

CITY OF CITRUS HEIGHTS

SINGLE AUDIT REPORT

JUNE 30, 2019

CITY OF CITRUS HEIGHTS

SINGLE AUDIT REPORT

JUNE 30, 2019

CITY OF CITRUS HEIGHTS

SINGLE AUDIT REPORT

JUNE 30, 2019

TABLE OF CONTENTS

	<u>Page Number</u>
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 <i>Government Auditing Standards</i>	1
Independent Auditors' Report on Compliance for Each Major Program and on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance	3
Schedule of Expenditures of Federal Awards for the Fiscal Year Ended June 30, 2019.....	6
Notes to the Schedule of Expenditures of Federal Awards	7
Schedule of Findings and Questioned Costs for the Fiscal Year Ended June 30, 2019.....	8
Summary Schedule of Prior Year Findings and Questioned Costs for the Fiscal Year Ended June 30, 2018.....	11



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*

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, 2019, 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 18, 2019.

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 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. 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. We did identify the following deficiencies in internal control, described in the accompanying schedule of findings and questioned costs, that we consider to be significant deficiencies: Finding 2019-001, 2019-002 and 2019-003.

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*.





CPAs AND ADVISORS

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

City's Response to Findings

The City's response to the findings identified in our audit 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.

A handwritten signature in black ink that reads "Lance, Solt & Lughard, LLP". The signature is written in a cursive, flowing style.

Sacramento, California
December 18, 2019



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE AND REPORT ON 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)'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, 2019. 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 Citrus Heights 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, 2019.





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 a 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.

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, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated December 18, 2019, which contained an unmodified opinion 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.



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

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.

Lance, Solt & Loughard, LLP

Sacramento, California
December 18, 2019

CITY OF CITRUS HEIGHTS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

Federal Grantor / Pass-through Grantor / Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Expenditures
<u>U.S. Department of Housing and Urban Development</u>			
Office of Community Planning and Development - Direct Program			
Community Development Block Grants - Entitlement Grants Cluster			
2018 Community Development Block Grants	14.218	B-18-MC-06-0056	\$ 639,318
2019 Community Development Block Grants	14.218	B-19-MC-06-0056	135,659
Subtotal - CFDA 14.218*			<u>774,977</u>
Total: U.S. Department of Housing and Urban Development			<u>774,977</u>
<u>U.S. Department of Justice</u>			
Bureau of Justice Assistance - Direct Program			
Bulletproof Vest Partnership Program	16.607	N/A	15,089
Subtotal - CFDA 16.607			<u>15,089</u>
Drug Enforcement Administration - Direct Program			
Domestic Cannabis Eradication Suppression	16-U01	2018-08	14,403
Subtotal - CFDA 16-U01			<u>14,403</u>
Total: U.S. Department of Justice			<u>29,492</u>
<u>U.S. Department of Transportation</u>			
National Highway Traffic Safety Administration			
Highway Safety Cluster			
2018 Selective Traffic Enforcement Program	20.600	N/A	7,452
2019 Selective Traffic Enforcement Program	20.600	N/A	14,225
Subtotal - CFDA 20.600			<u>21,677</u>
National Highway Traffic Safety Administration			
Minimum Penalties for Repeat Offenders for Driving While Intoxicated Program			
2018 Selective Traffic Enforcement Program	20.608	N/A	29,313
2019 Selective Traffic Enforcement Program	20.608	N/A	37,348
Subtotal - CFDA 20.608			<u>66,661</u>
Federal Highway Administration			
Passed through California State Transportation Agency, Department of Transportation			
Department of Transportation			
Highway Planning and Construction Cluster			
Auburn Blvd-Rusch/Northern Limits	20.205	CML-5475 (038)	366,277
Comprehensive Transit System Analysis	20.205	STPL-5475 (040)	29,862
Sunrise-Woodmore/Sayonara	20.205	HSIPL-5475 (037)	603,171
Signalized Intersection Safety Improvements	20.205	HSIPL-5475 (041)	8,350
Mariposa-Northridge/Eastgate	20.205	LPPSB1CM-5475 (039)	220,930
Subtotal - CFDA 20.205			<u>1,228,590</u>
Total: U.S. Department of Transportation			<u>1,316,928</u>
Total Federal Expenditures			<u>2,121,397</u>
<u>Federal Loan Beginning Balances with a Continuing Compliance Requirement</u>			
Community Development Block Grant *	14.218		1,550,200
HOME Investment Partnership Program	14.239		266,501
Total Federal Loan Balances with a Continuing Compliance Requirement			<u>1,816,701</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS INCLUDING LOANS			<u>\$ 3,938,098</u>

* Major Program

Note a: Refer to Note 1 to the Schedule of Expenditures of Federal Awards for a description of significant accounting policies used in preparing this schedule.

Note b: There were no federal awards expended in the form of noncash assistance and insurance in effect during the year.

Note c: Total amount provided to subrecipients during the year was \$0.

CITY OF CITRUS HEIGHTS

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2019**

Note 1: Summary of Significant Accounting Policies Applicable to the Schedule of Expenditures of Federal Awards

a. Scope of Presentation

The accompanying schedule presents only the expenditures incurred by the City of Citrus Heights, California, that are reimbursable under federal programs of federal financial assistance. 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 state, local or other non-federal funds are excluded from the accompanying schedule.

b. Basis of Accounting

The expenditures included in the accompanying schedule were reported on the modified accrual basis of accounting. Under the modified accrual basis of accounting, expenditures are incurred when the City becomes obligated for payment as a result of the receipt of the related goods and services. Expenditures reported included any property or equipment acquisitions incurred under the federal program.

c. Indirect Cost Rate

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

Note 2: Loan Programs with Continuing Compliance Requirements

The City participates in certain federal award programs that sponsor revolving loan programs, which are administered by the City. These programs required servicing arrangements with the City. The funds are returned to the programs upon repayment of the principal and interest. Current year transactions relating to these programs are included in the Schedule of Expenditures of Federal Awards. In accordance with 2 CFR section 200.502(b), the balance of loan program outstanding June 30, 2019, are as follows:

<u>CFDA Number</u>	<u>Program Name</u>	<u>Outstanding Balance at June 30, 2019</u>
14.218	CDBG Loans	\$ 1,434,238
14.239	HOME Loans	266,156
	Total Loans Outstanding	<u>\$ 1,700,394</u>

Note 3: 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.

CITY OF CITRUS HEIGHTS

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unmodified Opinion

Internal control over financial reporting:

- Material weaknesses identified? yes no
- Significant deficiencies identified? yes none reported

Noncompliance material to financial statements noted? yes no

Federal Awards

Internal control over major programs:

- Material weaknesses identified? yes no
- Significant deficiencies identified? yes none reported

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

Any audit findings disclosed that are required to be reported in accordance with Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance)? yes no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
14.218	CDBG – Entitlement Grants Cluster

Dollar threshold used to distinguish between type A and type B program \$750,000

Auditee qualified as low risk auditee? yes no

CITY OF CITRUS HEIGHTS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

SECTION II - FINANCIAL STATEMENT FINDINGS

Finding 2019-001 – Accounts Payable Accruals (Significant Deficiency)

Condition: Through our search for unrecorded liabilities invoices were identified that related to the current fiscal year under audit but were not properly accrued to that period.

Criteria: All invoices should be recorded to the proper period based on dates of service.

Cause of Condition: The invoices needing to be accrued were not identified as pertaining to the current fiscal year under audit.

Effect or Potential Effect of Condition: Expenditures being recorded in the improper accounting period and expenditures and accounts payable being understated.

Recommendation: We recommend that all invoices paid after the close of the fiscal year be thoroughly reviewed to ensure they are recorded in the proper accounting period prior to being paid.

Management's Response & Corrective Action: The one invoice in question was missing the invoice date. Staff has been advised to check with supervisor(s) for missing invoice information in the future.

Finding 2019-002 – Capital Assets Adjustment (Significant Deficiency)

Condition: Through our testing of capital assets, specifically construction in progress, it was discovered that the balances were not completely reconciled during our year-end fieldwork, leading to an adjustment being needed to the CIP balance as June 30, 2019.

Criteria: All capital asset activity should be reconciled and adjusted prior to the year-end audit being performed.

Cause of Condition: Capital asset schedules were not fully reconciled to General Ledger balances.

Effect or Potential Effect of Condition: Construction in progress was overstated as of June 30, 2019.

Recommendation: We recommend that all capital asset schedules being reconciled and agreed to the General Ledger prior to the year-end audit to ensure there are no discrepancies or items requiring adjustment.

Management's Response & Corrective Action: Effective July 1, 2019, all capital assets are being recorded in one fund. This will make reconciliation easier and will prevent duplicate entries or over/under statement.

CITY OF CITRUS HEIGHTS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

SECTION II - FINANCIAL STATEMENT FINDINGS (Continued)

Finding 2019-003 – Unavailable Revenue (Significant Deficiency)

Condition: As a result of our audit procedures, it was determined that revenue received outside the City recognition period was being recorded as revenue in the current period fund financial statements, as opposed to unavailable revenue, which is considered a deferred inflow or resources.

Criteria: Under the modified accrual basis of accounting, revenue is to be recognized when it is considered measurable and available, and within the City's recognition period. The City has a recognition period of 60 days for all revenues, with the exception of grant revenues, sales tax and TDA revenues. Grant revenues are considered to be available if collected within 180 days and sales tax and TDA revenues are considered to be available if collected within 90 days of the end of the current fiscal period.

Cause of Condition: For revenues received after 60 days, they were being recognized as revenue in the current fiscal period, as opposed to deferred until future periods.

Effect or Potential Effect of Condition: Revenue in the fund financial statements was overstated in the current fiscal period and required adjustment.

Recommendation: We recommend all revenue received outside the 60 day recognition period be reviewed to determine the fiscal period it relates, to determine the type of revenue source and to determine if it should be recognized or deferred until future periods.

Management's Response & Corrective Action: City departments are following up on open invoices and diligently addressing collections. In addition, City now has included this as a step in the closing process.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No current year findings.

**SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

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

SECTION II - FINANCIAL STATEMENT FINDINGS

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.

Current Status

The City has implemented their corrective action plan for fiscal year 2019. This finding is considered to be appropriately addressed during the year ended June 30, 2019.

Finding 2018-002: SEFA Preparation (Significant Deficiency)

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.

Current Status

The City has implemented their corrective action plan for fiscal year 2019. This finding is considered to be appropriately addressed during the year ended June 30, 2019.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding 2018-002: Internal Control Over SEFA Preparation (Significant Deficiency)

Finding **2018-002** was also considered to be an internal control over compliance finding for the major program. See the finding described in the section above.

Current Status

The City has implemented their corrective action plan for fiscal year 2019. This finding is considered to be appropriately addressed during the year ended June 30, 2019.