

CITY OF HIGHLAND

**Single Audit Report on
Federal Award Programs**

June 30, 2017

CITY OF HIGHLAND
SINGLE AUDIT REPORT ON FEDERAL AWARD PROGRAMS
Year Ended June 30, 2017

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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***

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 (City), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated January 19, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion 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 may exist that were not identified. 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.

Van Lant + Fankhaed, LLP

January 19, 2018



**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 Uniform Guidance**

City Council
City of Highland
Highland, California

Report on Compliance for Each Major Federal Program

We have audited the City of Highland's 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, 2017. 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 of Highland, 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, 2017.

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, 2017, and the related notes to the financial statements, which collectively comprise the City's basic

financial statements. We issued our report thereon dated January 19, 2018, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming an opinion 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 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.

Van Lant & Fankhaed, LLP

January 19, 2018

CITY OF HIGHLAND
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2017

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Program Identification Number	Total Federal Expenditures
<i>Department of Housing and Urban Development</i>			
CDBG - Entitlement Grants Cluster			
Passed through the County of San Bernardino:			
Community Development Block Grant	14.218	HIGH-16-1-15Z/1355	\$ 114,020
Community Development Block Grant	14.218	HIGH-16-1-05A/1219	24,000
Community Development Block Grant	14.218	HIGH-16-2-05D/2620	6,180
Community Development Block Grant	14.218	HIGH-16-2-05Z/2443	<u>11,632</u>
<i>Total Department of Housing and Urban Development Programs</i>			<u>155,832</u>
<i>Department of Justice</i>			
Passed through the County of San Bernardino:			
Justice Assistance Grant	16.738	D97301-15	7,784
Justice Assistance Grant	16.738	601490-15	<u>8,000</u>
<i>Total Department of Justice Programs</i>			<u>15,784</u>
<i>Department of Transportation</i>			
Highway Planning and Construction Cluster			
Passed through the California Department of Transportation:			
Highway Planning and Construction	20.205	BRLSN-5449 (034)	3,501
Highway Planning and Construction	20.205	BR-NBIL 5449 (505)	258,608
Highway Planning and Construction	20.205	PNRSL 5449 (033)	54,317
Highway Planning and Construction	20.205	HISPL 5449 (011)	539,304
Highway Planning and Construction	20.205	SRTS 5449 (027)	2,479
Highway Planning and Construction	20.205	SRTS 5449 (026)	<u>1,950</u>
<i>Total Department of Transportation Programs</i>			<u>860,159 *</u>
<i>Department of Homeland Security</i>			
Passed through San Bernardino County Fire Protection District:			
Homeland Security Grant Program	97.067	2016-00102	15,834
Homeland Security Grant Program	97.067	2016-00093	<u>13,160</u>
<i>Total Department of Homeland Security Programs</i>			<u>28,994</u>
Total Expenditures of Federal Awards			<u>\$ 1,060,769</u>

* = Major Program

CITY OF HIGHLAND
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2017

1) 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, 2017. 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.

2) 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.

3) Indirect Cost Rate

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

4) Relationship to Comprehensive Annual Financial Report

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

5) Relationship to Federal Financial Report

Amounts reported in the accompanying Schedule agree with amounts reported in Federal Financial Report.

6) 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
Year Ended June 30, 2017

SECTION I – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of Auditor’s Report Issued:	Unmodified
Internal Control Over Financial Reporting:	
Material Weakness(es) Identified?	No
Significant Deficiencies Identified not Considered to be Material Weaknesses?	No
Noncompliance Material to Financial Statements Noted?	No

Federal Awards

Internal Control Over Major Programs:	
Material Weakness(es) Identified?	No
Significant Deficiencies Identified not Considered to be Material Weaknesses?	No
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?	No

Identification of Major Programs:

CFDA Numbers	Name of Federal Program or Cluster
20.205	Highway Planning and Construction

Dollar Threshold used to Distinguish Between Type A And Type B Programs:	\$ <u>750,000</u>
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Auditee Qualified as Low-Risk Auditee?	No
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CITY OF HIGHLAND
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2017

SECTION II – FINANCIAL STATEMENT FINDINGS

There were no auditor's findings to be reported in accordance with *Government Auditing Standards*.

CITY OF HIGHLAND
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2017

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There were no auditor's findings to be reported in accordance with *Uniform Guidance*.

CITY OF HIGHLAND
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended June 30, 2017

SECTION II – FINANCIAL STATEMENT FINDINGS

2016-001: The City did not record additions to construction in progress in the proper period

Current Status: Corrective action has been taken. Finance and Public Works staff now meet monthly to ensure that CIP is not being under-reported. Additionally, the City hired a consultant to do their infrastructure inventory update.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There were no auditor's findings to be reported in accordance with the Uniform Guidance.