

City of National City

National City, California

Single Audit And Independent Auditors' Reports

For the Year Ended June 30, 2015



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, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated March 9, 2016.

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 opinion 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 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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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.

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San Diego, California
March 9, 2016



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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, 2015. The City's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with 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, 2015.

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. 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.

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, 2015, and have issued our report thereon dated January 29, 2016 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.

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 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.

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

San Diego, California
March 9, 2016,
Except for the Schedule of Expenditures of Federal Award, which is dated as of January 29, 2016.

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City of National City
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2015

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-13-MC-06-0560, B-14-MC-06-0560	\$ 1,039,044	\$ 49,978
CDBG Entitlement Grant Cluster Subtotal			<u>1,039,044</u>	<u>49,978</u>
Home Investment Partnership Program	14.239	Program Income	218,183	-
Home Investment Partnership Program	14.239	M-11-MC-06-0522, M-12-MC-06-0522, M-13-MC-06-0522, M-14-MC-06-0522	286,115	-
Home Investment Partnership Program Subtotal			<u>504,298</u>	<u>-</u>
Housing Voucher Cluster:				
Section 8 Housing Choice Voucher Program	14.871	CA116VO	9,759,722	-
Housing Voucher Cluster Subtotal			<u>9,759,722</u>	<u>-</u>
Total U.S. Department of Housing and Urban Development			<u>11,303,064</u>	<u>49,978</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	23,236	-
FY2014 Edward Byrne JAG Program	16.738	2014-DJ-BX-0065	31,222	-
Justice Assistance Grant Program Cluster Subtotal			<u>54,458</u>	<u>-</u>
Equitable Sharing Program	16.922	N/A	17,560	-
Bulletproof Vest Partnership	16.607	N/A	9,181	-
Total U.S. Department of Justice			<u>81,199</u>	<u>-</u>
U.S. Department of Transportation:				
<i>Passed through the California Office of Traffic Safety:</i>				
Highway Safety Cluster:				
AVOID DUI Grant	20.600	2014	9,806	-
2014 STEP Grant	20.600	PT1420	14,608	-
2015 STEP Grant	20.600	PT1560	50,751	-
Sobriety Checkpoint Grant Program	20.600	SC14279	17,862	-
Highway Safety Cluster Subtotal			<u>93,027</u>	<u>-</u>
2014 STEP Grant	20.608	PT1420	62,209	-
2015 STEP Grant	20.608	PT1560	4,649	-
CFDA 20.608 Subtotal			<u>66,858</u>	<u>-</u>
Total U.S. Department of Transportation			<u>159,885</u>	<u>-</u>

City of National City
Schedule of Expenditures of Federal Awards (Continued)
For the Fiscal Year Ended June 30, 2015

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	\$ 3,271	\$ -
<i>Passed through the County of San Diego:</i>				
<i>Aging Cluster:</i>				
Special Programs for the Aging Title III, Part B	93.044	533626	602,778	-
Special Programs for the Aging Title III, Part C	93.045	533626	9,098	-
Special Programs for the Aging Title III, Part C	93.045	Program Income	123,012	-
Aging Cluster Subtotal			<u>734,888</u>	<u>-</u>
Total U.S. Department of Health and Human Services			<u>738,159</u>	<u>-</u>
U.S. Environmental Protection Agency				
<i>Direct Program:</i>				
Brownfields Assesment Grant	66.818	R09.07.A.017	400,000	-
Total U.S. Environmental Protection Agency			<u>400,000</u>	<u>-</u>
Executive Office of the President:				
<i>Direct Program:</i>				
High Intensity Drug Trafficking Areas Program (HIDTA)	95.001	N/A	74,513	-
Total Executive Office of the President			<u>74,513</u>	<u>-</u>
U.S. Department of Homeland Security:				
<i>Direct Programs:</i>				
FY13 Homeland Sec. Grant Prog. (Equip.)	97.067	2013	17,974	-
FY14 State Homeland Security Grant	97.067	2014	39,651	-
<i>Passed through California Emergency Management Agency:</i>				
Operation Stone Garden	97.067	2012, 2013, 2014	30,017	-
Homeland Security Grant Program Subtotal			<u>87,642</u>	<u>-</u>
Total U.S. Department of Homeland Security			<u>87,642</u>	<u>-</u>
Total Expenditures of Federal Awards			<u>\$ 12,844,462</u>	<u>\$ 49,978</u>

City of National City
Notes to Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2015

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, 2015

Section I – Summary of Auditor’s Results

Financial Statements

Types of auditors’ report issued:	Unmodified
Internal control over financial reporting:	
• Material weakness(es) identified?	No
• 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?	None Noted
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:

CFDA Number(s)	Name of Federal Program or Cluster	Expenditures
14.871	Housing Voucher Cluster	\$ 9,759,722
66.818	Brownfields Assesment Grant	400,000
	Total Expenditures of All Major Federal Programs	\$ 10,159,722
	Total Expenditures of Federal Awards	\$ 12,844,462
	Percentage of Total Expenditures of Federal Awards	79.10%

Dollar threshold used to distinguish between type A and type B program	\$385,334
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, 2015

Section II – Financial Statement Findings

A. Current Year Findings and Questioned Costs – Financial Statement Findings

No financial statement findings noted.

B. Prior Year Findings and Questioned Costs – Financial Statement Findings

Finding 2014-01:	Internal Control Over Financial Reporting
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.
Status:	Corrective action has been taken.

Section III – Federal Award Findings

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

None reported

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

Finding 2014-02:	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:	\$9,890,528
Award Year:	2014
Status:	Corrective action has been taken.