

CITY OF YUCAIPA

**Single Audit Report on
Federal Award Programs**

June 30, 2018

CITY OF YUCAIPA
SINGLE AUDIT REPORT ON FEDERAL AWARD PROGRAMS
Year Ended 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***

City Council
City of Yucaipa
Yucaipa, 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 Yucaipa (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 27, 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

December 27, 2018



Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by Uniform Guidance

City Council
City of Yucaipa
Yucaipa, California

Report on Compliance for Each Major Federal Program

We have audited the City of Yucaipa'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, 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; 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 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 Yucaipa 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.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2018-002 and 2018-003. Our opinion on each major federal program is not modified with respect to these matters.

The City of Yucaipa, California's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of 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 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 did identify certain deficiencies in internal control over compliance, described in the accompanying schedule of findings and questioned costs as items 2018-001 and 2018-002, that we consider to be significant deficiencies.

The City's response to the internal control over compliance findings identified in our audit is described in schedule of findings and questioned costs and the *corrective action plan*. 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 responses.

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 Yucaipa, 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 27, 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

March 26, 2019

CITY OF YUCAIPA
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2018

<u>Federal Grantor/ Pass-through Grantor/ Program Title</u>	Federal Domestic Assistance Number	Program Identification Number	Program Expenditures	Amount Provided to Subrecipients
<u>U.S. Department of Housing and Urban Development</u>				
<i>Passed through the San Bernardino County Community Development and Housing:</i>				
Community Development Block Grant	14.218	YUCA-16-1-05Z/2484	\$ 15,176	\$ -
Community Development Block Grant	14.218	YUCA-16-1-05G/1681	7,500	7,500
Community Development Block Grant	14.218	YUCA-16-1-05A/7518	7,500	7,500
Community Development Block Grant	14.218	YUCA-16-1-55/7540	5,000	5,000
Community Development Block Grant	14.218	122-39105/3694	696,216	-
Community Development Block Grant	14.218	122-40105/5275	5,315	-
Community Development Block Grant	14.218	YUCA-15-1-03z/7516	62,359	-
Community Development Block Grant	14.218	YUCA-18-1-03L/7517	2,453	-
Community Development Block Grant	14.218	YUCA-17-1-03Z/ 3001	10,716	-
Subtotal			<u>812,235 *</u>	<u>20,000</u>
<u>U.S. Department of Homeland Security</u>				
<i>Passed through the San Bernardino County Office of Emergency Services:</i>				
Homeland Security Grant Program	97.067	2016-00102	19,575	-
Homeland Security Grant Program	97.067	2016-00102	22,405	-
Homeland Security Grant Program	97.067	2017-0083	17,995	-
Subtotal			<u>59,975</u>	<u>-</u>
<u>U.S. Department of Transportation</u>				
<i>Passed through the State of California Department of Transportation:</i>				
Highway Planning and Construction	20.205	BR-NBIL (508)	13,740	-
Highway Planning and Construction	20.205	BR-NBIL (507)	1,350,014	-
Highway Planning and Construction	20.205	BR-NBIL (534)	1,752	-
Highway Planning and Construction	20.205	ATPL-5457(022)	31,850	-
Highway Planning and Construction	20.205	HSIPL 5457 (020)	22,395	-
Subtotal			<u>1,419,751 *</u>	<u>-</u>
Total Federal Financial Assistance			<u>\$ 2,291,961</u>	<u>\$ 20,000</u>

*Major Program

CITY OF YUCAIPA
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2018

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES APPLICABLE TO THE SCHEDULE OF FEDERAL AWARDS

A) Scope of Presentation

The accompanying schedule presents only the expenditures incurred (and related awards received) by the City of Yucaipa that are reimbursable under programs of federal agencies providing financial assistance. For the purpose of this schedule, financial assistance includes both federal financial assistance received directly from a federal agency, as well as federal funds received from pass-through entities by the City of Yucaipa. 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 the 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 of Yucaipa becomes obligated for payment as a result of the receipt of the related goods and services. Expenditures reported include any property or equipment acquisitions incurred under the federal program. The City did not elect to use the 10% de minimis cost rate as covered in Section 200.414 Indirect (F & A) costs.

C) Major Programs

The City had two major programs for the year ended June 30, 2018, consisting of the Highway Planning and Construction grant and the Community Development Block Grant, which had total disbursements of \$1,419,751 and \$812,235. This amount calculates to 61.9% and 35.4%, respectively, of the total disbursements from federal awards.

D) Subrecipient Expenditures

During the fiscal year ended June 30, 2018, the City of Yucaipa made payments to subrecipients which consisted of the following:

Family Services Association - Redlands	\$ 7,500
Family Services Association - Moreno Valley	5,000
Sexual Assault Services	7,500
	<hr/>
	\$ 20,000

CITY OF YUCAIPA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2018

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?	Yes
Type of Auditors’ Report Issued on Compliance for Major Programs:	Unmodified
Any Audit Findings Disclosed that are Required to be Reported in Accordance With Uniform Guidance?	Yes

Identification of Major Programs:

CFDA Numbers	Name of Federal Program or Cluster
20.205	U.S. Department of Transportation Highway Planning and Construction
14.218	U.S. Department of Housing and Urban Development Community Development Block Grant

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 YUCAIPA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2018

SECTION II – FINANCIAL STATEMENT FINDINGS

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

CITY OF YUCAIPA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2018

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding Number 2018-001: Preparation of the Schedule of Expenditures of Federal Awards

Federal Program: Highway Planning and Construction

CFDA No: 20.205

Federal Grantor: US Department of Transportation

Pass-through Entity: California Department of Transportation

Pass-through Identification No.: BR-NBIL (507), 2017

Compliance Requirements: Title 2 Code of Federal Regulations § 200.502 *Basis for determining Federal awards expended*

Criteria

Title 2 Code of Federal Regulations § 200.510(b) states in part: "The auditee must also prepare a schedule of expenditures of Federal awards (SEFA) for the period covered by the auditee's financial statements which must include the total Federal awards expended as determined in accordance with § 200.502 Basis for determining Federal awards expended."

Condition:

As part of our audit procedures to form an opinion on whether the SEFA is fairly stated, we are required to determine that the information contained in the SEFA was derived from and relates directly to the underlying accounting records and other records used to prepare the financial statements. While performing these procedures, we found that certain amounts included on the SEFA as federal expenditures were not accurately reflected when initially provided by City staff.

Cause:

Amounts reported on the initial SEFA as federal expenditures included amounts that were not federal expenditures and the inaccuracies were not identified by the City's system of internal controls over preparation of the SEFA.

Effect:

Amounts reported on the SEFA could remain inaccurate and go undetected without established procedures to ensure accurate reporting of the SEFA.

Questioned Costs:

None.

CITY OF YUCAIPA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2018

Context:

The condition above was identified during our audit procedures of testing the information contained in the SEFA to the underlying accounting records.

Recommendation:

Although the SEFA was ultimately corrected and accurately reflects the City's federal expenditures for the fiscal year ended June 30, 2018, we recommend the City establish procedures to ensure the accurate preparation of the SEFA throughout the year and at year-end. Timely communication between various departments undertaking grant-funded projects and the Finance Department, including the amount of expenditures and grant progress should take place throughout the year and at year-end to ensure the Finance Department has the most accurate information to prepare the SEFA. These procedures will provide a necessary foundation to ensure accurate reporting of the SEFA.

View of Responsible Officials and Planned Corrective Actions:

The City concurs. Refer to separate Corrective Action Plan for responses.

Finding Number 2018-002: Timely Submission of Reimbursement Requests

Federal Program: Highway Planning and Construction

CFDA No: 20.205

Federal Grantor: US Department of Transportation

Pass-through Entity: California Department of Transportation

Award No.: BR-NBIL (507), BR-NBIL (508), BR-NBIL (534)

Compliance Requirements: Cash Management

Criteria

The CalTrans Local Assistance Procedures Manual (LAPM) Chapter 5, section 2 Requirements for Reimbursement, states that "Per the Master Agreement, an invoice must be submitted at least every six months to avoid being classified as inactive and risk de-obligation". Chapter 5, Section 6 of the LAPM also states that, "The local agency must submit the Final Report of Expenditures, which includes the final invoice, to the DLAE within six months of project completion."

Condition:

Based on our testing of reimbursement requests submitted throughout the year, we found that five reimbursement requests, including a Final Report of Expenditures, were not submitted within six months after the previous reimbursement request had been submitted, as required by the LAPM.

CITY OF YUCAIPA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2018

Cause:

The City did not have a proper system of internal control in place to ensure that reimbursement requests or final reports of expenditures were prepared on a timely basis in accordance with the compliance requirements of the pass-through agency.

Effect:

Based on the LAPM, the pass-through agency, California Department of Transportation, could classify the project as inactive and put the City at risk of de-obligation of grant funding.

Questioned Costs:

None.

Context:

To perform compliance testing procedures required by the *Cash Management* compliance requirement of the Uniform Guidance, we used a statistical sampling methodology and selected seven reimbursement requests for testing. As a result, five of the seven tested appeared to be submitted later than the required six-month period.

Recommendation:

We recommend that the City establish policies and procedures to ensure timely submission of the reimbursement requests in accordance with the grant requirements, as well as the Final Report of Expenditures.

View of Responsible Officials and Planned Corrective Actions:

The City concurs. Refer to separate Corrective Action Plan for responses.

CITY OF YUCAIPA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2018

Finding Number 2018-003: Written Policies

Federal Program(s): Community Development Block Grant/Highway Planning and Construction

CFDA No.(s): 14.218 / 20.205

Federal Grantor(s): U.S. Department of Housing and Urban Development, U.S. Department of Transportation

Pass-through Entity(ies): San Bernardino County Housing and Community Development, California Department of Transportation

Award No.(s): M-15-DC-06-0563, BR-NBIL (507), BR-NBIL (508), BR-NBIL (534)

Compliance Requirements: Allowable Costs, Cash Management

Criteria:

Title 2 CFR Section 200.302(b)(6) and (7) of the Uniform Guidance requires all non-Federal entities to establish written procedures to implement the requirements of 2 CFR section 200.305 (Cash Management) and for determining the allowability of costs in accordance with *Subpart E - Cost Principles* and the conditions of the Federal award.

Condition:

Instances of Non-Compliance – The City has not established written procedures to implement the cash management requirements of 2 CFR Section 200.305, including written procedures that require all expenditures to be paid prior to requesting reimbursement by the City. Also, the City has not established written procedures for determining the allowability of costs in accordance with *Subpart E – Cost Principles* of the Federal Award.

Cause:

The City's procedures did not ensure the required written procedures were developed and implemented in accordance with the *Uniform Guidance*.

Effect:

The City has not complied with the specific requirements for written procedures over cash management and allowable costs as described in the *Uniform Guidance*.

Questioned Costs:

None.

CITY OF YUCAIPA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2018

Context:

The condition noted above was identified during our procedures related to cash management and allowable costs for the Community Development Block Grant and the Highway Construction and Planning programs.

Recommendation:

We recommend the City formalize written procedures related to cash management requirements within 2 *CFR Section 200.305* and allowable costs in accordance with *Subpart E – Cost Principles*.

Views of Responsible Officials and Planned Corrective Actions:

The City concurs. Refer to separate Corrective Action Plan for responses.

CITY OF YUCAIPA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended June 30, 2018

SECTION II – FINANCIAL STATEMENT FINDINGS

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

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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