

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

**JUNE 30, 2019**

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, 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 January 27, 2020.

**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 a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as Finding 2019-001, that we consider to be a significant deficiency.

## **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 matter that is required to be reported under *Government Auditing Standards*, which is described in the accompanying schedule of findings and questioned costs as Finding Number 2019-002.

## **City's Response to Findings**

The City's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

## **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 27, 2020

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 *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 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 each of its major federal programs for the year ended June 30, 2019.

## **Other Matters**

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as Finding Number 2019-003. Our opinion on the major federal program is not modified with respect to this matter.

The City's response to the noncompliance finding 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 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 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 January 27, 2020, 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. 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 24, 2020, except to the date of the Schedule of Expenditures of Federal Awards to which the date is January 27, 2020

**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, 2019

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-14-MC-06-0564	\$ 37,098	\$ -
		B-15-MC-06-0564	97,751	-
		B-16-MC-06-0564	142,869	-
		B-17-MC-06-0564	135,123	-
		B-18-MC-06-0564	280,997	128,399
Total US Department of Housing and Urban Development			693,838	128,399
<u>United States Department of Transportation</u>				
Passed through the State of California Department of Transportation:				
Highway Planning and Construction				
	20.205	HPLUL-5188(018)	162,471	-
Passed through the State of California Office of Traffic Safety:				
State and Community Highway Safety				
	20.600	PT18024	8,790	-
Passed through the State of California Office of Traffic Safety:				
Minimum Penalties for Repeat Offenders for Driving While Intoxicated				
	20.608	PT18024	20,771	-
Total United States Department of Transportation			192,032	-
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 885,870</u>	<u>\$ 128,399</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, 2019

#### 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 for the year ended June 30, 2019. 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. Such 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. 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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the year ended June 30, 2019

1. SUMMARY OF AUDITORS' RESULTS:

***Financial Statements***

Type of auditors' report issued:

- Unmodified

Internal control over financial reporting:

- Material weakness identified?  yes  no
- Significant deficiency identified?  yes  none reported  
Finding Number 2019-001

Noncompliance material to financial statements noted:  yes  no  
Finding Number 2019-002

***Federal Awards***

Internal control over major programs:

- Material weakness(es) identified?  yes  no
- Significant deficiency(es) identified?  yes  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  no  
Finding Number 2019-003

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
14.218	United States Department of Housing and Urban Development - Community Development Block Grants/Entitlement Grants

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

Auditee qualified as low-risk auditee?  yes  no

CITY OF CHINO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(CONTINUED)

For the year ended June 30, 2019

2. FINDINGS - FINANCIAL STATEMENT AUDIT

**SIGNIFICANT DEFICIENCY**

Finding Number 2019-001 – Direct Changes to Equity

Condition

Certain transactions involved either the recording of a direct change to a fund's net position/fund balance that did not meet the criteria for doing so or the recording of a prior period change to current year expenses/expenditures that should have been recorded as a direct change to a fund's net position/fund balance.

Criteria

Direct changes to net position/fund balance should only be made if they pertain to prior period adjustments or to the cumulative effect of a change in accounting principle.

Cause

City departments had staffing changes which lead to recording of transactions directly to net position/fund balance that did not meet the criteria.

Effect

Fund balance in the City's governmental funds and net position in the City's Water Fund, Storm Drain Fund and Sewer Fund did not agree with the prior year.

Recommendation

We recommend that City staff limit the recording of transactions to net position/fund balance to these aforementioned criteria. We further recommend including a procedure in the year-end closing process to reconcile the net position/fund balance of all funds to the prior fiscal year ending audited balances and ensure that any identified variances involve only prior period adjustments or changes in accounting principle.

Views of Responsible Officials and Planned Corrective Actions

City experienced staffing changes during audit year FY18-19. The City has made noted changes for use by staff in procedural manuals cautioning the use of fund balance accounts. In addition, accounting staff will implement a complete and frequent review of all balance sheet accounts to ensure net position/fund balance agree to prior fiscal year ending audited balances.

CITY OF CHINO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(CONTINUED)

For the year ended June 30, 2019

2. FINDINGS - FINANCIAL STATEMENT AUDIT (CONTINUED):

**NONCOMPLIANCE**

Finding Number 2019-002 – Procurement Policy

Condition

The Uniform Guidance has different procurement rules than those previously required by the OMB Circular A-133 which are required to be documented by the City.

Criteria

The City's procurement policy is silent to the changes related to Uniform Guidance.

Cause

The City staffing resources limited the ability to meet the requirement.

Effect

The effect is unknown.

Recommendation

We recommend the City ensure compliance with Uniform Guidance by approving a procurement policy that incorporates the necessary changes and by preparing and implementing the required other written policies that the City does not currently have in place.

Views of Responsible Officials and Planned Corrective Actions

City of Chino is aware and will establish written policies and procedures moving forward.

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

Finding Number 2019-003 – Noncompliance - Procurement Policy

Major Program

United States Department of Housing and Urban Development, Direct Assistance, Community Development Block Grants (CFDA No. 14.218), Grant Identification Numbers: B-18-MC-06-0564, B-17-MC-06-0564, B-16-MC-06-0564, B-15-MC-06-0564, and B-14-MC-06-0564.

Condition

The noncompliance at Finding 2019-002 also applies to this grant.

CITY OF CHINO

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

For the year ended June 30, 2019

1. 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.

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.

Current Status

This finding has been resolved.

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.

Recommendation

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

Current Status

This finding has been resolved.

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

None