

CITY OF CHINO, CALIFORNIA
SINGLE AUDIT OF FEDERALLY ASSISTED
GRANT PROGRAMS

JUNE 30, 2017

CITY OF CHINO

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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*

The Honorable Mayor and
Members of City Council
City of Chino
Chino, 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 Chino, 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 31, 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 City'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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs, as Finding 2017-001 and 2017-002, to be significant deficiencies.

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.

White Nelson Dick Evans LLP

Irvine, California
January 31, 2018

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

The Honorable Mayor and
Members of City Council
City of Chino
Chino , California

Report on Compliance for Each Major Federal Program

We have audited the City of Chino 's (the City) compliance with the types of compliance requirements described in the *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2017. The City's major federal programs are identified in the summary of auditors' 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.

Auditors' 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 complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2017.

Report on Internal Control over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of Chino 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 31, 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 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.

**Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance
(Continued)**

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.

White Nelson Dick Evans LLP

Irvine, California

March 29, 2018, except to the date of the Schedule of Expenditures of Federal Awards to which the date is January 31, 2018

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

CITY OF CHINO

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended June 30, 2017

Federal Grantor / Pass-Through Grantor / Program / Cluster Title	Catalog of Federal Domestic Assistance Number	Program Identification Number	Federal Expenditures	Subrecipient Expenditures
<u>United States Department of Housing and Urban Development</u>				
Direct Assistance:				
Community Development Block Grants/ Entitlement Grants	14.218	B-16-MC-06-0567	\$ 282,361	\$ 44,980
<u>United States Department of Justice</u>				
Passed through the County of San Bernardino:				
Edward Byne Memorial Justice Assistance Grant Program	16.738	2015-DJBX-0978 2016-DJBX-0978	18,588 18,500	- -
Total United States Department of Justice			37,088	-
<u>United States Department of Transportation</u>				
Passed through the State of California				
Department of Transportation:				
Highway Planning and Construction	20.205	HSIPL-5188(020) HPLUL-5188(018)	75,883 297,220	- -
Total Highway Planning and Construction			373,103	-
Passed through the State of California Office of Traffic Safety:				
State and Community Highway Safety	20.600	PT1632 PT1722	12,999 23,008	- -
Total State and Community Highway Safety			36,007	-
Passed through the State of California Office of Traffic Safety:				
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	PT1632 PT1722	38,162 50,384	- -
Total Minimum Penalties for Repeat Offenders for Driving While Intoxicated			88,546	-
Total United States Department of Transportation			124,553	-

(Continued)

See accompanying notes to the Schedule of Expenditures of Federal Awards.

CITY OF CHINO

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
(CONTINUED)

For the year ended June 30, 2017

Federal Grantor / Pass-Through Grantor / Program / Cluster Title	Catalog of Federal Domestic Assistance Number	Program Identification Number	Federal Expenditures	Subrecipient Expenditures
<u>United States Department of Homeland Security</u>				
Passed through the County of San Bernardino				
Fire Department Office of Emergency Services: Emergency Management Performance Grants	97.042	EMW-2016-EP-002	\$ 19,618	\$ -
Homeland Security Grant Program	97.067	2015-00093	<u>16,870</u>	<u>-</u>
Total United States Department of Homeland Security			<u>36,488</u>	<u>-</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 853,593</u>	<u>\$ 44,980</u>

See accompanying notes to the Schedule of Expenditures of Federal Awards.

CITY OF CHINO

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended June 30, 2017

1. BASIS OF PRESENTATION:

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of the City of Chino (the City) under programs of the federal government as well as federal financial assistance passed through other government agencies for the year ended June 30, 2017. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial statements of the City. The City's reporting entity is defined in Note 1 of the notes to the City's financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Expenditures reported on the Schedule are reported using the modified accrual basis of accounting for governmental funds and the accrual basis for proprietary funds, which is described in Note 1 of the notes to the City's financial statements. Expenditures are recognized following the cost principles contained in the Uniform Guidance wherein certain types of expenditures are not allowable or are limited as to reimbursement.

3. INDIRECT COST RATE:

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

4. RELATIONSHIP TO COMPREHENSIVE ANNUAL FINANCIAL REPORT:

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

5. RELATIONSHIP TO FEDERAL FINANCIAL REPORTS:

Amounts reported in the accompanying Schedule agree with amounts reported in federal financial reports.

6. CONTINGENCIES:

Under the terms of federal and state grants, additional audits may be requested by the grantor agencies and certain costs may be questioned as not being appropriate expenditures under the terms of the grants. Such audits could lead to a request for reimbursement to the grantor agencies.

CITY OF CHINO

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
(CONTINUED)

For the year ended June 30, 2017

7. SUBRECIPIENTS:

During the fiscal year ended June 30, 2017, the City disbursed federal funds to the following subrecipients under the Community Development Block Grant program (CFDA #14.218):

	<u>Amount Disbursed</u>
Family Service Association	\$ 10,000
Chino Neighborhood House	12,490
Chino Valley YMCA	12,490
House of Ruth, Inc.	<u>10,000</u>
Total Disbursed to Subrecipients	<u>\$ 44,980</u>

CITY OF CHINO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the year ended June 30, 2017

1. SUMMARY OF AUDITORS' RESULTS:

Financial Statements

Type of auditors' report issued:

- Unmodified

Internal control over financial reporting:

- Material weakness identified? yes x no
 - Significant deficiency identified? x yes none reported
- Findings Number 2017-001 and 2017-002

Noncompliance material to financial statements noted: yes x no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? yes x no
- Significant deficiency(es) identified? yes x none reported

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

- Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR Section 200.516(a) of the Uniform Guidance?

 yes x no

Identification of major programs:

CFDA Number(s)
20.205

Name of Federal Program or Cluster
United States Department of Transportation,
Highway Planning and Construction

Dollar threshold used to distinguish between type A and type B programs:

\$ 750,000

Auditee qualified as low-risk auditee?

 yes x no

CITY OF CHINO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(CONTINUED)

For the year ended June 30, 2017

2. FINDINGS - FINANCIAL STATEMENT AUDIT:

SIGNIFICANT DEFICIENCIES

Finding Number 2017-001 – Contributed Capital

Condition

Certain current year additions to the capital asset classification, Infrastructure, should have been recorded in prior years. These additions represented contributed infrastructure assets from developers.

Criteria

Contributed infrastructure assets should be recorded in the period the developers contributed the assets.

Cause

City departments were understaffed which lead to the finance department's review of prior period project activity to identify any existing contributed capital not previously recorded.

Effect

Net position in the City's governmental activities was understated and net position in the City's Water Fund, Storm Drain Fund and Sewer Fund were overstated.

Recommendation

We recommend that the City implement procedures to identify, monitor and value contributed assets from developers to ensure they are recorded in the proper period.

Management's Response

The City will implement procedures in FY 17-18 to assure all qualifying contributed capital assets are being recorded in the fiscal year they were donated.

CITY OF CHINO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(CONTINUED)

For the year ended June 30, 2017

2. FINDINGS - FINANCIAL STATEMENT AUDIT (CONTINUED):

SIGNIFICANT DEFICIENCIES

Finding Number 2017-002 – Retentions Payable

Condition

Retentions were withheld from progress payments to the contractor; however, the retentions were not recorded as a liability at year end.

Criteria

City funds are accounted for on the modified accrual basis for governmental funds or accrual basis for enterprise funds. As such, expenditures should be recorded when a liability occurs.

Cause

The City recorded the expenditure to the contractor net of retention.

Effect

Liabilities in the affected City governmental and enterprise funds were understated.

Recommendation

We recommend the City implement procedures to review all projects to determine that retentions payable are recorded at fiscal year-end.

Management's Response

The City will implement procedures in FY 17-18 to capture retention payable amounts and assure the liability is recorded accurately at year end.

3. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAM AUDIT:

None noted.

CITY OF CHINO

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

For the year ended June 30, 2017

1. FINDINGS - FINANCIAL STATEMENT AUDIT:

None noted.

2. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAM AUDIT:

None noted.