



Single Audit Report
June 30, 2019

City of Santa Clarita, California

CITY OF SANTA CLARITA, CALIFORNIA
SINGLE AUDIT REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

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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*

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, 2019, and the related notes to the financial statements, which collectively comprise the City’s basic financial statements and have issued our report thereon dated December 20, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City’s internal control. Accordingly, we do not express an opinion on the effectiveness of the City’s internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been 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 2019-001 and 2019-002 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*.

City’s Response to Findings

The City’s response to the findings identified in our audit are 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 the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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 20, 2019



Independent Auditor’s 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, 2019. The City’s major federal programs are identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

Management’s Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor’s Responsibility

Our responsibility is to express an opinion on compliance for each of the City’s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City’s compliance.

Opinion on Each Major Federal Program

In our opinion, the City 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.

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 December 20, 2019 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.



Rancho Cucamonga, California
December 20, 2019

**CITY OF SANTA CLARITA, CALIFORNIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

Federal grantor / pass-through grantor / program or cluster title	Federal CFDA Number	Pass-Through/ Identification Number	Federal Expenditures	Amount Provided to Subrecipients
U.S. Department of Housing and Urban Development				
Direct Assistance:				
Community Development Block Grant/Entitlement Grants	14.218	B-16-MC-06-0576	\$ 1,523	\$ -
Community Development Block Grant/Entitlement Grants	14.218	B-17-MC-06-0576	703	-
Community Development Block Grant/Entitlement Grants	14.218	B-18-MC-06-0576	591,234	444,513
Subtotal CDBG Entitlement Grants Cluster			<u>593,460</u>	<u>444,513</u>
Total U.S. Department of Housing and Urban Development			<u>593,460</u>	<u>444,513</u>
U.S. Department of Justice				
Direct Assistance:				
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2017-DJ-BX-0715	8,329	-
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2018-DJ-BX-0475	24,456	-
Subtotal Edward Byrne Memorial Justice Assistance Grant Program			<u>32,785</u>	<u>-</u>
Total U.S. Department of Justice			<u>32,785</u>	<u>-</u>
U.S. Department of Transportation				
Passed through the State of California, Transportation Department:				
Highway Planning and Construction	20.205	HSIPL-5450(085)	55,307	-
Highway Planning and Construction	20.205	HSIPL-5450(091)	192,100	-
Highway Planning and Construction	20.205	HSIPL-5450(093)	29,119	-
Highway Planning and Construction	20.205	HSIPL-5450(092)	197,722	-
Highway Planning and Construction	20.205	BPMPPL-5450(086)	2,730	-
Highway Planning and Construction	20.205	HSIPL-5450(094)	144,832	-
Highway Planning and Construction	20.205	BPMPPL-5450(095)	43,268	-
Highway Planning and Construction	20.205	BHLS-5405(082)	2,458,559	-
Highway Planning and Construction	20.205	BHLS-5450 (008)	1,004	-
Highway Planning and Construction	20.205	APTL-5450(087)	796,617	-
Highway Planning and Construction	20.205	APTLNI-5450(090)	97,127	-
Highway Planning and Construction	20.205	FERSTPL-5450(096)	1,427,919	-
Highway Planning and Construction	20.205	FERSTPL-5450(096)	1,066,253	-
Subtotal Highway Planning and Construction Cluster			<u>6,512,557</u>	<u>-</u>
Direct Assistance:				
Federal Transit Formula Grants	20.507	CA-90-Y276-02	113,655	-
Federal Transit Formula Grants	20.507	CA-90-Y276-02	24,584	-
Federal Transit Formula Grants	20.507	CA-90-Y276-02	27,250	-
Federal Transit Formula Grants	20.507	CA-90-Y276-02	314,400	-
Federal Transit Formula Grants	20.507	CA-90-Y276-02	1,780,497	-
Federal Transit Formula Grants	20.507	CA-90-Y276-02	1,615	-
Federal Transit Formula Grants	20.507	CA-90-Y276-02	10,753	-
Federal Transit Formula Grants	20.507	CA-90-Y276-02	2,200,000	-
Federal Transit Formula Grants	20.507	CA-90-Y851-01	286,726	-
Federal Transit Formula Grants	20.507	CA-2016-044-00	60,471	-
Federal Transit Formula Grants	20.507	CA-2016-051-00	3,914,325	-
Federal Transit Formula Grants	20.507	CA-2016-051-00	369,252	-
Federal Transit Formula Grants	20.507	CA-2016-051-00	548,646	-
Federal Transit Formula Grants	20.507	CA-2016-051-00	80,212	-
Federal Transit Formula Grants	20.507	CA-2017-138-00	618,317	-
Federal Transit Formula Grants	20.507	CA-2017-138-00	31,318	-
Federal Transit Formula Grants	20.507	CA-2018-089-00	22,109	-
Subtotal Federal Transit Cluster			<u>10,404,130</u>	<u>-</u>
Total U.S. Department of Transportation			<u>16,916,687</u>	<u>-</u>
Total Federal Awards			<u>\$ 17,542,932</u>	<u>\$ 444,513</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, 2019**

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.

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

I. SUMMARY OF AUDITOR’S RESULTS

FINANCIAL STATEMENTS

Type of auditor's 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>None reported</u>
Type of auditor's 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>No</u>
Identification of major federal programs:	

<u>CFDA Number</u>	<u>Name of Federal Program or 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>Yes</u>

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

II. FINANCIAL STATEMENT FINDINGS

Finding Number 2019-001

FINANCIAL REPORTING AND CLOSING

Criteria:

Management is responsible for the preparation of the basic financial statements and all accompanying information as well as all representations contained therein and the fair presentation in conformity with U.S. generally accepted accounting principles. This requires management to perform a year-end closing process to accumulate, reconcile, and summarize information for inclusion in the annual financial statements.

Condition:

During the audit, we identified adjustments, which were corrected by management for the following:

- Long term liabilities were understated by \$850 thousand related to the 2019 Sheriff Station bonds.
- Interest income and administrative expense in the OPEB Trust fund were understated by \$92 thousand and was reclassified.
- Activity in the OPEB Trust fund was understated by \$225 thousand related to the implied subsidy estimates.
- The General Fund expenditure classifications were adjusted to properly reflect costs. The reclassification accumulated to approximately \$6.5 million.

Context:

The condition was noted during our audit of the City for the year ended June 30, 2019.

Effect:

Journal entries were posted, and adjustments made to the financial statements, in order to fairly present the financial statements.

Cause:

While the City has detailed closing procedures, certain adjustments were not identified and proposed during the audit. Management has posted these adjustments and they are reflected in the financial statements.

Recommendation:

We recommend that the City review its closing policies and procedures to ensure amounts are properly reconciled for year-end closing, including OPEB Trust Fund entries, overhead reimbursement closing entries, and any other non-standard entries posted during the year.

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, 2019**

Finding Number 2019-002

PERSONNEL ACTION FORMS AND PAY RATE APPROVALS

Criteria:

The City's policy for approval of changes to personnel records is for such changes to be authorized by a Supervisor, Department Head, and Human Resources for full time employees, and a Supervisor and Human Resources for part time employees, prior to processing any changes. Additionally, a Pay Rate Audit is performed for each pay period, which is completed by Human Resources.

Condition:

We noted four of the sixty personnel action forms (PAF) selected for internal control testing did not include evidence of proper approval, based on the criteria above. In addition, the City's mitigating controls (bi-weekly Pay Rate Audits) did not detect the missing approvals on the employee action forms.

Context:

The condition was noted during our procedures over the internal controls related to personnel action forms and pay rate changes.

Effect:

Exceptions to the City's process were identified. This indicates that there is potential for unauthorized changes to the City's payroll system as PAF may be processed without proper authorization.

Cause:

The City's controls did not ensure that PAFs were properly approved before processing payroll changes.

Recommendation:

We recommend that the City evaluate the PAF approval process, including ensuring proper training for those involved, to ensure PAFs are properly authorized.

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, 2019**

III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None noted.

**CITY OF SANTA CLARITA, CALIFORNIA
SCHEDULE OF PRIOR AUDIT FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2019**

None noted.