

City of National City

National City, California

Single Audit And Independent Auditors' Reports

For the Year Ended June 30, 2014



PUN & McGEADY ^{LLP}
Certified Public Accountants and Business Advisors

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 *GOVERNMENTAL 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, the business-type 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, 2014, 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 18, 2014.

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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs to be a material weakness as item 2014-01.

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 instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

To the Honorable Mayor and Members of City Council
of the City of National City
National City, California
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The City's Response to Findings

The City's response to the 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 the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

A handwritten signature in black ink that reads "Paul J. McGeady LLP". The signature is written in a cursive style with a large, stylized initial "P" and "M".

San Diego, California
December 18, 2014



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**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; ON INTERNAL CONTROL
OVER COMPLIANCE AND ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
REQUIRED BY OMB CIRCULAR A-133**

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 U.S. Office of Management and Budget ("OMB") *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014. The City's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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, 2014.

Other Matters

The results of our auditing procedures disclosed one instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying Schedule of Findings and Questioned Costs as item 2014-02. Our opinion on each major federal program is not modified with respect to these matters.

The City's response to the noncompliance finding 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 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 OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified one deficiency in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as item 2014-02 that we consider to be a significant deficiency.

The City's response to the internal control over compliance 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.

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, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of and for the year ended June 30, 2014, and have issued our report thereon dated December 18, 2014 which contained an unqualified opinion on those financial statements. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 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 basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain other procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditure of Federal Awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Purpose of this Report

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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in black ink that reads "PUN & McGEADY LLP". The signature is written in a cursive, slightly slanted style.

San Diego, California
February 26, 2015

Except for the Schedule of Expenditures of Federal Award, which is dated as of December 18, 2014

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City of National City
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2014

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 Grant Cluster:				
Community Development Block Grant - Entitlement	14.218	B-12-MC-06-0560, B-13-MC-06-0560	\$ 666,388	\$ 63,000
CDBG Entitlement Grant Cluster Subtotal			<u>666,388</u>	<u>63,000</u>
Home Investment Partnership Program	14.239	Program Income	1,968,019	-
Home Investment Partnership Program	14.239	M-08-MC-06-0522, M-09-MC-06-0522, M-10-MC-06-0522, M-11-MC-06-0522, M-13-MC-06-0522, M-14-MC-06-0522	659,084	342,875
Home Investment Partnership Program Subtotal			<u>2,627,103</u>	<u>342,875</u>
Housing Voucher Cluster:				
Section 8 Housing Choice Voucher Program	14.871	CA116VO	9,890,528	-
Housing Voucher Cluster Subtotal			<u>9,890,528</u>	<u>-</u>
Total U.S. Department of Housing and Urban Development			<u>13,184,019</u>	<u>405,875</u>
U.S. Department of Justice:				
<i>Direct Programs:</i>				
Justice Assistance Grant Program Cluster:				
FY2011 Edward Byrne JAG Program	16.738	2011-DJ-BX-3173	17,174	-
FY2012 Edward Byrne JAG Program	16.738	2012-DJ-BX-0458	12,990	-
FY2013 Edward Byrne JAG Program	16.738	2013-DJ-BX-0168	30,915	-
Justice Assistance Grant Program Cluster Subtotal			<u>61,079</u>	<u>-</u>
Equitable Sharing Program	16.922	N/A	22,644	-
Bulletproof Vest Partnership	16.607	N/A	3,043	-
Total U.S. Department of Justice			<u>86,766</u>	<u>-</u>
U.S. Department of Transportation:				
<i>Direct Programs:</i>				
Highway Safety Cluster:				
AVOID DUI Grant	20.600	PT1330	1,762	-
2013 STEP Grant	20.600	PT1342	21,252	-
2014 STEP Grant	20.600	PT1420	90,817	-
OTS Sobriety Checkpoint Grant	20.600	SC13279	15,937	-
Sobriety Checkpoint Grant Program	20.600	SC14279	42,715	-
Highway Safety Cluster Subtotal			<u>172,483</u>	<u>-</u>
Total U.S. Department of Transportation			<u>172,483</u>	<u>-</u>

City of National City
Schedule of Expenditures of Federal Awards (Continued)
For the Fiscal Year Ended June 30, 2014

Federal Grantor/Pass-Through Grantor Program Title	CFDA Number	Grant Award Number	Federal Expenditures	Amount Provided to Subrecipients
U.S. Department of Health and Human Services:				
<i>Direct Program:</i>				
Communities Putting Prevention to Work	93.283	N/A	\$ 6,303	\$ -
<i>Passed through the County of San Diego:</i>				
<i>Aging Cluster:</i>				
Special Programs for the Aging Title III, Part B	93.044	533563	6,382	-
Special Programs for the Aging Title III, Part C	93.045	533563	295,875	-
Special Programs for the Aging Title III, Part C	93.045	Program Income	121,096	-
Aging Cluster Subtotal			<u>423,353</u>	<u>-</u>
Total U.S. Department of Health and Human Services			<u>429,656</u>	<u>-</u>
Executive Office of the President:				
<i>Direct Program:</i>				
High Intensity Drug Trafficking Areas Program (HIDTA)	95.001	N/A	19,500	-
Total Executive Office of the President			<u>19,500</u>	<u>-</u>
U.S. Department of Homeland Security:				
<i>Direct Programs:</i>				
FY10 Homeland Sec. Grant Prog. (Equip.)	97.067	2010-0011	7,644	-
FY11 State Homeland Security Grant	97.067	2011	14,911	-
FY12 State Homeland Security Grant	97.067	2012	26,171	-
<i>Passed through California Emergency Management Agency:</i>				
Operation Stone Garden	97.067	2011, 2012, 2013	119,542	-
Homeland Security Grant Program Subtotal			<u>168,268</u>	<u>-</u>
Total U.S. Department of Homeland Security			<u>168,268</u>	<u>-</u>
Total Expenditures of Federal Awards			<u>\$ 14,060,692</u>	<u>\$ 405,875</u>

City of National City
Notes to Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2014

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 – Summary of Significant Accounting Policies

Basis of Accounting

Funds received under the various grant programs have been recorded within the special revenue and capital projects funds of the City. The City utilizes the modified accrual basis of accounting for the special revenue and capital projects funds. The accompanying Schedule of Expenditures of Federal Awards (Schedule) is presented in accordance with the requirements of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in the Schedule may differ from amounts presented in, or used in, the preparation of City’s basic financial statements.

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.

City of National City
Schedule of Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2014

Section I – Summary of Auditor’s Results

Financial Statements

Types of auditors’ report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? 2014-01
- Significant deficiency(ies) identified? None Noted

Noncompliance material to financial statements noted? No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? No
- Significant deficiency(ies) identified? 2014-02

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 section 510(a) of OMB Circular A-133 Yes

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>	<u>Expenditures</u>
93.044/93.045	Aging Cluster	\$ 423,353
14.239	Home Investment Partnership Program	2,627,103
14.871	Housing Voucher Cluster	9,890,528
Total Expenditures of All Major Federal Programs		\$ 12,940,984
Total Expenditures of Federal Awards		\$ 14,060,692
Percentage of Total Expenditures of Federal Awards		92.04%

Dollar threshold used to distinguish between type A and type B program \$421,821

Auditee qualified as low-risk auditee under section 530 of OMB Circular A-133? No

City of National City
Schedule of Findings and Questioned Costs (Continued)
For the Fiscal Year Ended June 30, 2014

Section II – Financial Statement Findings

Finding: 2014-01, Internal Control Over Financial Reporting

Criteria:

Effective internal control over financial reporting provides reasonable assurance for the completeness and accuracy of accounting records and proper year-end closing.

Condition:

During the audit, a prior period adjustment was recorded to the Successor Agency to the Community Development Commission of National City to recognize notes receivable from the developer of the Transit-Oriented Infill Affordable Housing and Paradise Creek Enhancement Project. Amounts loaned to the developer had previously been expensed. The effect of this adjustment resulted in a material increase to 2013 net position.

Cause:

The City did not properly follow its policies and procedures for evaluating, reviewing, and properly recording financial transactions arising from the recording of notes receivable in the prior year.

Context and Effect:

The Successor Agency to the Community Development Commission of National City Private-Purpose Trust Fund, Statement of Changes in Fiduciary Net Position, beginning net position, was understated by \$1,137,339.

Recommendation:

The City should enhance its review processes over transactions arising from the recording of notes receivables relating to developers to ensure that they are thoroughly evaluated, reviewed and recorded in order to facilitate the accurate and complete year-end closing of the general ledger and the preparation of its basic financial statements.

Views of Responsible Officials and Planned Corrective Actions:

Upon its review of the City's year-end procedures and General Ledger, City of National City ("City") staff identified the prior period adjustment necessary; therefore, Management concurs with the auditor's recommendation. Management will review with staff the process for recording notes receivable transactions relating to developers.

City of National City
Schedule of Findings and Questioned Costs (Continued)
For the Fiscal Year Ended June 30, 2014

Section III – Federal Award Findings

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

Finding: 2014-02, Allowable Costs/Cost Principles

Information on the Federal Program:

Section 8 Housing Choice Vouchers (CFDA # 14.871, US Department of Housing and Urban Development)

Criteria:

TITLE 2—GRANTS AND AGREEMENTS, PART 225—*COST PRINCIPLES OF STATE, LOCAL, AND INDIAN TRIBAL GOVERNMENT* (OMB Circular A-87), Attachment A—General Principles for Determining Allowable Costs, Part C—Basic Guidelines

- (2) To be allowable under Federal awards, costs must meet the following general criteria (A-87, Attachment A, paragraph C.1):
 - (a) Be necessary and reasonable for the performance and administration of Federal awards. (Refer to A-87, Attachment A, paragraph C.2 for additional information on reasonableness of costs.)
 - (e) Be consistent with policies, regulations, and procedures that apply uniformly to both Federal awards and other activities of the governmental unit.
 - (f) Be accorded consistent treatment. A cost may not be assigned to a Federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the Federal award as an indirect cost.

Condition:

During our review of management's corrective action plan for the prior year finding 2013-05 we noted a memorandum of understanding between the Community Development Commission-Housing Authority and the City detailing the rent expense to be charged to the Housing Choice Voucher Program be based off of a proportional calculation of 2,625 square feet out of 283,986 of total City facility space. However, the actual indirect building services charges were charged to the grant using a proportional square footage of 8,884 which is in excess of the proportion agreed upon in the memorandum of understanding. Based upon this difference, indirect building service charges in excess of those determined by the memorandum of understanding totaled \$57,909 and \$53,780 for fiscal year 2014 and 2013, respectively.

Questioned Costs:

Fiscal Year 2014: \$57,909; Fiscal Year 2013: \$53,780.

Context and Effect:

Due to the lack of internal control and review processes, an incorrect base for allocating indirect building services charges was used which caused an overcharge for Fiscal Year 2014 and 2013 of \$57,909 and \$53,780, respectively.

City of National City
Schedule of Findings and Questioned Costs (Continued)
For the Fiscal Year Ended June 30, 2014

Section III – Federal Award Findings (Continued)

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

Finding: 2014-02, Allowable Costs/Cost Principles (Continued)

Recommendation:

Management should review all indirect cost bases to verify they are consistent with other agreements and that proper amounts are charged each year to federally funded programs. Should the City and the Community Development Commission-Housing Authority determine the need to add additional square footage to the Housing Choice Voucher Program’s allocation to include common areas and storage, an amendment to the original memorandum of understanding should be executed.

Views of Responsible Officials and Planned Corrective Actions:

Management concurs with the auditor’s recommendation. As a corrective action for the prior year finding noted, the City and the Community Development Commission-Housing Authority entered into a memorandum of understanding to clearly delineate the rent fee and other allowable cost for the use of office space occupied by Housing Choice Voucher (“HCV”) program staff members. At that time, staff calculated the office space occupied to be approximately 1,760 square feet. However, upon learning of the square footage discrepancy noted, staff performed a review of the office space and the City’s indirect building service charge calculations, at which time it identified areas (common areas and storage) used by and for the benefit of the HCV Program that were omitted in the original office space review. Adding this previously omitted space, the total space occupied by the HCV Program totals 2,625 square feet, resulting in overcharges for Fiscal Years 2014 and 2013 of \$57,909 and \$53,780, respectively. Management will continue to review its internal service charge calculations.

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

Finding 2013-05:	Allowable Costs/Cost Principles
Federal Agency:	Department of Housing and Urban Development
Program Name:	Section 8 Housing Choice Vouchers
CFDA Number:	14.871
Program Expenditures:	\$10,285,704
Award Year:	2013
Status:	Corrective action has been taken.