

**CITY OF SANTA CLARITA, CALIFORNIA**

**SINGLE AUDIT REPORT**

**FOR THE YEAR ENDED JUNE 30, 2016**

**CITY OF SANTA CLARITA, CALIFORNIA**  
**SINGLE AUDIT REPORT**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

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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**

To the Honorable Mayor and Members of the City Council  
of the City of Santa Clarita  
Santa Clarita, 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 Santa Clarita, California (City), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated December 21, 2016. Our report included an emphasis of matter regarding the City's adoption of Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application* and GASB Statement No. 82, *Pension Issues – An Amendment of GASB Statements No. 67, No. 68, and No. 73*, effective July 1, 2015.

**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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs, as items 2016-001, 2016-002, and 2016-003, that we consider 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*.

## **Management's Response to Findings**

The City's responses to the findings identified in our audit are 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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Rancho Cucamonga, California  
December 21, 2016



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

To the Honorable Mayor and Members of the City Council  
of the City of Santa Clarita  
Santa Clarita, California

**Report on Compliance for Each Major Federal Program**

We have audited the City of Santa Clarita, California's (City) 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, 2016. 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, 2016.

## ***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 2016-004, 2016-005, and 2016-006. Our opinion on each major federal program is not modified with respect to these matters.

The City's responses to the noncompliance findings identified in our audit are 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 compliance, and, accordingly, we express no opinion on the responses.

## **Report on Internal Control over Compliance**

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2016-004, 2016-005, and 2016-006, that we consider to be significant deficiencies.

The City's responses to the internal control over compliance findings identified in our audit are 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 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, 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, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated December 21, 2016, which contained unmodified opinions on those financial statements. Our report included an emphasis of matter regarding the City's adoption of Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application* and GASB Statement No. 82, *Pension Issues – An Amendment of GASB Statements No. 67, No. 68, and No. 73*, as of July 1, 2015. 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.



Rancho Cucamonga, California  
December 21, 2016

**CITY OF SANTA CLARITA, CALIFORNIA  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

Federal grantor / pass-through grantor / program or cluster title	Federal CFDA Number	Pass-Through/ Identification Number	Federal Expenditures	Amount Provided to Subrecipients
<b>U.S. Department of Housing and Urban Development</b>				
Direct Assistance:				
Community Development Block Grant/Entitlement Grants	14.218	B-14-MC-06-0576	\$ 500,200	\$ -
Community Development Block Grant/Entitlement Grants	14.218	B-15-MC-06-0576	932,933	462,724
Subtotal CDBG Entitlement Grants Cluster			<u>1,433,133</u>	<u>462,724</u>
<b>Total U.S. Department of Housing and Urban Development</b>			<u>1,433,133</u>	<u>462,724</u>
<b>U.S. Department of Justice</b>				
Direct Assistance:				
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2012-DJ-BX-0827	350	-
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2013-DJ-BX-0988	18,806	-
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2014-DJ-BX-0319	13,678	-
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2015-DJ-BX-0303	18,147	-
Subtotal Edward Byrne Memorial Justice Assistance Grant Program			<u>50,981</u>	<u>-</u>
Passed through the County of Los Angeles:				
Equitable Sharing Program	16.922	CAEQ01940	198,316	-
<b>Total U.S. Department of Justice</b>			<u>249,297</u>	<u>-</u>
<b>U.S. Department of Labor</b>				
Workforce Investment Act (WIA) Cluster:				
Passed through the Antelope Valley Workforce Development Consortium:				
Workforce Investment Act - Adult Program	17.258	ADW091001	275,996	-
Workforce Investment Act - Dislocated Worker Formula Grants	17.278	ADW091001	160,057	-
Subtotal WIA Cluster			<u>436,053</u>	<u>-</u>
<b>Total U.S. Department of Labor</b>			<u>436,053</u>	<u>-</u>
<b>U.S. Department of Transportation</b>				
Passed through the State of California, Transportation Department				
Highway Planning and Construction	20.205	BHLS-5450(080)	7,565	-
Highway Planning and Construction	20.205	BPMPL-5450(086)	26,656	-
Highway Planning and Construction	20.205	BHLS-5405(082)	431,591	-
Highway Planning and Construction	20.205	BHLO-5450(066)	1,108,839	-
Highway Planning and Construction	20.205	BHLS-5450 (008)	55,500	-
Highway Planning and Construction	20.205	HSIPL-5450(084)	128,469	-
Highway Planning and Construction	20.205	CML-5450(083)	9,783	-
Highway Planning and Construction	20.205	HSIPL-5450(081)	17,404	-
Highway Planning and Construction	20.205	STPL-5450(078)	189,448	-
Highway Planning and Construction	20.205	STPL-5450(089)	700	-
Subtotal Highway Planning and Construction Cluster			<u>1,975,955</u>	<u>-</u>

See accompanying notes to Schedule of Expenditures of Federal Awards



**CITY OF SANTA CLARITA, CALIFORNIA  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

<u>Federal grantor / pass-through grantor / program or cluster title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through/ Identification Number</u>	<u>Federal Expenditures</u>	<u>Amount Provided to Subrecipients</u>
<b>U.S. Department of Transportation (Continued)</b>				
Direct Assistance:				
Federal Transit Formula Grants	20.507	CA-90-Y276-02	\$ 28,705	\$ -
Federal Transit Formula Grants	20.507	CA-90-Y276-02	146,388	-
Federal Transit Formula Grants	20.507	CA-90-Y276-02	1,225	-
Federal Transit Formula Grants	20.507	CA-90-Y276-02	2,929,248	-
ARRA - Federal Transit Formula Grants	20.507	CA-96-X071-02	124,811	-
Subtotal Federal Transit Cluster			<u>3,230,377</u>	<u>-</u>
<b>Total U.S. Department of Transportation</b>			<u>5,206,332</u>	<u>-</u>
<b>U.S. Department of Homeland Security</b>				
Direct Assistance:				
Pre-Disaster Mitigation	97.047	LPDM10-PJ06 2012-1001	11,302	-
<b>Total U.S. Department of Homeland Security</b>			<u>11,302</u>	<u>-</u>
Total Federal Awards			<u>\$ 7,336,117</u>	<u>\$ 462,724</u>

See accompanying notes to Schedule of Expenditures of Federal Awards

**CITY OF SANTA CLARITA, CALIFORNIA  
 NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

**NOTE #1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. General**

The accompanying Schedule of Expenditures of Federal Awards presents the activity of federal award programs of the City of Santa Clarita, California (City). The City’s reporting entity is defined in Note 1 of the City’s financial statements. All federal awards received directly from federal agencies as well as federal awards passed through from other government agencies are included on the Schedule of Expenditures of Federal Awards.

**B. Basis of Accounting**

Funds received under the various grant programs have been recorded within the special revenue and enterprise funds of the City. The City utilizes the modified accrual basis of accounting for the special revenue funds, and the accrual basis of accounting for the enterprise funds. Expenditures/expenses are recognized following the cost principles contained within Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available. The City has elected to use the 10-percent de minimis cost rate as allowed under the Uniform Guidance, when applicable.

**C. Relationship to Federal Financial Reports**

Amounts reported in the accompanying Schedule of Expenditures of Federal Awards agree with the amounts reported in the related federal financial reports. However, certain federal financial reports are filed based on cash expenditures. As such, certain timing differences may exist in the recognition of revenues and expenditures between the Schedule of Expenditures of Federal Awards and the federal financial reports.

**NOTE #2 – FEDERAL FUNDED LOANS**

The City administers loans made from funds provided by the following federal programs:

Federal Program	CFDA No.	Loans Expended During the Year Ended June 30, 2016	Loans Outstanding As of June 30, 2016	Loans Outstanding as of June 30, 2016 With Continuing Compliance Requirements
Community Development Block Grants - Section 108 Loan Guarantees	14.248	\$ -	\$ 200,000	\$ -
HOME Investment Partnership Program	14.239	-	2,457,631	-

**CITY OF SANTA CLARITA, CALIFORNIA  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

**I. SUMMARY OF AUDITORS' RESULTS**

**FINANCIAL STATEMENTS**

Type of auditors' report issued on whether the financial statements audited were prepared in accordance with GAAP:	<u>Unmodified</u>
Internal control over financial reporting:	
Material Weaknesses identified?	<u>No</u>
Significant Deficiencies identified?	<u>Yes</u>
Noncompliance material to financial statements noted?	<u>No</u>

**FEDERAL AWARDS**

Internal control over major federal programs:	
Material Weaknesses identified?	<u>No</u>
Significant Deficiencies identified?	<u>Yes</u>
Type of auditors' report issued on compliance for major federal programs:	<u>Unmodified</u>
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200 section 200.516(a)?	<u>Yes</u>
Identification of major federal programs:	

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
<u>14.218</u>	<u>CDBG Entitlement Grants Cluster</u>
<u>20.507</u>	<u>Federal Transit Cluster</u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 750,000</u>
Auditee qualified as low-risk auditee?	<u>No</u>

**CITY OF SANTA CLARITA, CALIFORNIA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

**II. FINANCIAL STATEMENT FINDINGS**

*Finding Number 2016-001*

**SEGREGATION OF DUTIES - TIMECARDS AND PAY RATE APPROVALS**

***Criteria:***

User access to approved timecards should be periodically reviewed to ensure that individuals' access is appropriate. Additionally, there should be sufficient segregation of duties between key payroll functions, including authorization of pay changes.

***Condition:***

*Significant Deficiency* – We noted the system allows for certain individuals to approve timecards for employees that they are not supervising and in certain instances, to approve their own timecard. Additionally, we noted step increases and other salary adjustments are updated by the payroll department within the system. Further, the same individual in the payroll department who has access to enter time and approve time is responsible for changing the pay rates within the system.

***Context:***

The condition was noted during our procedures over the internal controls related to timecard approvals and pay rate changes.

***Effect:***

Timecards may be processed for payment without proper review and approval. Pay rate changes may be updated within the system, and thus payroll processed, with rates that are not properly authorized.

***Cause:***

The City's system does not properly segregate approval of timecards to ensure each timecard is reviewed by a different individual. Further, pay rate changes are updated by payroll, which does not properly segregate the function of processing payroll and updating authorized rates within the system.

***Recommendation:***

We recommend that the City periodically review the user access rights for approval of timecards to ensure individuals have appropriate access to approve only employees time that they are supervising and may not approve their own time. Further, we recommend the City properly segregate duties of those who change pay rates within the system, and those who process payroll. This may be achieved by restricting the system access to change pay rates from the Payroll Department and giving that responsibility to Human Resources, or by requiring regular review and approval of the Payroll Department changes (through a pay rate change report) by Human Resources.

***Views of Responsible Officials and Planned Corrective Actions:***

The City concurs. Refer to separate Corrective Action Plan Report for management's response.

**CITY OF SANTA CLARITA, CALIFORNIA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

*Finding Number 2016-002*

**VENDOR CREATION**

***Criteria:***

There should be sufficient review over the creation of vendors, including retaining of key documents prior to adding a vendor to the City's system.

***Condition:***

*Significant Deficiency* – We noted the City's process allows for vendors to be created without evidence of proper review of key supporting documentation.

***Context:***

The condition was noted during our procedures over the internal controls related to vendor creation, procurement and cash disbursements.

***Effect:***

Unauthorized vendors may be added to the system.

***Cause:***

The City's process to add a new vendor requires a completed W-9, without a review of the business nature of the vendor against an approved contract, purchase order, or invoice.

***Recommendation:***

We recommend that the City review the procedures in place over vendor creation to ensure additional diligence is performed by the City. This may include review of the vendor addition by a secondary buyer, or additional documentation required prior to the creation of a vendor.

***Views of Responsible Officials and Planned Corrective Actions:***

The City concurs. Refer to separate Corrective Action Plan Report for management's response.

**CITY OF SANTA CLARITA, CALIFORNIA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

*Finding Number 2016-003*

**JOURNAL ENTRIES AND SYSTEM APPROVALS**

***Criteria:***

There should be sufficient segregation of duties with the financial system, including authorization, custody of assets, and recordkeeping (posting to the general ledger). This includes secondary review of all journal entries posted to the system.

***Condition:***

*Significant Deficiency* – We noted the accounting system does not have system controls to segregate duties between those preparing the journal entry and those uploading and posting the journal entry.

***Context:***

The condition was noted during our review of the internal controls over the cash receipts, treasury, and journal entry processes.

***Effect:***

Journal entries may be posted without secondary review.

***Cause:***

The City's Finplus system does not properly restrict the functions between preparing and posting journal entries. Further, sufficient mitigating controls were not in place to address lack of segregation of duties.

***Recommendation:***

We recommend that the City review the system workflow related to journal entries to properly segregate the preparation and posting functions, or to implement other mitigating controls such as review of posted journal entries against appropriate documentation.

***Views of Responsible Officials and Planned Corrective Actions:***

The City concurs. Refer to separate Corrective Action Plan Report for management's response.

**CITY OF SANTA CLARITA, CALIFORNIA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2016**

**III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

***Finding Number 2016-004***

***Program:*** Community Development Block Grant (CDBG)

***CFDA No.:*** 14.218

***Federal Grantor:*** U.S. Department of Housing and Urban Development (HUD)

***Passed-through:*** N/A

***Award No. and Year:*** B-15-MC-06-0576

***Compliance Requirements:*** Subrecipient Monitoring

***Criteria:***

*Title 2 CFR Section 200.331(b)* of the *Uniform Guidance* requires a pass-through entity (PTE) to evaluate each subrecipient's risk of noncompliance for purposes of determining the appropriate subrecipient monitoring related to the subaward. This may include consideration of the following factors:

- Subrecipient's prior experience with the same or similar subawards;
- Results of previous audits including whether the subrecipient receives a Single Audit in accordance with the *Uniform Guidance*.
- New personnel or system changes
- Extent of Federal awarding agency monitoring

***Condition:***

*Significant Deficiency, Instance of Non-Compliance* – The City is a PTE for the CDBG program, and has expended \$462,724 to subrecipients during the year ended June 30, 2016. We noted the City has not performed a risk assessment in accordance with *2 CFR Section 200.331(b)*.

***Questioned Costs:***

None noted.

***Context:***

The condition noted above was identified during our procedures related to the subrecipient monitoring for CDBG program.

***Effect:***

The City has not completed the required risk assessment as described in the *Uniform Guidance*.

***Cause:***

The City's procedures did not ensure the required risk assessment activities were performed in accordance with *Uniform Guidance*.

***Recommendation:***

We recommend the City review its policies and internal control procedures related to subrecipient activities for federal grants to ensure that the required risk assessments are performed and updated regularly.

**CITY OF SANTA CLARITA, CALIFORNIA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2016**

***Views of Responsible Officials and Planned Corrective Actions:***

The City concurs. Refer to separate Corrective Action Plan Report for management's response.

***Finding Number 2016-005***

***Program:*** Community Development Block Grant (CDBG)

***CFDA No.:*** 14.218

***Federal Grantor:*** U.S. Department of Housing and Urban Development (HUD)

***Passed-through:*** N/A

***Award No. and Year:*** B-14-MC-06-0576 and B-15-MC-06-0576

***Compliance Requirements:*** Allowable Costs/Activities - Administrative Cost Allocation

***Criteria:***

*Title 2 CFR Section 200.430(i) Compensation – personal services* of the *Uniform Guidance* outline standards for documentation of personnel expenses, and require that charges to Federal awards for salaries and wages must be based on records that accurately reflect the work performed and must:

- Be supported by a system of internal controls which provide reasonable assurance that the charges are accurate, allowable, and properly allocated
- Support the distribution of the employees' salary or wages among specific activities or cost objectives when employee works on more than one activity,
- Budget estimates alone do no quality as support for charges to Federal awards, but may be used for interim accounting purposes provided that the City's system for establishing the estimates produces reasonable approximations of the activity actually performed, significant changes are identified and entered into records in a timely manner, and the City's system of internal controls includes processes to review after-the-fact interim charges made to a Federal Award based on budget estimates.

***Condition:***

*Significant Deficiency, Instance of Non-Compliance* – The City reported \$201,979 in personnel costs during the year ended June 30, 2016. Of the total personnel costs, \$109,730 were based on budgeted estimates of costs for employees who perform activities of the CDBG program. However, in accordance with 2 CFR 200.430(i), we noted the City does not have a process to review charges after the fact.

***Questioned Costs:***

\$109,730 in personnel costs related to employees who work on multiple activities, including those of the CDBG program.

***Context:***

The condition noted above was identified during our procedures related to the allowable costs and activities for CDBG program, including review of the related payroll/personnel charges. We noted costs were based on budgeted estimates for employees who perform activities of the CDBG program. However, these estimates were not validated through subsequent review of actual costs incurred.



**CITY OF SANTA CLARITA, CALIFORNIA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2016**

***Effect:***

The City has not incorporated all the procedures and internal control processes related to personnel cost allocation reviews required by the *Uniform Guidance*.

***Cause:***

The City's procedures did not ensure the required after-the-fact evaluation of budgeted costs to actuals were performed in accordance with *Uniform Guidance*.

***Recommendation:***

We recommend the City review its policies and internal control procedures related to allowable costs for personnel for federal grants to ensure that the required budget to actual reviews are performed and documented.

***Views of Responsible Officials and Planned Corrective Actions:***

The City concurs. Refer to separate Corrective Action Plan Report for management's response.

***Finding Number 2016-006***

***Program:*** Community Development Block Grant (CDBG)

***CFDA No.:*** 14.218

***Federal Grantor:*** U.S. Department of Housing and Urban Development (HUD)

***Passed-through:*** N/A

***Award No. and Year:*** B-14-MC-06-0576 and B-15-MC-06-0576

***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 allow ability of costs in accordance with *Subpart E – Cost Principles* and the conditions of the Federal award. Additionally *Title 2 CFR Section 200.318(c)(1) and (2) of the Uniform Guidance* requires the non-Federal entity to maintain written standards of conduct covering conflicts of interest and governing the actions of its employees engaged in the selection, award and administration of contracts, and covering organization conflicts of interest.

***Condition:***

*Significant Deficiency, Instance 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 minimize the time elapsing between the transfer of funds and disbursement by the City. Further, the City has not established written procedures for determining allow ability of costs in accordance with *Subpart E – Cost Principles* or the conditions of the Federal award.

***Questioned Costs:***

None noted.

**CITY OF SANTA CLARITA, CALIFORNIA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2016**

***Context:***

The condition noted above was identified during our procedures related to cash management and allowable costs for the CDBG program, which is subject to 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*.

***Cause:***

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

***Recommendation:***

We recommend the City review its policies and internal control procedures, and 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 Report for management's response.

**CITY OF SANTA CLARITA, CALIFORNIA  
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS AND RECOMMENDATIONS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

None reported.

**CITY OF SANTA CLARITA, CALIFORNIA**

Corrective Action Plan

Year ended June 30, 2016

Compiled by: Susan Crowsigt and Lisett Bautista

**CITY OF SANTA CLARITA, CALIFORNIA**

Corrective Action Plan  
Year ended June 30, 2016

**I. FINANCIAL STATEMENT FINDINGS**

*Finding Number 2016-001*

**SEGREGATION OF DUTIES - TIMECARDS AND PAY RATE APPROVALS**

**Management's or Department's Response:**

We concur.

**Views of Responsible Officials and Corrective Action:**

Payroll staff is updating the approval groups so that no person is allowed to approve timecards for the group to which he or she is assigned.

Due to system limitations the pay rate changes, step increases, and other salary adjustments are handled by the payroll staff. Staff is working with Technology Services to generate a report each pay period that will be reviewed by Human Resources staff to ensure that all changes made were indeed authorized by Human Resources.

Name of Responsible Person: Jan Downey, Sr., Financial Analyst

Implementation Date: February 2017

*Finding Number 2016-002*

**VENDOR CREATION**

**Management's or Department's Response:**

We concur.

**Views of Responsible Officials and Corrective Action:**

All new vendors are now required to complete a W-9 form. The creation of all new vendors in the financial system will be reviewed by a second Buyer. Written procedures are being created to document this process.

Name of Responsible Person: Joseph Oerum, Clerk and Contract Services Manager

Implementation Date: February 2017

**CITY OF SANTA CLARITA, CALIFORNIA**

Corrective Action Plan  
Year ended June 30, 2016

*Finding Number 2016-003*

**JOURNAL ENTRIES AND SYSTEM APPROVALS**

**Management's or Department's Response:**

We concur.

**Views of Responsible Officials and Corrective Action:**

Due to system limitations, the creation and posting of journal entries is not segregated. To mitigate the risk of the posting of unauthorized journal entries, Finance is currently drafting a policy and procedure for conducting internal audits of all journal entries. A designated Finance staff member will run a report of all journal entries posted for the period from the system and check that each journal number in sequence is accounted for and no unauthorized journal entries have been posted. Any journal number that is not in the number sequence will be investigated.

Name of Responsible Person: Lisett Bautista, Financial Analyst

Implementation Date: January 2017

**CITY OF SANTA CLARITA, CALIFORNIA**

Corrective Action Plan  
Year ended June 30, 2016

**II. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

***Finding Number 2016-004***

***Program:*** Community Development Block Grant (CDBG)

***CFDA No.:*** 14.218

***Federal Grantor:*** U.S. Department of Housing and Urban Development (HUD)

***Passed-through:*** N/A

***Award No. and Year:*** B-15-MC-06-0576

***Compliance Requirements:*** Subrecipient Monitoring

**Management's or Department's Response:**

We concur.

**Views of Responsible Officials and Corrective Action:**

The City will develop a risk assessment tool that will use a numeric scoring methodology to rate the risk for subrecipient non-compliance based on a number of factors. Those factors will include:

- The subrecipient's prior experience and level of compliance with CDBG awards or similar awards within the previous 5 years.
- The subrecipient's experience providing the particular services for which they will receive CDBG funds.
- The results of the monitoring process for previous City CDBG grants within the past 5 years, if any.
- The length of time the subrecipient has been in existence and/or has provided services to the Santa Clarita area.
- Any changes in executive level management or significant changes in mission or types of services provided.
- Results of the most recent Single Audits (if required by federal law to be performed).

Name of Responsible Person: Erin Lay, Housing Program Administrator

Implementation Date: February 2017

**CITY OF SANTA CLARITA, CALIFORNIA**

Corrective Action Plan  
Year ended June 30, 2016

***Finding Number 2016-005***

***Program:*** Community Development Block Grant (CDBG)

***CFDA No.:*** 14.218

***Federal Grantor:*** U.S. Department of Housing and Urban Development (HUD)

***Passed-through:*** N/A

***Award No. and Year:*** B-14-MC-06-0576 and B-15-MC-06-0576

***Compliance Requirements:*** Allowable Costs/Activities - Administrative Cost Allocation

**Management's or Department's Response:**

We concur.

**Views of Responsible Officials and Corrective Action:**

The City is creating written procedures for the administration of its federal grants that will include a process to review personnel expenses charged to Federal awards. After-the-fact charges will be reviewed to ensure they are accurate, allowable, and properly allocated. Employees who work on more than one activity will provide support for the distribution of their salary or wages.

Name of Responsible Person: Erin Lay, Housing Program Administrator

Implementation Date: February 2017

***Finding Number 2016-006***

***Program:*** Community Development Block Grant (CDBG)

***CFDA No.:*** 14.218

***Federal Grantor:*** U.S. Department of Housing and Urban Development (HUD)

***Passed-through:*** N/A

***Award No. and Year:*** B-14-MC-06-0576 and B-15-MC-06-0576

***Compliance Requirements:*** Allowable Costs, Cash Management

**Management's or Department's Response:**

We concur.

***Views of Responsible Officials and Planned Corrective Actions:***

Title 2 CFR section 200.305 and Subpart E – Cost Principles

The City is creating written procedures for the administration of its federal grants that will incorporate the City's current purchasing policy and document existing procedures for cash management and the determination of allowable costs.



**CITY OF SANTA CLARITA, CALIFORNIA**

Corrective Action Plan  
Year ended June 30, 2016

See response to item 2016-004 regarding the determination of cost allowability. In addition, Finance staff prepares a report of the federal expenditures for the CDBG program that is provided to housing program staff to review for accuracy. Finance staff also prepares a memo indicating the amount of the current reimbursement being requested that is reviewed and approved by housing program staff. The written approval is returned to Finance. Access to enter and approve vouchers is segregated in the Integrated Disbursement and Information System (IDIS). The voucher for reimbursement can only be entered into IDIS by Finance staff and only the Housing Program Administrator has access to approve a draw in IDIS. All draws of CDBG funds are made on a reimbursement basis only. Any program income is exhausted before a draw of grant funds is requested.

Name of Responsible Person: Erin Lay, Housing Program Administrator

Implementation Date: February 2017