

CITY OF CITRUS HEIGHTS, CALIFORNIA

COMPLIANCE REPORTS

June 30, 2018

CITY OF CITRUS HEIGHTS, CALIFORNIA

COMPLIANCE REPORTS

June 30, 2018

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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, 2018, 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 21, 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal controls that we considered to be a material weakness and significant deficiency.

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs as Finding 2018-001 to be a material weakness

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs as Finding 2018-002 to be a significant deficiency.

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 2018-002.

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

December 21, 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, 2018. 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, 2018.

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

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 identified a deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as Finding 2018-002 that we consider to be a significant deficiency.

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, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated December 21, 2018, 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 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 City of Citrus Heights' response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response

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

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.

Richardson & Company, LLP

March 12, 2019

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

For the Year Ended June 30, 2018

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? | Yes |
| 3. Noncompliance material to financial statements noted? | No |

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: | | | | | |
| <table style="border: none; width: 100%;"> <tr> <td style="text-align: center;"><u>CFDA Number</u></td> <td style="text-align: center;"><u>Name of Federal Program</u></td> </tr> <tr> <td style="text-align: center;">20.205</td> <td style="text-align: center;">Highway Planning and Construction</td> </tr> </table> | <u>CFDA Number</u> | <u>Name of Federal Program</u> | 20.205 | Highway Planning and Construction | |
| <u>CFDA Number</u> | <u>Name of Federal Program</u> | | | | |
| 20.205 | Highway Planning and Construction | | | | |
| 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)? | No | | | | |

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

For the Year Ended June 30, 2018

B. CURRENT YEAR FINDINGS – FINANCIAL STATEMENT AUDIT

INTERNAL CONTROL OVER FINANCIAL REPORTING

Finding 2018-001 - Year-End Closing Procedures – Material Weakness

Condition: The City’s Administrative Services Department staff were not able to reconcile all transactions 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 transactions are reconciled and closing entries are posted prior to the start of the audit to ensure the financial statements are properly reported.

Cause: Due to new staff being assigned to close the books and the lack of a complete closing checklist, the Administrative Services Department staff did not identify and record all year-end closing entries prior to the start of the audit.

Effect: A number of audit adjustments needed to be posted to properly report balances in the City’s financial statements. The volume of entries also increased the risk of error in preparing the 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.

Finding 2018-002 - SEFA Preparation – Significant Deficiency

Program: Highway Planning and Construction

CFDA No.: 20.205

Federal Grantor: U.S. Department of Transportation, Federal Transit Administration

Passed-through: California State Transportation Agency, Department of Transportation

Award No.: HSIPL-5475(037) and HSIPL-5475(041)

Compliance Requirement: Reporting

Condition: The Schedule of Expenditures of Federal Awards (SEFA) was not appropriately reconciled to federal grant revenues and expenditures recorded in the financial statements. Changes were made to major program expenditures, as well as expenditures of other programs, during the closing process and during the completion of the single audit to properly report expenditures on the SEFA.

Criteria: Closing procedures should be in place to reconcile grant expenditures incurred at year-end, confirm the amount as eligible with the grantor, claim the grant revenues on a timely basis, reconcile the claim to the general ledger, and ensure the expenditures that will be claimed under federal awards are

CITY OF CITRUS HEIGHTS, CALIFORNIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2018

properly reported on the SEFA and audited financial statements prior to the start of the single audit. If expenditures reported on the SEFA are misstated, the City could fail to have a program appropriately identified as a major program and tested as a major program during the single audit. Failure to have a program audited during the single audit would result in noncompliance with Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

Cause: It appeared the Administrative Services Department staff did not effectively communicate with the City departments responsible for administering federal awards to identify all federal grant related activity.

Effect: The SEFA had to be adjusted to include all federal expenditures prior to the single audit beginning, which resulted in inefficiencies during the single audit.

Context: Expenditures were revised on three of eleven individual grants on the SEFA during the 2018 single audit.

Recommendation: We recommend the Administrative Services Department meet with City department staff frequently during the closing process to identify all expenditures under federal awards. Training should be provided to staff in other departments to make sure they are aware of the importance of accurately reconciling and claiming grant expenditures on a timely basis and providing the information to the Administrative Services Department for inclusion on the SEFA.

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

INTERNAL CONTROL OVER COMPLIANCE

Finding 2018-002 – Internal Control Over SEFA Preparation – Significant Deficiency

Finding 2018-002 is also considered to be an internal control over compliance finding for the major program. See the finding described in the CURRENT YEAR FINDINGS – FINANCIAL STATEMENT AUDIT section above.

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

For the Year Ended June 30, 2018

D. STATUS OF PRIOR YEAR FINDINGS - FINANCIAL STATEMENT AUDIT

Finding 2017-001 - Year-End Closing Procedures

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

Current Status – This issue was not resolved during the year ended June 30, 2018 and is included above as Finding 2018-001.

E. STATUS OF PRIOR YEAR FINDINGS – 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: The SF-425 Federal Financial Report for the reporting periods ending June 30, 2017, September 30, 2017 and December 31, 2017 was not submitted by the reporting deadlines.

Current Status – The City submitted the June 30, 2017, September 31, 2017 and June 30, 2017 delinquent reports prior to June 30, 2018 and submitted the March 31, 2018 and June 30, 2018 within the 30 day time limit. This finding is considered to be appropriately addressed during the year ended June 30, 2018.

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

For the Year Ended June 30, 2018

<u>Federal Grantor/Pass-through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantors' Number</u>	<u>Expenditures</u>
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	\$ 138,112
Community Development Block Grants-2017	14.218	B-17-MC-06-0056	68,030
Community Development Block Grants-2018	14.218	B-18-MC-06-0056	181,880
Total: U.S. Department of Housing and Urban Development			<u>388,022</u>
U.S. Department of Justice			
Bureau of Justice Assistance - Direct Program			
Bulletproof Vest Partnership Program	16.607	None	27,806
Drug Enforcement Administration - Direct Program			
Domestic Cannabis Eradication Suppression	16-U01	2017-10	7,531
Domestic Cannabis Eradication Suppression	16-U01	2018-08	1,597
Subtotal: Domestic Cannabis Eradication Suppression			<u>9,128</u>
Total: U.S. Department of Justice			<u>36,934</u>
U.S. Department of Transportation			
Federal Highway Administration			
Passed through California State Transportation Agency,			
Department of Transportation			
Highway Planning and Construction			
Auburn Blvd-Rusch/Northern Limits	20.205	STPL-5475 (038)	849,734
Comprehensive Transit System Analysis	20.205	STPL-5475 (040)	91,635
Sunrise-Woodmore/Sayonara	20.205	HSIPL-5475 (037)	73,479
Signalized Intersection Safety Improvements	20.205	HSIPL-5475 (041)	12,587
Mariposa-Northridge/Eastgate	20.205	CML-5475 (039)	696
Total: U.S. Department of Transportation			<u>1,028,131</u>
TOTAL FEDERAL AWARDS			<u>\$ 1,453,087</u>

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, 2018

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, 2018. 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, 2018.

NOTE D – LOAN PROGRAMS

The outstanding balances of loan programs were as follows:

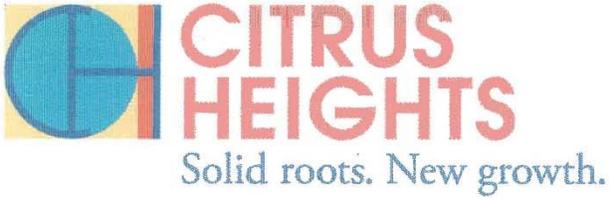
<u>Federal Program</u>	<u>Federal CFDA Number</u>	<u>Outstanding Loan Balance</u>
Community Development Block Grants/Entitlement Grants	14.218	\$ 1,550,200

NOTE E – SUBRECIPIENTS

There were no subrecipients of the City’s federal programs during the year ended June 30, 2018.

NOTE F – MISSING CATALOG OF FEDERAL DOMESTIC ASSISTANCE (CFDA) NUMBER

The first two digits of the CFDA number represents the CFDA number designate of the federal agency and the last three digits represent the federal assistance program within the federal agency. The U.S Department of Justice, Drug Enforcement Agency, Domestic Cannabis Eradication/Suppression Program has no federal assistance program number assigned to it. Consequently, the CFDA number reported in the Schedule represents the federal agency designate number only.



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*The City of CITRUS HEIGHTS
is committed to providing
high quality, economical,
responsive city services
to our community.*

March 4, 2019

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

RE: Response to Findings from Single Audit

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

Finding 2018-001

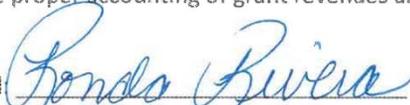
Recommendation: The Administrative Services Department should develop a more comprehensive closing checklist and train other departments on the assistance needed to close the books on a timely basis.

Management’s Corrective Action Plan: The City has continued to have staffing issues which resulted in this finding. However, the City has now hired a consultant to develop year end closing procedures and to train staff. Additionally, the City expects to hire a new Senior Accountant-Auditor who will receive appropriate training. It is anticipated this will be accomplished in concert with the FY2018-19 audit.

Finding 2018-002

Recommendation: The Administrative Services Department should meet with City department staff frequently during the closing process to identify all expenditures under federal awards.

Management’s Corrective Action Plan: In addition to recruiting for a new Senior Accountant-Auditor, the City has established communication pathways between the finance and grant management functions to ensure proper accounting of grant revenues and expenditures.

Signed 
Ronda Rivera, Assistant City Manager

JEANNIE BRUINS, Mayor • JEFF SLOWEY, Vice Mayor
BRET DANIELS, Council Member • PORSCHE MIDDLETON, Council Member • STEVE MILLER, Council Member
CHRISTOPHER W. BOYD, City Manager • RUTHANN G. ZIEGLER, City Attorney