

City of National City

National City, California

Single Audit and Independent Auditors' Reports

For the Year Ended June 30, 2020



City of National City

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**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

To the Honorable Mayor and Members of City Council
of the City of National City
National City, 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, each major fund, and the aggregate remaining fund information of the City of National City, California (the "City"), as of and for the year ended June 30, 2020, and the related notes to the basic financial statements which collectively comprise the City's basic financial statements and have issued our report thereon dated February 25, 2021.

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 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. 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 basic 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*.

4365 Executive Drive, Suite 710, San Diego, California 92122

Tel: 858-242-5100 • Fax: 858-242-5150

www.pungroup.cpa

To the Honorable Mayor and Members of City Council
of the City of National City
National City, California
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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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

The PwC Group, LLP

San Diego, California
February 25, 2021



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

Independent Auditors' Report

To the Honorable Mayor and Members of City Council
of the City of National City
National City, California

Report on Compliance for Each Major Federal Program

We have audited the City of National City, California's (the "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, 2020. The City's major federal programs are identified in the summary of the 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.

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, 2020.

4365 Executive Drive, Suite 710, San Diego, California 92122

Tel: 858-242-5100 • Fax: 858-242-5150

www.pungroup.cpa

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with Uniform Guidance and which are described in the accompanying Schedule of Findings and Questions Costs as item 2020-001. Our opinion on each major federal program is not modified with respect to this matter.

The City's response to the noncompliance findings 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 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 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. We consider finding 2020-001 listed in the accompanying Schedule of Findings and Questioned Costs to be a significant deficiency.

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.

To the Honorable Mayor and Members of City Council
of the City of National City
National City, California
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Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City as of and for the year ended June 30, 2020, and have issued our report thereon dated February 25, 2021 which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming our opinions on the City's Basic Financial Statements. The accompanying Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis 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 basic financial statements and certain other 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 Expenditures of Federal Awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

The PwC Group, LLP

San Diego, California

May 19, 2021, except for the Schedule of Expenditures of Federal Awards as to which the date is February 25, 2021

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City of National City
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2020

Federal Grantor/Pass-Through Grantor Program Title	CFDA Number	Grant Award Number	Federal Expenditures	Amount Provided to Subrecipients
U.S. Department of Housing and Urban Development:				
<i>Direct Programs:</i>				
CDBG - Entitlement Grants Cluster:				
Community Development Block Grant	14.218	Program Income	\$ 57,700	\$ -
Community Development Block Grant	14.218	B-14-MC-06-0560	33,141	-
Community Development Block Grant	14.218	B-16-MC-06-0560	3,483	-
Community Development Block Grant	14.218	B-17-MC-06-0560	23,541	23,541
Community Development Block Grant	14.218	B-18-MC-06-0560	672,828	31,424
CDBG - Entitlement Grants Cluster Subtotal			790,693	54,965
Home Investment Partnership Program:				
Home Investment Partnership Program	14.239	Program Income	100,504	-
Home Investment Partnership Program	14.239	M-14-MC-06-0522	74,150	-
Home Investment Partnership Program	14.239	M-16-MC-06-0522	19,008	-
Home Investment Partnership Program	14.239	M-17-MC-06-0522	12,418	-
Home Investment Partnership Program Subtotal			206,080	-
Housing Voucher Cluster:				
Section 8 Housing Choice Voucher Program	14.871	CA116VO	12,764,355	-
COVID-19 - CY2020 Housing Choice Vouchers - CARES Act				
Administrative Fees	14.871	CA116VO	143,900	-
Housing Voucher Cluster Subtotal			12,908,255	-
Total U.S. Department of Housing and Urban Development			13,905,028	54,965
U.S. Department of Justice:				
<i>Direct Programs:</i>				
FY2016 Edward Byrne JAG Program	16.738	2016-DJ-BX-0257	24,252	-
Total U.S. Department of Justice			24,252	-
U.S. Department of Transportation:				
<i>Passed through the California Office of Traffic Safety:</i>				
Highway Safety Cluster:				
STEP OTS Grant	20.600	PT18101	1,838	-
STEP OTS Grant	20.600	PT19074	22,637	-
Highway Safety Cluster Subtotal			24,475	-
STEP OTS Grant	20.608	PT18101	13,367	-
STEP OTS Grant	20.608	PT19074	56,626	-
CFDA 20.608 Subtotal			69,993	-
<i>Passed through the California Department of Transportation:</i>				
Highway Planning and Construction Cluster:				
Highland Avenue Traffic Signal Modifications	20.205	HSIPL-5066(027)	204,417	-
Citywide Traffic Signal & ADA Enhancements	20.205	HSIPL-5066(029)	510,840	-
El Toyon-Las Palmas Bicycle Corridor	20.205	ATPL-5066(032)	29,137	-
Highway Planning and Construction Cluster Subtotal			744,394	-
Total U.S. Department of Transportation			838,862	-

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

City of National City
Schedule of Expenditures of Federal Awards (Continued)
For the Year Ended June 30, 2020

Federal Grantor/Pass-Through Grantor Program Title	CFDA Number	Grant Award Number	Federal Expenditures	Amount Provided to Subrecipients
U.S. Department of Treasury:				
<i>Passed through the County of San Diego:</i>				
COVID-19 - Coronavirus Relief Fund (CRF)	21.019	05192020-14-11	1,095,124	200,000
Total U.S. Department of Treasury			<u>1,095,124</u>	<u>200,000</u>
U.S. Department of Health and Human Services:				
<i>Direct Program:</i>				
CRI - Mass Prophylaxis Program	93.283	N/A	4,677	-
<i>Passed through the County of San Diego:</i>				
Aging Cluster:				
Special Programs for the Aging Title III, Part B	93.044	Program Income	6,527	-
Special Programs for the Aging Title III, Part B	93.044	547767	87,284	-
Special Programs for the Aging Title III, Part C	93.045	Program Income	60,154	-
Special Programs for the Aging Title III, Part C	93.045	547767	167,271	-
COVID-19 - Special Programs for the Aging Title III, Part C	93.045	561763	15,765	-
Nutrition Services Incentive Program	93.053	547767	38,436	-
Aging Cluster Subtotal			<u>375,437</u>	<u>-</u>
Total U.S. Department of Health and Human Services			<u>380,114</u>	<u>-</u>
Executive Office of the President:				
<i>Direct Programs:</i>				
High Intensity Drug Trafficking Areas Program	95.001	N/A	8,637	-
Total Executive Office of the President			<u>8,637</u>	<u>-</u>
U.S. Department of Homeland Security:				
<i>Direct Programs:</i>				
FY18 State Homeland Security Grant	97.067	2018	42,053	-
FY17 Urban Area Security Initiative	97.067	2017	26,140	-
FY18 Urban Area Security Initiative	97.067	2018	5,195	-
FY19 Urban Area Security Initiative	97.067	2019	10,000	-
<i>Passed through California Emergency Management Agency:</i>				
2018 Operation Stone Garden	97.067	2018	33,275	-
CFDA 97.067 Subtotal			<u>116,663</u>	<u>-</u>
Total U.S. Department of Homeland Security			<u>116,663</u>	<u>-</u>
Total Expenditures of Federal Awards			<u>\$ 16,368,680</u>	<u>\$ 254,965</u>

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

City of National City
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2020

Note 1 – Reporting Entity

The financial reporting entity consists of the primary government, City of National City (the “City”), organizations for which the primary government is financially accountable, and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity’s financial statements to be misleading or incomplete.

The City Council acts as the governing body and is able to impose its will on the following organizations, establishing financial accountability:

- The National City Joint Powers Financing Authority
- The Parking Authority of the City of National City

Note 2 – Basis of Accounting

Funds received under the various grant programs have been recorded within the general fund and special revenue funds of the City. The City utilizes the modified accrual method of accounting for the general fund and special revenue funds. The accompanying Schedule of Expenditures of Federal Awards (“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). Therefore, some amounts presented in the schedule may differ from amounts presented in, or used in, the preparation of the City’s basic financial statements.

Note 3 – Schedule of Expenditures of Federal Awards

The accompanying Schedule of Expenditures of Federal Awards (Schedule) presents the activity of all federal financial assistance programs of the City. Federal financial assistance received directly from federal agencies, as well as federal financial assistance passed through the State of California and the County of San Diego is included in the Schedule. The Schedule was prepared only from the accounts of various grant programs and, therefore, does not present the financial position or results of operations of the City.

Note 4 – Indirect Cost Rate

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

City of National City
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2020

Section I – Summary of Auditor’s Results

Financial Statements

Type of report the auditors issued on whether the financial statements audited were prepared in accordance with GAAP: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? No
- Significant deficiency(ies) identified? None Reported

Noncompliance material to financial statements noted? No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? No
- Significant deficiency(ies) identified? 2020-001

Type of auditor’s report issued on compliance for major programs Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? Yes

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster	Expenditures
14.871	Housing Voucher Cluster	\$ 12,908,255
21.019	COVID-19 - Coronavirus Relief Fund (CRF)	1,095,124
	Total Expenditures of All Major Federal Programs	\$ 14,003,379
	Total Expenditures of Federal Awards	\$ 16,368,680
	Percentage of Total Expenditures of Federal Awards	85.55%

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

Auditee qualified as low-risk auditee in accordance with 2 CFR 200.520? Yes

City of National City
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2020

Section II – Financial Statement Findings

A. Current Year Findings – Financial Statement Audit

No findings were noted on the City’s financial statement audit for the year ended June 30, 2020.

B. Prior Year Findings – Financial Statement Audit

No findings were noted on the City’s financial statement audit for the year ended June 30, 2019.

City of National City
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2020

Section III – Federal Award Findings

A. Current Year Findings and Questioned Costs – Major Federal Award Program Audit

2020-001 Subrecipient Monitoring

Information on the Federal Program:

CFDA #21.019 COVID-19 – Coronavirus Relief Fund (CRF), U.S. Department of the Treasury, Passed through the County of San Diego, Grant Award No. 05192020-14-11

Criteria:

Pursuant to Code of Federal Regulations §200.331 requirements for pass-through entities:

A pass-through entity must:

Identify the Award and Applicable Requirements – clearly identify to the subrecipient:

- (1) the award as a subaward at the time of subaward (or subsequent subaward modification) by providing the information described in 2 CFR section 200.331(a)(1);
- (2) all requirements imposed by the pass-through entity on the subrecipient so that the federal award is used in accordance with federal statutes, regulations, and the terms and conditions of the award (2 CFR section 200.331(a)(2)); and;
- (3) any additional requirements that the pass-through entity imposes on the subrecipient in order for the pass-through entity to meet its own responsibility for the federal award (e.g., financial, performance, and special reports) (2 CFR section 200.331(a)(3)).

Evaluate Risk – Evaluate each subrecipient’s risk of noncompliance for purposes of determining the appropriate subrecipient monitoring related to the subaward (2 CFR section 200.331(b)). This evaluation of risk may include consideration of such factors as the following:

1. The subrecipient’s prior experience with the same or similar subawards;
2. The results of previous audits including whether or not the subrecipient receives single audit in accordance with 2 CFR part 200, subpart F, and the extent to which the same or similar subaward has been audited as a major program;
3. Whether the subrecipient has new personnel or new or substantially changed systems; and
4. The extent and results of federal awarding agency monitoring (e.g., if the subrecipient also receives federal awards directly from a federal awarding agency).

Monitor – Monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes, complies with the terms and conditions of the subaward, and achieves performance goals (2 CFR sections 200.331(d) through (f)).

City of National City
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2020

Section III – Federal Award Findings (Continued)

A. Current Year Findings and Questioned Costs – Major Federal Award Program Audit (Continued)

2020-001 Subrecipient Monitoring (Continued)

Context:

Auditors tested the City’s federal expenditures for allowability. A payment to the San Diego Economic Development Corporation (the “subrecipient”) was selected for testing. Based on information provided by the City, the auditors performed a “subrecipient vs. vendor” test and determined that the relationship was a subrecipient relationship that was subject to additional compliance requirements.

Condition:

During our audit, we noted that the City passed federal money through to the subrecipient and did not provide the subrecipient with required information regarding the fact that the pass-through funds were federal, did not provide the federal catalog of federal domestic assistance (“CFDA”) number associated with the award, and did not provide additional information regarding the requirements for the need for a potential Single Audit to be performed. The City also did not perform a risk assessment on the subrecipient or evaluate the potential need for additional stipulations in the pass-through contract due to the fact that the pass-through funding was federal.

Cause:

The City did not have sufficient policies and procedures in place to evaluate whether the payment to the subrecipient was a pass-through grant or a contractor payment and therefore, did not perform the required additional compliance procedures for subrecipient monitoring.

Effect:

The City was not in compliance with the subrecipient monitoring requirement of the Uniform Guidance referenced above in the *Criteria* section.

Questioned Costs:

No questioned costs were noted in connection with the payments to the subrecipient.

Identification as a Repeat Finding:

Not applicable.

Recommendation:

We recommend the City establish policies and procedures for determining whether recipients of federal funds are subrecipients or vendors. We also recommend that, once a subrecipient relationship is determined, the City follow Uniform Guidance requirements for performing risk assessment on each subrecipient and for proper notification of federal award data and compliance requirements to the subrecipient.

View of Responsible Officials and Planned Corrective Action:

Although no formal risk assessment was performed and documented, the City did decide the risk to be low. The South County Economic Development Corporation is a trusted City partner in working with the business community and it was appropriate to proceed forward with the CARES Act funding distribution due to the urgency in providing relief monies to the subrecipients in an expeditious manner.

The City will enhance and/or establish policies and procedures for determining whether recipients of federal funds are subrecipients or vendors. If the pass-through entity is determined to be a subrecipient the City will follow the Uniform Guidance requirements of performing risk assessment and for proper notification of federal award data and compliance requirements (CFR Section 200.331) to the subrecipient.

City of National City
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2020

Section III – Federal Award Findings (Continued)

B. Prior Year Findings and Questioned Costs – Major Federal Award Program Audit

No findings or questioned costs were noted on the City's major federal programs for the year ended June 30, 2019.