of accounting for governmental funds and the accrual basis for proprietary funds, which is described in Note 1 of the notes to the City's financial statements. Such expenditures are recognized following the cost principles contained in the Uniform Guidance and OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

C. Indirect Cost Rate:

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

D. Relationship to Comprehensive Annual Financial Report:

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

E. Relationship to Federal Financial Report:

Amounts reported in the accompanying Schedule agree with amounts reported in federal financial reports.

F. 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.

CITY OF HIGHLAND

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the year ended June 30, 2016

1. SUMMARY OF AUDITORS' RESULTS:

Financial Statements

Type of auditors' report issued:

- Unmodified

Internal control over financial reporting:

- Material weakness identified? yes no
See Finding Number 2016-001
- Significant deficiency identified? yes none reported

Noncompliance material to financial statements noted: yes no

Federal Awards

Internal control over major programs:

- Material weakness identified? yes no
- Significant deficiency identified? yes none reported

Type of auditors' report issued on compliance for major programs:

- Unmodified

Any audit findings disclosed that are required to be reported in accordance 2 CFR Section 200.516(a)? yes no

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
20.205	U.S. Department of Transportation Highway Planning and Construction

Dollar threshold used to distinguish between Type A and Type B programs: \$ 750,000

Auditee qualified as low-risk auditee? yes no

CITY OF HIGHLAND

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(CONTINUED)

For the year ended June 30, 2016

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS:

MATERIAL WEAKNESS

Finding Number 2016-001

Condition

The City did not record additions to construction in progress in the proper period.

Criteria

The City is required to produce financial statements that are free of material misstatements.

Cause

Prior year additions were missed by City staff.

Effect

The beginning balance of the capital assets was restated by approximately \$1,087,000 in the governmental activities net position.

Recommendation

We recommend that the City implement procedures and processes to ensure that capital assets are recorded in the proper period.

Management's Response

Finance and Public Works staff will meet monthly to determine which projects will be capitalized and which projects will be placed in CIP. This will help ensure that CIP is not being under reported in the future.

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

None noted.

CITY OF HIGHLAND

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

For the year ended June 30, 2016

FINDINGS RELATED TO THE FINANCIAL STATEMENTS

MATERIAL WEAKNESS

Finding Number 2015-001

Condition

The City did not record additions to construction in progress in the proper period. In addition, several depreciable assets were not being depreciated.

Recommendation

We recommend that the City implement procedures and processes to ensure that capital assets are recorded and depreciated in the proper period.

Current Status

Similar finding noted in the 2016 audit, see Finding Number 2016-001.

SIGNIFICANT DEFICIENCIES

Finding Number 2015-002

Condition

In our review of the financial statements, we noted that the City has several funds with negative fund balances.

Recommendation

We recommend that the City review individual fund balances, and accordingly, adjust current and future budgets to either reduce expenditures or increase revenues to remove the negative fund balances.

Current Status

No similar findings noted in the 2016 audit.

CITY OF HIGHLAND

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
(CONTINUED)

For the year ended June 30, 2016

COMPLIANCE AND OTHER MATTERS

Finding Number 2015-003

Condition

The annual report for the successor housing entity was not posted to the City's website for fiscal year 2013-2014.

Recommendation

We recommend that the City implement policies and procedures to ensure reporting of all required elements for SB 341.

Current Status

No similar findings noted in the 2016 audit.

FINDINGS AND QUESTIONED COSTS FOR MAJOR FEDERAL AWARDS PROGRAMS

There were no findings or questioned costs related to major federal awards programs reported for the year ended June 30, 2015.