

City of National City

National City, California

Single Audit and Independent Auditors' Reports

For the Year Ended June 30, 2022



City of National City

Table of Contents

	<i><u>Page</u></i>
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 <i>Government Auditing Standards</i>	1
Independent Auditors' 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	3
Schedule of Expenditures of Federal Awards	7
Notes to the Schedule of Expenditures of Federal Awards	9
Schedule of Findings and Questioned Costs	10

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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, 2022, 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 June 9, 2023.

Report on 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) as a basis for designing 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 identified certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs as items 2022-001 and 2022-002, that we consider to be material weaknesses, and items 2022-003 and 2022-004 that we consider to be significant deficiencies.

To the Honorable Mayor and Members of City Council
of the City of National City
National City, California
Page 2

Report on 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 financial statements. 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*.

The City’s Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the City’s responses to the findings identified in our audit and described in the accompanying Schedule of Findings and Questioned Costs. The City’s responses were not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

Purpose of This Report

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

A handwritten signature in black ink that reads "The PwC Group, LLP". The signature is written in a cursive, flowing style.

San Diego, California
June 9, 2023

**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

Opinion on 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, 2022. 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.

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, 2022.

Basis for Opinion on Each Major Federal Program

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"). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the City's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the City's federal programs.

Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the City's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in the United States of America, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the City's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with auditing standards generally accepted in the United States of America, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the City's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the City's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 the City's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on 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 a 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.

To the Honorable Mayor and Members of City Council
of the City of National City
National City, California
Page 3

Our consideration of internal control over compliance was for the limited purpose described in the Auditors' Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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 the Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

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, 2022, and have issued our report thereon dated June 9, 2023, 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
June 9, 2023

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City of National City
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2022

Federal Grantor/Pass-Through Grantor Program Title	Assistance Listing 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	B-19-MC-06-0560	\$ 53,056	\$ 41,000
Community Development Block Grant	14.218	B-20-MW-06-0560	173,211	70,388
Community Development Block Grant	14.218	B-21-MC-06-0560	742,879	20,000
CDBG - Entitlement Grants Cluster Subtotal			969,146	131,388
Home Investment Partnership Program:				
Home Investment Partnership Program	14.239	Program Income	23,656	-
Home Investment Partnership Program	14.239	M-17-MC-06-0522	3,735	-
Home Investment Partnership Program	14.239	M-18-MC-06-0522	48,524	13,742
Home Investment Partnership Program	14.239	M-19-MC-06-0522	158,492	125,733
Home Investment Partnership Program	14.239	M-20-MC-06-0522	8,520	-
Home Investment Partnership Program Subtotal			242,927	139,475
Housing Voucher Cluster:				
Section 8 Housing Choice Voucher Program	14.871	CA116VO	13,889,913	-
Housing Choice Voucher Administrative Fees - CARES	14.871/EHV	CA116VO	53,560	-
Housing Voucher Cluster Subtotal			13,943,473	-
Total U.S. Department of Housing and Urban Development			15,155,546	270,863
U.S. Department of Justice:				
<i>Direct Programs:</i>				
Edward Byrne Memorial JAG Program	16.738	2020-VD-BX-0743 OJP	51,908	-
CFDA 16.738 Subtotal			51,908	-
Total U.S. Department of Justice			51,908	-
U.S. Department of Transportation:				
<i>Passed through the California Office of Traffic Safety:</i>				
Highway Safety Cluster:				
STEP OTS Grant	20.600	PT21111	3,682	-
STEP OTS Grant	20.600	PT22040	21,971	-
Highway Safety Cluster Subtotal			25,653	-
STEP OTS Grant	20.608	PT21111	23,046	-
STEP OTS Grant	20.608	PT22040	26,033	-
CFDA 20.608 Subtotal			49,079	-
<i>Passed through the California Department of Transportation:</i>				
Highway Planning and Construction Cluster:				
Highway Planning & Construction	20.205	HSIPL-5066(039)	134,032	-
Highway Planning & Construction	20.205	HSIPL-5066(040)	186,377	-
Highway Planning & Construction	20.205	HSIPL-5066(041)	37,236	-
Highway Planning & Construction	20.205	HSIPL-5066(042)	9,834	-
Highway Planning & Construction	20.205	HSIPL-5066(043)	418,123	-
Highway Planning & Construction	20.205	HSIPL-5066(044)	63,135	-
Highway Planning & Construction	20.205	HSIPL-5066(045)	18,050	-
Highway Planning & Construction	20.205	HSIPL-5066(025)	32,010	-
Highway Planning & Construction	20.205	ATPL-5066(032)	1,268,893	-
Highway Planning and Construction Cluster Subtotal			2,167,690	-
Total U.S. Department of Transportation			2,242,422	-

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, 2022

Federal Grantor/Pass-Through Grantor Program Title	Assistance Listing Number	Grant Award Number	Federal Expenditures	Amount Provided to Subrecipients
U.S. Department of Treasury:				
<i>Direct Program:</i>				
Coronavirus State and Local Fiscal Recovery Fund (ARPA)	21.027	1505-0271	3,525,586	-
Total U.S. Department of Treasury			<u>3,525,586</u>	<u>-</u>
U.S. Department of Health and Human Services:				
<i>Direct Program:</i>				
CRI - Mass Prophylaxis Program	93.283	N/A	2,668	-
<i>Passed through the County of San Diego:</i>				
Aging Cluster:				
Special Programs for the Aging Title III, Part B	93.044	Program Income	9,157	-
Special Programs for the Aging Title III, Part B	93.044	561763	80,571	-
Special Programs for the Aging Title III - CARES Act	93.044	561763	32,318	-
Special Programs for the Aging Title III, Part C	93.045	Program Income	54,691	-
Special Programs for the Aging Title III, Part C	93.045	561763	123,821	-
Special Programs for the Aging Title III - Part C-2	93.045	561763	34,174	-
Special Programs for the Aging Title III - CARES Act	93.045	561763	33,625	-
Special Programs for the Aging Title III, Part C	93.053	Incentive Pmt (NSIP-C1)	16,595	-
Special Programs for the Aging Title III, Part B	93.053	Incentive Pmt (NSIP-C2)	12,055	-
Aging Cluster Subtotal			<u>397,007</u>	<u>-</u>
Total U.S. Department of Health and Human Services			<u>399,675</u>	<u>-</u>
Executive Office of the President:				
<i>Direct Programs:</i>				
High Intensity Drug Trafficking Areas Program	95.001	N/A	9,682	-
Total Executive Office of the President			<u>9,682</u>	<u>-</u>
U.S. Department of Homeland Security:				
<i>Direct Programs:</i>				
FY20 State Homeland Security Grant	97.067	2018	27,097	-
FY18 Urban Area Security Initiative	97.067	2018	220,000	-
<i>Passed through California Emergency Management Agency:</i>				
2019 Operation Stone Garden	97.067	2019	19,753	-
CFDA 97.067 Subtotal			<u>266,850</u>	<u>-</u>
<i>Direct Programs:</i>				
SAFER Grant	97.083	EMW-2019-FF-01776	491,531	-
<i>Passed through California Office of Emergency Services</i>				
Hazard Mitigation Grant Program	97.039	HMGP-4308-227-31R	754,646	-
Total U.S. Department of Homeland Security			<u>1,513,027</u>	<u>-</u>
Total Expenditures of Federal Awards			<u>\$ 22,897,846</u>	<u>\$ 270,863</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, 2022

Note 1 – Reporting Entity

The financial reporting entity consists of the primary government, the 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

Expenditures reported on the Schedule of Expenditures of Federal Awards (the “Schedule”) are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule (where applicable) represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Therefore, some amounts presented in the Schedule may differ from amounts presented in, or used in, preparation of the City’s basic financial statements.

Note 3 – Schedule of Expenditures of Federal Awards

The accompanying Schedule includes the federal award activity of the City under programs of the federal government for the year ended June 30, 2022. 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 information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position, changes in net position, or cash flows 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.

Note 5 – Subrecipients

During the fiscal year ended June 30, 2022, the City passed \$270,863 of federal awards through to subrecipients.

City of National City
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2022

Section I – Summary of Auditors’ 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? 2022-001, 2022-002
- Significant deficiency(ies) identified? 2022-003, 2022-004

Noncompliance material to financial statements noted? No

Federal Awards

Internal control over major programs:

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

Type of auditors’ report issued on compliance for major programs Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? No

Identification of major programs:

Assistance Listing Number	Name of Federal Program or Cluster	Expenditures
14.218	Community Development Block Grant - Entitlement Cluster	\$ 969,146
14.871	Housing Voucher Cluster	13,943,473
20.205	Highway Planning and Construction Cluster	2,167,690
21.027	Coronavirus State and Local Fiscal Recovery Fund (ARPA)	3,525,586
97.039	Hazard Mitigation Grant Program	754,646
Total Expenditures of All Major Federal Programs		\$ 21,360,541
Total Expenditures of Federal Awards		\$ 22,897,846
Percentage of Total Expenditures of Federal Awards		93.29%

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? No

City of National City
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2022

Section II – Financial Statement Findings

A. Current Year Findings – Financial Statement Audit

Finding 2022-001 Accounting Close and Accuracy in Financial Reporting

Criteria:

Management is responsible for the accuracy of the financial statements, including disclosures. As part of satisfying that responsibility, staff should possess the skills and knowledge necessary to complete the year-end close and diligently employ that knowledge and skill to produce reliable and accurate financial information.

Condition:

The City did not complete year-end closing procedures before presenting the trial balance to auditors, resulting in journal entries being presented to correct or to reclassify balances in financial statements in order to conform with accounting principles generally accepted in the United States.

Necessary journal entries included the following:

1. adjust general liability and workers' compensation claims costs per actuarial reports;
2. correct loan and interest payments received;
3. adjust net pension liability and related deferred outflows and inflows;
4. record proceeds from bond issuance;
5. amortize discount on bonds;
6. record vehicle lease activity;
7. adjust accrued interest;
8. adjust deferred amounts on refunding;
9. record construction in progress additions and deletions;
10. record machinery and equipment additions, deletions, and depreciation;
11. record infrastructure additions, deletions, and depreciation;
12. adjust unavailable revenue;
13. adjust internal balances for amounts due to/from other funds;
14. adjust compensated absences;
15. record ARPA Fund revenues and adjust unearned revenues;
16. reclass donation to unearned revenue;
17. record net OPEB liability and related deferred outflows and inflows;
18. record prior period adjustment to return capital assets from fiduciary activities to governmental activities;
19. adjust allowance for doubtful accounts for First Time Homebuyer Program;
20. to accrue payroll liability;
21. to adjust unearned revenues

Cause:

The Finance Department did not follow its year-end closing procedures fully in order to provide the auditors with an auditably fully closed trial balance. During the audit process, the Finance Department was not sufficiently staffed with individuals possessing the skills and knowledge necessary to complete the year-end close and diligently employ that knowledge and skill to produce reliable, accurate, and timely financial information, including providing a fully closed trial balance to the auditors.

Context and Effect:

Delays in processing transactions timely and closing accounting periods can create accounting errors that could go undetected and may lead the financial statements to be materially misstated and create further delays in the release of audited financial statements. Significant audit journal entries and client journal entries were necessary in order to get financial statements that were materially fairly stated in accordance with U.S. GAAP.

City of National City
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2022

Section II – Financial Statement Findings (Continued)

A. Current Year Findings – Financial Statement Audit (Continued)

Finding 2022-001 Accounting Close and Accuracy in Financial Reporting (Continued)

Repeat Finding:

No

Recommendation:

The City has the responsibility to present its financial statements in accordance with accounting principles generally accepted in the United States of America. Management in the Finance Department should ensure year-end closing procedures are performed proficiently. This includes proper review of activity of transactions maintained in subsidiary ledgers and on supporting schedules maintained outside of the general ledger, proper cutoff review for account balances at a fund and overall government-wide level, and review of revenues and expenditures/expenses. The City should formally document their year-end closing procedures and include assigned year-end closing duties and due dates for completion.

Management View and Corrective Action Plan:

The Finance Department underwent a major turn over in long time experienced Accounting Staff during the most crucial time of the fiscal year including the fourth quarter of Fiscal Year 2021 and several quarters within Fiscal Year 2022. This unexpected timeline of staffing loss between the two years required new hire recruitment processes and hiring periods. During the transition, the remaining Finance Staff withstood the impact of the major staffing loss and was left to keep schedules moving as best possible. Outside of Finance other departments who Finance relies heavily upon for source information also endured staffing turn-around causing set back in source retrieval to complete varying tasks and schedules. To ensure Finance related tasks and review are well controlled and monitored, a fiscal year calendar matrix will be created and used as a source for the group to use and refer to. The matrix will identify specific responsibilities and tasks, staff assignments, timeline of completion, and target dates to be met. The matrix will be utilized to facilitate stability of all financial related activity and prepared schedules. This will serve as a source as the Finance Staff prepares required deliverables for the interim and final year-end audits. To ensure frequent communication and follow up, the Finance Accounting team will meet on a weekly basis as a form of monitoring tasks to ensure accounting reviews, administration of appropriate entries, and schedule completion are orderly and completed in a timely fashion.

Finding 2022-002 Internal Control Over Financial Reporting – Prior Period Adjustments in Capital Assets

Criteria:

Management is responsible for designing, implementing, and maintaining appropriate internal control over financial reporting and compliance. Management is also responsible for the accuracy of the financial statements including disclosures.

The internal control should include establishing or enhancing guidance in the following areas:

- *Control environment* sets the tone of an organization, influencing the control consciousness of its people. It is the foundation for all other components of internal control, providing discipline and structure.
- *Risk assessment* is the entity's identification and analysis of relevant risks to achievement of its objectives, forming a basis for developing appropriate risk responses.
- *Control activities* are the actions management establishes through policies and procedures to achieve objectives and respond to risks in the internal control system.

City of National City
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2022

Section II – Financial Statement Findings (Continued)

A. Current Year Findings – Financial Statement Audit (Continued)

Finding 2022-002 Internal Control Over Financial Reporting – Prior Period Adjustments in Capital Assets (Continued)

Criteria (Continued):

- *Information and communication* systems support the identification, capture, and exchange of information in a form and time frame that enables people to carry out their responsibilities.
- *Monitoring* consists of activities management establishes and operates to assess the quality of performance over time.

Condition:

During the audit, as discussed in Note 15 to the basic financial statements, the City restated its beginning net position of the government-wide governmental activities by \$(1,938,142) and the fiduciary activities by \$(450,000) in order to transfer general capital assets from the fiduciary activities to governmental activities and to adjust infrastructure in the governmental-activities by \$(2,388,142).

Cause:

The City did not properly follow its policies and procedures for evaluating, reviewing, and properly recording financial transactions relating to the recording and reporting of capital assets. Capital assets schedules and sub-ledgers that support the amounts and disclosures in the financial statements should be reconciled to the general ledger and reviewed by management in a timely manner.

Repeat Finding:

No

Effect or Potential Effect:

Restatements of beginning net position as of July 1, 2021 for both the government-wide financial statements \$(1,938,142) and fiduciary activities \$(450,000) were necessary.

Recommendation:

The City should enhance its review processes over transactions arising from capital assets to ensure the accurate and complete year-end closing of the general ledger and the preparation of its basic financial statements.

Management View and Corrective Action Plan:

The \$450,000 capital asset adjustment stems from the dissolution of the National City Redevelopment Agency (RDA) in 2012 when land assets of \$2,050,000 and building assets of \$2,450,000 in buildings were transferred to the newly formed Successor Agency. Of the \$2,050,000 in land assets, \$450,000 corresponded to the parcels of land upon which the Nutrition and Senior Centers sat. Of the \$2,450,000 in building assets, \$800,000 represented the value of the buildings themselves, albeit, fully depreciated. These properties were purchased and developed with money provided by the federal Department of Housing and Urban Development, not Redevelopment Agency funds, so they should not have been on the list of properties to transfer. In 2016, as required by Redevelopment Agency Dissolution Law, a Long Range Property Management Plan was prepared to identify which former RDA-owned properties were to be retained by the City in perpetuity and which were to be held to sell for future development and subsequent sharing of the proceeds among the affected taxing entities. Upon the approval of the Long Range Property Management Plan, the properties identified therein became either land held for resale or capital assets of the City depending upon their respective designations. The Nutrition and Senior Centers were not included in that Plan because as noted above, they were not acquired using RDA funds, and thus remained on the Successor Agency's balance sheet. Subsequent research has resulted in this adjustment to correct the error made in 2012. The City will exercise greater diligence in maintaining its records of capital assets to prevent such occurrences in the future."

City of National City
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2022

Section II – Financial Statement Findings (Continued)

A. Current Year Findings – Financial Statement Audit (Continued)

Finding 2022-003 Internal Control Over Preparation of the Schedule of Expenditures of Federal Awards

Criteria:

2 CFR 200.302(b)(1) states that the nonfederal entity must identify in its accounts all federal awards received and expended, as well as the federal programs under which they were received. Federal program and award identification must include, as applicable, the assistance listing title and number, the federal award identification number and year, the name of the federal agency, and the name of the pass-through entity, if any. This information enables the auditee to reconcile amounts presented in the financial statements to related amounts in the Schedule of Expenditures of Federal Awards.

Pursuant to Code of Federal Regulation §200.510 Financial Statements:

All auditees must:

(1) Schedule of Expenditures of Federal Awards. The auditee must also prepare a Schedule of Expenditures of Federal Awards for the period covered by the auditee's financial statements which must include the total federal awards expended as determined in accordance with §200.502 Basis for determining federal awards expended. While not required, the auditee may choose to provide information requested by federal awarding agencies and pass-through entities to make the schedule easier to use. For example, when a federal program has multiple federal award years, the auditee may list the amount of federal awards expended for each federal award year separately. At a minimum, the schedule must:

(2) List individual federal programs by federal agency. For a cluster of programs, provide the cluster name, list individual federal programs within the cluster of programs, and provide the applicable federal agency name. For R&D, total federal awards expended must be shown either by individual federal award or by federal agency and major subdivision within the federal agency.

(3) Provide total federal awards expended for each individual federal program and the assistance listing number or other identifying number when the assistance listing number information is not available. For a cluster of programs also provide the total for the cluster.

Pursuant to Code of Federal Regulation §200.514 Scope of Audit:

(a) Financial statements. The auditor must determine whether the financial statements of the auditee are presented fairly in all material respects in accordance with generally accepted accounting principles. The auditor must also determine whether the Schedule of Expenditures of Federal Awards is stated fairly in all material respects in relation to the auditee's financial statements as a whole.

Condition:

During our review of the Schedule of Expenditures of Federal Awards (“Schedule”) provided by the City, we noted that the City originally incorrectly identified federal assistance listing number 97.039 for the Hazard Mitigation Grant Program as federal assistance listing number 20.205 for the Highway Planning and Construction Cluster.

Cause:

There was insufficient review of the federal assistance listing numbers included on the Schedule prior to providing the Schedule to the auditors.

City of National City
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2022

Section II – Financial Statement Findings (Continued)

A. Current Year Findings – Financial Statement Audit (Continued)

Finding 2022-003 Internal Control Over Preparation of the Schedule of Expenditures of Federal Awards (Continued)

Repeat Finding:

No

Effect or Potential Effect:

The change to the schedule meant a reassessment of the City’s major programs for fiscal year 2022 needed to be performed. This resulted in additional programs that needed to be tested as major programs according to the Uniform Guidance.

Also, the federal expenditure amounts, funding agreement numbers and grantor information provided to the Federal Audit Clearinghouse may be inaccurate, leading to potential noncompliance with reporting requirements and incorrect identification of major programs.

Recommendation:

We recommend frequent communication between Finance Department and other departments in identifying federal programs. In addition, we recommend the City provide more training to both grant management staff and finance staff to enhance the skill in preparing a Schedule that is accurate and complete at the time it is provided to the auditors.

Management View and Corrective Action Plan:

The Finance Department underwent a major turn over in long time experienced Accounting Staff during the most crucial time of the fiscal year including the fourth quarter of Fiscal Year 2021 and several quarters within Fiscal Year 2022. This unexpected timeline of staffing loss between the two years required new hire recruitment processes and hiring periods. During the transition, the remaining Finance Staff withstood the impact of the major staffing loss and was left to keep schedules moving as best possible. Outside of Finance other departments who Finance relies heavily upon for source information also endured staffing turn-around causing set back in source retrieval to complete varying tasks and schedules. To ensure Finance has control over in preparation of the Schedule of Expenditures of Federal Awards, assigned Finance Staff will review the Federal related revenue and expenditures monthly, obtain the grant award agreements from each city grant administrator and retain copies of the grants on file for verification of grant compliance requirements, identify the federal assistance listing number, and program period. The assigned Finance Staff will frequently communicate with the city grant administrators regarding the activity of the Federal related programs. As the City nears year end, Finance Staff will ask the city grant administrators to provide an accumulated detail of expenditures and detail report of reimbursement requests processed for the fiscal year to ensure that the revenues and expenditures are fully accounted for and recorded. After the assigned Finance Staff has completed the SEFA Schedule, it will be reviewed by a Finance Support Associate, Analyst and/or Manager prior to its release for audit review.

City of National City
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2022

Section II – Financial Statement Findings (Continued)

A. Current Year Findings – Financial Statement Audit (Continued)

Finding 2022-004 Delay in Financial Reporting

Criteria:

Management is responsible for providing timely and accurate financial information. Since the City has expended over \$750,000 of expenditures of federal awards, Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Award* (Uniform Guidance), states the City is required to submit the Data Collection Form and the reporting package to the Federal Audit Clearinghouse and the State Controller’s Office, which includes the Single Audit Report of the City, within the earlier of 30 days after receipt of auditor’s report, or nine months after the end of the audit period.

Condition:

The City has experienced delays in the issuance of the 2022 Single Audit required under Uniform Guidance.

Cause:

Due to changes in accounting staff and significant unforeseen workload impacts the Finance Department had difficulty handling the day-to-day operations and performing year-end closing procedures and the required external reporting functions simultaneously in order to provide timely financial statements (including the Single Audit Report).

Repeat Finding:

No.

Effect or Potential Effect:

Delays in processing year-end closing procedures caused the financial statements release to be delayed. In addition, the City is neither in compliance with Uniform Guidance nor is it meeting its current demands for external financial reporting.

Recommendation:

Finance Department should look at increasing the amount of experienced finance staff to help facilitate year-end closing processes and the preparation of its basic financial statements (including the Single Audit Report). Because the basic financial statements (including the Single Audit Report) are the responsibility of the City, it is in its own best interest to closely monitor the accounting process to ensure that financial position and operating results are accurately and timely reported. The following steps could be used to avoid future delays:

- Assign additional qualified accounting personnel to help process complex transactions;
- Identify critical due dates and develop a listing of assignment, including department coordinated items, based on available resources to meet those due dates;
- Hold periodic meetings to monitor the progress of assignments and responsibilities; and
- Conduct enhanced management review of financial statements and audit schedules prior to presenting them to the auditors.

City of National City
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2022

Section II – Financial Statement Findings (Continued)

A. Current Year Findings – Financial Statement Audit (Continued)

Finding 2022-004 Delay in Financial Reporting (Continued)

Management’s View and Corrective Action Plan:

The Finance Department underwent a major turn over in long time experienced Accounting Staff during the most crucial time of the fiscal year including the fourth quarter of Fiscal Year 2021 and several quarters within Fiscal Year 2022. This unexpected time line of staffing loss between the two years required new hire recruitment processes and hiring periods. During the transition, the remaining Finance Staff withstood the impact of the major staffing loss and was left to keep schedules moving as best possible. Outside of Finance other departments who Finance relies heavily upon for source information also endured staffing turn-around causing set back in source retrieval to complete varying tasks and schedules. To ensure Finance related tasks and review are well controlled and monitored, a fiscal year calendar matrix will be created and used as a source for the group to use and refer to. The matrix will identify specific responsibilities and tasks, staff assignments, time line of completion, and target dates to be met. The matrix will be utilized to facilitate stability of all financial related activity and prepared schedules. This will serve as a source as the Finance Staff prepares required deliverables for the interim and final year- end audits. To ensure frequent communication and follow up, the Finance Accounting team will meet on a weekly basis as a form of monitoring tasks to ensure accounting reviews, administration of appropriate entries, and schedule completion are orderly and completed in a timely fashion to meet stated audit target dates and timelines.

B. Prior Year Findings – Financial Statement Audit

No findings were noted on the City’s financial statement audit for the year ended June 30, 2021.

City of National City
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2022

Section III – Federal Award Findings

A. Current 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, 2022.

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, 2021.

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