

CITY OF CITRUS HEIGHTS, CALIFORNIA

COMPLIANCE REPORTS

June 30, 2017

CITY OF CITRUS HEIGHTS, CALIFORNIA

COMPLIANCE REPORTS

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*

To the Honorable Mayor and Members of the City Council
City of Citrus Heights, 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 Citrus Heights, California (the 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 8, 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 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 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 identified a deficiency in internal control, described in the accompanying schedule of findings and questioned costs as Finding 2017-001 that we consider to be a material weakness.

To the Honorable Mayor and Members of the City Council
City of Citrus Heights, 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 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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as Finding 2017-002.

City's Response to Findings

The City's response and planned corrective action to the findings identified in our audit is included at the end of this report. 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 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.

Richardson & Company, LLP

January 8, 2018



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

To the Honorable Mayor and Members of the City Council
City of Citrus Heights, California

Report on Compliance for Each Major Federal Program

We have audited the City of Citrus Heights, California's (the City) compliance with the types of compliance requirements described the *OMB Compliance Supplement* that could have a direct 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 of America; 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, 2017.

To the Honorable Mayor and Members of the City Council
City of Citrus Heights, California

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs at finding 2017-002. Our opinion on the major federal program is not modified with respect to this matter.

The City's response and planned corrective action to the noncompliance findings identified in our audit is included at the end of this report. 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 or 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 identified a deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as Finding 2017-002, that we consider to be a significant deficiency.

The City's response and planned corrective action to the noncompliance findings identified in our audit is included at the end of this report. 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 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, 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 8, 2018, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on

To the Honorable Mayor and Members of the City Council
City of Citrus Heights, California

the financial statements that collectively comprise the City's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by 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.

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.

Richardson & Company, LLP

March 22, 2018

CITY OF CITRUS HEIGHTS, CALIFORNIA
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2017

A. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

- | | |
|--|------------|
| 1. Type of auditor's report issued: | Unmodified |
| 2. Internal control over financial reporting: | |
| a. Material weaknesses identified? | Yes |
| b. Significant deficiencies identified not considered to be material weaknesses? | No |
| 3. Noncompliance material to financial statements noted? | Yes |

Federal Awards

- | | |
|--|------------|
| 1. Internal control over major programs: | |
| a. Material weaknesses identified? | No |
| b. Significant deficiencies identified not considered to be material weaknesses? | Yes |
| 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)? | Yes |

4. Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
14.218	Community Development Block Grant

- | | |
|---|-----------|
| 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 200.516(a)? | Yes |

CITY OF CITRUS HEIGHTS, CALIFORNIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2017

B. CURRENT YEAR FINDINGS – FINANCIAL STATEMENT AUDIT

Finding 2017-001 - Year-End Closing Procedures

Condition Found: The City’s Administrative Services Department staff were not able to reconcile all transaction classes and fully close the books prior to the start of audit fieldwork, resulting in entries being posted throughout the audit.

Criteria: Documented closing procedures should be in place that ensure all transaction classes are reconciled and closing entries are posted to ensure the financial statements are properly reported.

Cause: Due to staff turnover and lack of a complete closing checklist, the Administrative Services Department staff experienced unexpected challenges in identifying and recording year-end closing entries.

Effect: A number of audit adjustments were needed to properly report balances in the City’s financial statements.

Recommendation: We recommend the Administrative Services Department develop a more comprehensive closing checklist and train other departments on the assistance needed to close the books on a timely basis. This process should include a schedule that indicates specific personnel responsibilities and corresponding time requirements to ensure all significant account balances are reconciled during year-end closing process. Reconciliations should be reviewed and approved and the review should be documented with signature or initial and date. A specific list of areas that need attention has been separately communicated to management.

View of Responsible Officials and Planned Corrective Action: Management’s response and planned corrective action is included at the end of this report.

C. CURRENT YEAR FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAM

Finding 2017-002

Program: Community Development Block Grant (CDBG)

CFDA No.: 14.218

Federal Grantor: U.S. Department of Housing and Urban Development (HUD), Office of Community Planning and Development

Passed-through: N/A

Award No.: B-15-MC-06-0056, B-16-MC-06-0056, B-17-MC-06-0056

Compliance Requirement: Reporting

Condition Found: The SF-425 Federal Financial Report was not submitted for year ended June 30, 2017. Management informed us that SF-425 Federal Financial Reports for reporting periods ending September 30, 2017 and December 31, 2017 had not been filed. In addition, we could not reconcile expenditure amounts for grant years 2015 and 2016 to the SF-425 project tracking reports for the period ending March 31, 2017. The City has subsequently communicated that all uncompleted SF-425 Federal Financial Reports have been filed.

CITY OF CITRUS HEIGHTS, CALIFORNIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2017

C. CURRENT YEAR FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAM (Continued)

Criteria: The Housing and Grants Division is responsible for the administration, monitoring, and implementation of the city's federal, state, and local housing and community development funds including the CDBG program. This responsibility includes having procedures in place to ensure grant compliance functions performed by other departments are completed in a timely manner. The Department of Housing and Urban Development (HUD) requires Community Development Block Grant (CDBG) recipients to report grant financial information on a quarterly basis using the SF-425 Federal Financial Report. Quarterly reports are required to be submitted no later than 30 days after the end of each reporting period.

Effect: The City was not in compliance with HUD's reporting requirements.

Cause: The Housing and Grants Division did not have procedures in place to ensure the SF-425 Federal Financial Report was filed by the required due date. While most grant functions, including performance reporting, are performed by Housing and Grants Division staff, the previous Finance Manager prepared and filed the SF-425 Federal Financial Report. Due to turnover in the Finance Department shortly after fiscal year end SF-425 Federal Financial Reports were not filed on a timely basis.

Context: The program had four separate reporting requirements on a quarterly or yearly basis under the grant agreement and the SF-425 was the only report that failed to be filed on a timely basis and only one of four quarterly reports for the fiscal year ended June 30, 2017 was not filed by the reporting deadline. This was unusual and due to staff turnover.

Recommendation: We recommend the Housing and Grants Division develop documented procedures to ensure grant reports are filed accurately and in a timely manner. We recommend the Housing and Grants Division be assigned responsibility for ensuring all required reports are filed on a timely basis and enlist the Administrative Services Department's assistance obtaining financial information necessary for reporting.

View of Responsible Officials and Planned Corrective Action: Management's response and planned corrective action is included at the end of this report.

CITY OF CITRUS HEIGHTS, CALIFORNIA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

For the Year Ended June 30, 2017

STATUS OF PRIOR YEAR FINDINGS - FINANCIAL STATEMENT AUDIT

None

STATUS OF PRIOR YEAR FINDINGS – MAJOR FEDERAL AWARD PROGRAM

None

CITY OF CITRUS HEIGHTS, CALIFORNIA
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2017

Federal Grantor/Pass-through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantors' Number	Expenditures
U.S. Department of Housing and Urban Development			
Office of Community Planning and Development - Direct Program			
Community Development Block Grants/Entitlement Grants			
Community Development Block Grants-2015	14.218	B-15-MC-06-0056	\$ 289,836
Community Development Block Grants-2016	14.218	B-16-MC-06-0056	424,137
Community Development Block Grants-2017	14.218	B-17-MC-06-0056	515,605
Subtotal: Community Development Block Grants			1,229,578
Passed through Sacramento Housing and Redevelopment Agency			
Home Investment Partnerships Program	14.239	None	129,893
Total: U.S. Department of Housing and Urban Development			1,359,471
U.S. Department of Justice			
Bureau of Justice Assistance - Direct Program			
Bulletproof Vest Partnership Program	16.607	None	8,286
Drug Enforcement Administration - Direct Program			
Domestic Cannabis Eradication Suppression	None	2016-11	3,886
Domestic Cannabis Eradication Suppression	None	2017-10	3,469
Subtotal: Domestic Cannabis Eradication Suppression			7,355
Total: U.S. Department of Justice			15,641
U.S. Department of Transportation			
Federal Highway Administration			
Passed through California State Transportation Agency,			
Department of Transportation			
Highway Planning and Construction			
Sunrise Complete Streets - Phase III	20.205	SRTSL-5475 (033)	420,644
Sunrise-Woodmore/Sayonara	20.205	HSIPL-5475 (037)	86,031
Auburn Blvd-Rusch/Northern Limits	20.205	STPL-5475 (038)	596,584
Mariposa-Northridge/Eastgate	20.205	CML-5475 (039)	58,353
Comprehensive Transit System Analysis	20.205	STPL-5475 (040)	14,413
Subtotal: Highway Planning and Construction			1,176,025
Federal Transit Administration			
Passed through Sacramento Regional Transit District			
Federal Transit Formula Grants			
Section 5307 Urbanized Area Formula	20.507	CA-2016-022-00	159,552
Total: U.S. Department of Transportation			1,335,577
TOTAL FEDERAL AWARDS			\$ 2,710,689

See accompanying notes to schedule of expenditures of federal awards.

CITY OF CITRUS HEIGHTS, CALIFORNIA

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2017

NOTE A – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal grant activity of the City of Citrus Heights, California (the City) under programs of the federal government for 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 for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the City’s operations, it is not intended to be and does not present the financial position, changes in financial position, or cash flows of the City.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenses reported on the Schedule for enterprise funds are reported on the accrual basis and expenditures of governmental funds are reported on the modified accrual basis of accounting. Loan program expenditures represent loans disbursed during the period. Such expenses/expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenses are not allowable or are limited as to reimbursement.

NOTE C – INDIRECT COST ALLOCATION PLAN

The City did not charge indirect costs to federal programs during the year ended June 30, 2017, with the exception of the Home Investment Partnerships Program (CFDA Number 14.239) for which the City and pass-through agency, where applicable, on a combined basis charged no more than the 10% de minimis indirect cost rate to the program as allowed under the Uniform Guidance and grant agreement.

NOTE D – LOAN PROGRAMS

The outstanding balances of loan programs were as follows:

<u>Federal Program</u>	<u>Federal CFDA Number</u>	<u>Outstanding Loan Balance</u>
Community Development Block Grants	14.218	\$ 1,524,318
Home Investment Partnerships Program	14.239	4,509,212

NOTE E – SUBRECIPIENTS

There were no subrecipients of the City’s federal programs during the year ended June 30, 2017.

CITY OF CITRUS HEIGHTS, CALIFORNIA

CORRECTIVE ACTION PLAN

For the Year Ended June 30, 2017



CITY OF CITRUS HEIGHTS

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The City of Citrus Heights is committed to providing high quality, economical, responsive city services to our community.

March 22, 2018

Richardson & Company, LLP
550 Howe Avenue, Suite 210
Sacramento, CA 95825

RE: Response to Findings from Single Audit

City staff has reviewed the auditors' findings and recommendations regarding the 2017-18 Single Audit. The City's corrective action is listed below:

Finding 2017-001

Recommendation: The Administrative Services Department should develop a more comprehensive closing checklist and train other departments on the assistance needed to close the books on a timely basis.

Management's Corrective Action Plan: Management concurs with the auditors' recommendation. The City's Finance Manager will be assigned responsibility for developing a comprehensive closing checklist and will coordinate preparation of the necessary information with the appropriate City staff. This recommendation will be implemented prior to the close of the 2017-18 fiscal year.

Finding 2017-002

Recommendation: The Housing and Grants Division should develop documented procedures to ensure grant reports are filed accurately and in a timely manner. The Housing and Grants Division should be assigned responsibility for ensuring that all required reports are filed on a timely basis and enlist the Administrative Services Department's assistance obtaining financial information necessary for reporting.

Management's Corrective Action Plan: Management concurs with the auditors' recommendation. The Development Specialist II assigned to the Housing and Grants Division will be assigned the responsibility for the timely submittal of all required grant reports. The Administrative Services Department will assist with development of the necessary financial information.

Signed: 
Ronda Rivera, Assistant City Manager