

City of National City

National City, California

Single Audit and Independent Auditors' Reports

For the Year Ended June 30, 2017



City of National City

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Independent Auditors' Report

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, 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, 2017, 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 December 17, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's basic financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

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

The PwC Group, LLP

San Diego, California
December 17, 2017



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

Independent Auditors' Report

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

Report on Compliance for Each Major Federal Program

We have audited the City of National City, California's (the "City") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2017. The City's major federal programs are identified in the summary of the auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

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 the audit requirements of Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

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Report on Internal Control over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

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

We have audited the financial statements of the governmental activities, 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, 2017, and have issued our report thereon dated December 17, 2017 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
December 17, 2017

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City of National City
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2017

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	Program Income	\$ 33,196	\$ -
Community Development Block Grant - Entitlement	14.218	B-14-MC-06-0560	4,585	-
Community Development Block Grant - Entitlement	14.218	B-16-MC-06-0560	773,737	153,920
CDBG Entitlement Grant Cluster Subtotal			<u>811,518</u>	<u>153,920</u>
Home Investment Partnership Program	14.239	Program Income	230,614	230,614
Home Investment Partnership Program	14.239	M-10-MC-06-0522	15,904	15,904
Home Investment Partnership Program	14.239	M-12-MC-06-0522	119,993	119,730
Home Investment Partnership Program	14.239	M-13-MC-06-0522	143,035	133,805
Home Investment Partnership Program	14.239	M-14-MC-06-0522	9,389	5,018
Home Investment Partnership Program	14.239	M-15-MC-06-0522	158,482	157,597
Home Investment Partnership Program	14.239	M-16-MC-06-0522	24,001	19,835
Home Investment Partnership Program Subtotal			<u>701,418</u>	<u>682,503</u>
Housing Voucher Cluster:				
Section 8 Housing Choice Voucher Program	14.871	CA116VO	11,110,531	-
Housing Voucher Cluster Subtotal			<u>11,110,531</u>	<u>-</u>
Total U.S. Department of Housing and Urban Development			<u>12,623,467</u>	<u>836,423</u>
U.S. Department of Justice:				
<i>Direct Programs:</i>				
Justice Assistance Grant Program:				
FY2013 Edward Byrne JAG Program	16.738	2013-DJ-BX-0168	179	-
FY2015 Edward Byrne JAG Program	16.738	2015-DJ-BX-0173	7,063	-
Justice Assistance Grant Program Subtotal			<u>7,242</u>	<u>-</u>
Equitable Sharing Program	16.922	N/A	5,000	-
Total U.S. Department of Justice			<u>12,242</u>	<u>-</u>
U.S. Department of Transportation:				
<i>Passed through the California Office of Traffic Safety:</i>				
Highway Safety Cluster:				
2016 STEP Grant	20.600	PT16137	7,030	-
2017 STEP Grant	20.600	PT1779	13,521	-
Highway Safety Cluster Subtotal			<u>20,551</u>	<u>-</u>
2016 STEP Grant	20.608	PT16137	22,349	-
2017 STEP Grant	20.608	PT1779	15,602	-
CFDA 20.608 Subtotal			<u>37,951</u>	<u>-</u>
Total U.S. Department of Transportation			<u>58,502</u>	<u>-</u>

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, 2017

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	3,649	-
<i>Passed through the County of San Diego:</i>				
<i>Aging Cluster:</i>				
Special Programs for the Aging Title III, Part C	93.045	533626	304,756	-
Special Programs for the Aging Title III, Part C	93.045	Program Income	110,028	-
Aging Cluster Subtotal			<u>414,784</u>	<u>-</u>
Total U.S. Department of Health and Human Services			<u>418,433</u>	<u>-</u>
Executive Office of the President:				
<i>Direct Program:</i>				
High Intensity Drug Trafficking Areas Program (HIDTA)	95.001	2016	77,141	-
High Intensity Drug Trafficking Areas Program Subtotal			<u>77,141</u>	<u>-</u>
Total Executive Office of the President			<u>77,141</u>	<u>-</u>
U.S. Department of Homeland Security:				
<i>Direct Programs:</i>				
FY15 State Homeland Security Grant	97.067	2015	5,342	-
FY16 UASI	97.067	2015	11,080	-
<i>Passed through California Emergency Management Agency:</i>				
Operation Stone Garden	97.067	2015	34,963	-
Operation Stone Garden	97.067	2016	8,389	-
Homeland Security Grant Program Subtotal			<u>59,774</u>	<u>-</u>
Total U.S. Department of Homeland Security			<u>59,774</u>	<u>-</u>
Total Expenditures of Federal Awards			<u>\$ 13,249,559</u>	<u>\$ 836,423</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, 2017

Note 1 – Reporting Entity

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

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

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

Note 2 – Basis of Accounting

Funds received under the various grant programs have been recorded within the general fund and special revenue funds of the City. The City utilizes the modified accrual method of accounting for the general fund and special revenue funds. The accompanying Schedule of Expenditures of Federal Awards (“Schedule”) is presented in accordance with the requirements of Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in the schedule may differ from amounts presented in, or used in, the preparation of the City’s basic financial statements.

Note 3 – Schedule of Expenditures of Federal Awards

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

Note 4 – Indirect Cost Rate

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

City of National City
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2017

Section I – Summary of Auditor’s Results

Financial Statements

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

Internal control over financial reporting:

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

Noncompliance material to financial statements noted? No

Federal Awards

Internal control over major programs:

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

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

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

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>	<u>Expenditures</u>
14.239	Home Investment Partnership Program	\$ 701,418
14.871	Housing Voucher Cluster	11,110,531
Total Expenditures of All Major Federal Programs		<u>\$ 11,811,949</u>
Total Expenditures of Federal Awards		<u>\$ 13,249,559</u>
Percentage of Total Expenditures of Federal Awards		<u>89.15%</u>

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

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

City of National City
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2017

Section II – Financial Statement Findings

A. Current Year Findings – Financial Statement Audit

No findings were noted on the City’s financial statement audit for the year ended June 30, 2017.

B. Prior Year Findings – Financial Statement Audit

No findings were noted on the City’s financial statement audit for the year ended June 30, 2016.

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, 2017.

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, 2016.

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