

**CITY OF SANTEE
Santee, California**

Single Audit Report on Federal Awards

Year ended June 30, 2017

CITY OF SANTEE

Single Audit Report on Federal Awards

Year ended June 30, 2017

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City Council
City of Santee
Santee, California

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

Independent Auditors' Report

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Santee ("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 December 20, 2017.

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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts.

However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in blue ink that reads "Davis Fan" followed by a stylized flourish.

Irvine, California
December 20, 2017

City Council
City of Santee
Santee, California

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

Independent Auditors' Report

Report on Compliance for Each Major Federal Program

We have audited the City of Santee'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, 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 requirement 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 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, 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 Uniform Guidance

We have audited the financial statements of the City as of and for the year ended June 30, 2017, and have issued our report thereon dated December 20, 2017, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. 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 financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements.

The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 expenditure of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Davis Fan LLP

Irvine, California
December 20, 2017

CITY OF SANTEE
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2017

Federal Grantor/Pass-through Grantor/Program Title	Program Identification Number	Federal Domestic Assistance Number	Federal Financial Assistance Expenditures	Amount Paid to Subrecipients
<u>U.S. Department of Housing and Urban Development</u>				
Direct assistance:				
Community Development Block Grant	B15MC060568	14.218	\$ 261,480	\$ 67,303
Total - U.S. Housing and Urban Development			<u>261,480</u>	<u>67,303</u>
<u>U.S. Department of Justice</u>				
Passed through the City of San Diego				
Edward Byrne Memorial Justice Assistance Grant Program	2016-DJ-BX-0069	16.738	11,738	-
Total - U.S. Department of Justice			<u>11,738</u>	<u>-</u>
<u>Federal Emergency Management Agency</u>				
Direct Assistance:				
California Fire Assistance Agreement:				
Fire Management Assistance Grant Program - Pilot Fire	CA-BDF-010205	97.046	40,120	-
Fire Management Assistance Grant Program - Sand Fire	CA-ANF-003008	97.046	14,332	-
Fire Management Assistance Grant Program - Holy Fire	CA-CNF-002642	97.046	15,610	-
Fire Management Assistance Grant Program - Holcomb Incident	CA-BDF-009443	97.046	9,751	-
Total - Federal Emergency Management Agency			<u>79,813</u>	<u>-</u>
<u>U.S Department of Transportation</u>				
Direct assistance:				
Highway Safety Improvement Program	HSIPL-5429(025)	20.205	70,750	-
Highway Safety Improvement Program	HSIPL-5429(026)	20.205	38,604	-
Highway Safety Improvement Program	HSIPL-5429(030)	20.205	277	-
Highway Safety Improvement Program	HSIPL-5429(031)	20.205	277	-
Federal Highway Bridge Program	BRLSZ-5429(021)	20.205	29,812	-
Federal Safe Routes to School Program	SRTS03-11-Santee-01	20.205	239,570	-
Total - U.S Department of Transportation			<u>379,290</u>	<u>-</u>
<u>U.S Department of Fish and Wildlife</u>				
Passed through the California Department of Fish and Wildlife:				
Cooperative Endangered Species Conservation Fund	F15AP00626	15.615	22,402	-
Total - U.S Department of Fish and Wildlife			<u>22,402</u>	<u>-</u>
Total Expenditures of Federal Awards			<u>\$ 754,723</u>	<u>\$ 67,303</u>

See notes to schedule of expenditures of federal awards

CITY OF SANTEE

Notes to the Schedule of Expenditures of Federal Awards

Year ended June 30, 2017

(1) Summary of Significant Accounting Policies Applicable to the Schedule of Expenditures of Federal Awards

(a) Scope of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal grant activity of each of the City of Santee's major programs of the federal government for the year ended June 30, 2017. The information in the 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 of Santee, it is not intended to and does not present the financial position, changes in net assets or cash flows of the City of Santee. The City elected to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance for the Federal Emergency Management Agency Fire Management Assistance Grants.

(b) Basis of Accounting

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards wherein certain types of expenditures are not allowable or are limited as to reimbursement.

(c) Subrecipients

During the fiscal year ended June 30, 2017, the City of Santee disbursed \$67,303 of federal awards to subrecipients under the Department of Housing and Urban Development - Community Development Block Grants/Entitlement Grants Program - CFDA No. 14.218. The amounts disbursed to the subrecipients is as follows:

<u>Subrecipient</u>	<u>Amount Disbursed</u>
Home of Guiding Hands	\$ 13,700
Caring Neighbors	3,000
Santee Santas	5,000
Santee Food Bank	13,603
Meals on Wheels	8,000
Elderhelp	3,000
YMCA	2,000
Crisis House	5,000
CSA San Diego County	14,000
	<u>\$ 67,303</u>

CITY OF SANTEE

Notes to the Schedule of Expenditures of Federal Awards

Year ended June 30, 2017

(1) Summary of Significant Accounting Policies Applicable to the Schedule of Expenditures of Federal Awards (Continued)

(d) Pledged Revenues

On November 17, 2011 the City received a \$1,400,000 Section 108 loan from the U.S Department of Housing and Urban Development. The loan is secured by a pledge of future Community Development Block Grant revenues. The City also has established a debt service reserve fund that is required to be maintained at a minimum amount of 125% of the outstanding principal balance of the loan. The loan will be repaid over a 10-year period with level principal payments plus interest at varying amounts. The outstanding balance at June 30, 2017 is \$700,000.

CITY OF SANTEE

Schedule of Findings and Questioned Costs

Year Ended June 30, 2017

Section I Summary of Auditors' Results

Financial Statements

- | | |
|---|------------|
| 1. Type of auditors' report issued on whether the financial statements audited were prepared in accordance with GAAP: | Unmodified |
| 2. Internal control over financial reporting: | |
| a. Material weakness(es) identified? | No |
| b. Significant deficiency(ies) identified? | No |
| 3. Noncompliance material to the financial statements noted? | No |

Federal Awards

- | | |
|--|---------------|
| 1. Internal control over major programs: | |
| a. Material weakness(es) identified? | No |
| b. Significant deficiency(ies) identified? | None Reported |
| 2. Type of auditors' report issued on compliance for major programs: | Unmodified |
| 3. Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516 (a)? | No |
| 4. Identification of major programs: | |

CFDA Number

Name of Federal Program or Cluster

- | | |
|---|---|
| 14.218 | Community Development Block Grants/Entitlement Grants |
| 97.046 | Fire Management Assistance Grant |
| 5. Dollar threshold used to distinguish between Type A and Type B programs: | \$750,000 |
| 6. Auditee qualified as a low-risk auditee? | No |

CITY OF SANTEE

Schedule of Findings and Questioned Costs

Year ended June 30, 2017

Section II - Financial Statement Findings

There were no financial statement findings noted during the fiscal year ended June 30, 2017.

Section III - Findings and Questioned Costs for Federal Awards

There are no auditors' findings to be reported in accordance with section 200.516 of the Uniform Guidance during the fiscal year ended June 30, 2017.

CITY OF SANTEE

Summary Schedule of Prior Audit Findings

Year ended June 30, 2017

Section IV – Summary of Prior Audit Findings and Current Status

There were no prior audit findings noted during the fiscal year ended June 30, 2016.