

# **City of National City**

National City, California

## **Single Audit Report**

*For the year ended June 30, 2013*



**PUN & McGEADY** <sup>LLP</sup>  
Certified Public Accountants and Business Advisors



# City of National City

## TABLE OF CONTENTS

---

	<u>Page</u>
<b>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> .....</b>	<b>1</b>
<b>Report on Compliance for Each Major Program and on Internal Control over Compliance and on the Schedule of Expenditures of Federal Awards required by OMB Circular A-133.....</b>	<b>3</b>
Schedule of Expenditures of Federal Awards .....	7
Notes to the Schedule of Expenditures of Federal Awards.....	9
Schedule of Findings and Questioned Costs .....	10

*This page intentionally left blank.*



6265 Greenwich Drive  
Suite 220  
San Diego, California 92122

**Phone:** (858) 242-5100  
**Fax:** (858) 242-5150  
www.pm-llp.com

**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, 2013, 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 11, 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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses as items 2013-01, 2013-02 and 2013-03

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 a deficiency described in the accompanying schedule of findings and questioned costs to be significant deficiencies as item 2013-04.

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

### **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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 2013-05.

### **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 "P" and "M".

San Diego, California  
March 11, 2014



6265 Greenwich Drive  
Suite 220  
San Diego, California 92122

**Phone:** (858) 242-5100  
**Fax:** (858) 242-5150  
www.pm-llp.com

**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, 2013. 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, 2013.

***Other Matters***

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 2013-05. Our opinion on each major federal program is not modified with respect to these matters.

The City's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

**Report on Internal Control over Compliance**

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered 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 2013-05 that we consider to be significant deficiencies.

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.



**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, 2013, and have issued our report thereon dated March 11, 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 "Paul J. McGeady LLP". The signature is written in a cursive, slightly slanted style.

San Diego, California  
March 11, 2014

*This page intentionally left blank*

**City of National City**  
**Schedule of Expenditures of Federal Awards**  
**For the fiscal year ended June 30, 2013**

Federal Grantor/Pass-Through Grantor Program Title	CFDA Number	Grant Award Number	Federal Expenditures	Amount Provided to Subrecipients
<b>U.S. Department of Housing and Urban Development</b>				
<i>Direct Program</i>				
CDBG Entitlement Grant Cluster:				
Community Development Block Grant - Entitlement	14.218	Program Income	\$ 369,409	\$ -
Community Development Block Grant - Entitlement	14.218	B-10-MC-06-0560, B-11-MC-06-0560, B-12-MC-06-0560	1,730,082	275,908
<b>CDBG Entitlement Grant Cluster Subtotal</b>			<u>2,099,491</u>	<u>275,908</u>
Home Investment Partnership Program	14.239	Program Income	592,020	-
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	2,145,070	401,637
<b>CFDA 14.239 Subtotal</b>			<u>2,737,090</u>	<u>401,637</u>
Section 8 Housing Choice Voucher Program	14.871	Reserves	521,545	-
Section 8 Housing Choice Voucher Program	14.871	CA116VO	9,764,159	-
<b>Housing Voucher Cluster Subtotal</b>			<u>10,285,704</u>	<u>-</u>
<b>Total U.S. Department of Housing and Urban Development</b>			<u>15,122,285</u>	<u>677,545</u>
<b>U.S. Department of Justice</b>				
<i>Direct Program</i>				
FY2009 Edward Byrne JAG Program	16.738	2009-DJ-BX-0247	894	-
FY2010 Edward Byrne JAG Program	16.738	2010-DJ-BX-0434	7,781	-
FY2012 Edward Byrne JAG Program	16.738	2012-DJ-BX-0458	9,720	-
<b>Justice Assistance Grant Program Cluster Subtotal</b>			<u>18,395</u>	<u>-</u>
<i>Direct Program</i>				
High Intensity Drug Trafficking Areas Program (HIDTA)	95.001	N/A	79,832	-
<b>Total U.S. Department of Justice</b>			<u>98,227</u>	<u>-</u>
<b>U.S. Department of Transportation</b>				
<i>Direct Programs</i>				
AVOID DIU Grant 2011-2012	20.600	AL0939	2,254	-
AVOID DIU Grant 2012-2013	20.600	PT1330	8,018	-
Sobriety Checkpoint Mini-Grant Program for 2011-2012	20.600	SC12279	3,994	-
Selective Traffic Enforcement Program Grant Project 2012	20.600	20319	31,278	-
Selective Traffic Enforcement Program Grant Project 2013	20.600	PT1342	65,550	-
Sobriety Checkpoint Mini-Grant Program for 2012-2013	20.600	SC13279	37,704	-
<b>Highway Safety Cluster Subtotal</b>			<u>148,798</u>	<u>-</u>
<b>Total U.S. Department of Transportation</b>			<u>148,798</u>	<u>-</u>
<b>Environmental Protection Agency</b>				
<i>Direct Program</i>				
Brownfields Assessment Grant	66.818	R09.07.A.017	33,111	-
<b>Total Environmental Protection Agency</b>			<u>33,111</u>	<u>-</u>

See accompanying Notes to Schedule of Expenditures of Federal Awards.

**City of National City**  
**Schedule of Expenditures of Federal Awards (Continued)**  
**For the fiscal year ended June 30, 2013**

Federal Grantor/Pass-Through Grantor Program Title	CFDA Number	Grant Award Number	Federal Expenditures	Amount Provided to Subrecipients
<b>U.S. Department of Health and Human Services</b>				
<i>Direct Program</i>				
Communities Putting Prevention to Work	93.283	N/A	2,695	-
<i>Passed through the County of San Diego</i>				
Special Programs for the Aging Title III, Part C	93.045	2012	295,490	-
<i>Passed through California Emergency Management Agency</i>				
2012 Children Exposed to Domestic Violence	93.045	513857	41,596	-
<b>Aging Cluster Subtotal</b>			<u>337,086</u>	<u>-</u>
<b>Total U.S. Department of Health and Human Services</b>			<u>339,781</u>	<u>-</u>
<b>U.S. Department of Homeland Security</b>				
<i>Direct Program</i>				
FY10 Homeland Sec. Grant Prog. (Equip.)	97.067	2010-0011	45,276	-
FY11 State Homeland Security Grant	97.067	2011	46,542	-
FY12 State Homeland Security Grant	97.067	2012	7,800	-
<i>Passed through California Emergency Management Agency</i>				
Operation Stone Garden	97.067	2010, 2011, 2012	301,508	-
<b>Homeland Security Grant Program Subtotal</b>			<u>401,126</u>	<u>-</u>
<b>Total U.S. Department of Homeland Security</b>			<u>401,126</u>	<u>-</u>
<b>Total Expenditures of Federal Awards</b>			<u>\$ 16,143,328</u>	<u>\$ 677,545</u>

See accompanying Notes to Schedule of Expenditures of Federal Awards.

**City of National City**  
**Notes to Schedule of Expenditures of Federal Awards**  
**For the fiscal year ended June 30, 2013**

---

**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, 2013**

---

**Section I – Summary of Auditor’s Results**

**Financial Statements**

Types of auditors’ report issued:	Unmodified
Internal control over financial reporting:	
• Material weakness(es) identified?	2013-01, 2013-02, 2013-03
• Significant deficiency(ies) identified?	2013-04
Noncompliance material to financial statements noted?	No

**Federal Awards**

Internal control over major programs:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified?	2013-05
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>
14.218	Community Development Block Grants/Entitlement Grants Cluster	\$ 2,099,491
14.871	Housing Voucher Cluster	10,285,704
	<b>Total Expenditures of All Major Federal Programs</b>	<u>\$ 12,385,195</u>
	<b>Total Expenditures of Federal Awards</b>	<u>\$ 16,143,328</u>
	<b>Percentage of Total Expenditures of Federal Awards</b>	<u>76.72%</u>

Dollar threshold used to distinguish between type A and type B program \$484,300

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, 2013**

---

**Section II – Financial Statement Findings**

**Finding 2013-01      Prior Period Adjustments**

**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, certain restatements of beginning balances were made in order to conform with accounting standards generally accepted in the United States of America. Adjustments were as follows:

1. **Deferred charges** – Deferred charges was overstated by \$1,475,617 at June 30, 2012. This total related to the Tax Allocation Bonds issued by the Community Development Commission, which was dissolved under AB 1x26, and should not be recorded and accounted for in the primary government.
2. **Compensated absences** – Compensated absences balance was overstated by \$1,207,065 at June 30, 2012
3. **Capital assets** – At June 30, 2012, capital assets balances were understated by \$187,350 and \$98,334 for the Kimball Tower Enterprise Fund and the Successor Agency Private Purpose Trust Fund, respectively. Understatement of capital assets resulted from over-depreciation of its capital assets, and the accumulated depreciation of those assets exceeded its historical cost.
4. **Land Held for Resale** – At June 30, 2012, land held for resale was overstated by \$755,000. Overstatement of land held for resale resulted from the City’s not reconciling its financial statements and its general ledger.

**Cause:**

The City did not properly follow its policies and procedures for evaluating, reviewing, and properly recording financial transactions arising from the recording of deferred charges, compensated absences, capital assets, and land held for resale in the prior year.

**City of National City**  
**Schedule of Findings and Questioned Costs (Continued)**  
**For the fiscal year ended June 30, 2013**

---

**Section II – Financial Statement Findings (Continued)**

**Finding 2013-01      Prior Period Adjustments (Continued)**

**Context and Effect:**

Accordingly, net positions at July 1, 2012, were adjusted as follows:

	<u>Governmental Activities</u>	<u>Busines-Type Activities</u>
Beginning Net Position, as previously reported	\$ 167,868,576	\$ 6,727,203
Prior period adjustments:		
Deferred charges	(1,475,617)	-
Compensated absences	1,207,065	-
Depreciation	-	187,350
Beginning Net Position, as restated	<u>\$ 167,600,024</u>	<u>\$ 6,914,553</u>
	<b>Kimball Towers Enterprise Fund</b>	
Beginning Net Position, as previously reported	\$ 5,807,205	
Prior period adjustment:		
Depreciation	187,350	
Beginning Net Position, as restated	<u>\$ 5,994,555</u>	
	<b>Successor Agency to the Community Development Commission of National City Private Purpose Trust Fund</b>	
Beginning Net Position, as previously reported	\$ (11,470,963)	
Prior period adjustments:		
Land held for resale	(755,000)	
Depreciation	98,334	
Beginning Net Position, as restated	<u>\$ (12,127,629)</u>	

**Recommendation:**

The City should enhance its review processes over transactions arising from the transfer of capital assets 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:**

Management concurs with the recommendation. The Accountant responsible for fixed assets recordkeeping will work closely with the Engineering & Public Works Department in order to properly evaluate, review, and record transfers of capital assets. Management will review current year-end procedures and make changes as appropriate that will facilitate the year-end closing of the general ledger.



**City of National City**  
**Schedule of Findings and Questioned Costs (Continued)**  
**For the fiscal year ended June 30, 2013**

---

**Section II – Financial Statement Findings (Continued)**

**Finding 2013-02            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 reclass balances in financial statements in order to conform with accounting principles generally accepted in the United States.

Adjustments include the followings:

1. Reclassify over-depreciated capital assets
2. Adjustment of depreciation
3. Recording the effects of debt refunding in the financial statements
4. Reconcile property tax revenues earned for the year

**Cause:**

During the audit process, City experienced significant staff turnovers in Finance. The Financial Services Officer and Senior Accountant left the City at the beginning of the year-end phase of the Audit, and, therefore, the City's Finance Department was not fully staffed.

**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.

**Recommendation:**

The City has the responsibility to present its financial statements in accordance with accounting principles generally accepted in the United States of America. Now fully staffed, Finance should ensure year-end closing procedures are performed proficiently. This includes proper review of activity of transactions maintained in subsidiary ledgers not integrated with the City's accounting system, proper cutoff review for account balances at a fund and overall government-wide level, and revenues and expenditures/expenses. Finance Staff should perform revenue, expenditure, and budget analytics prior to year-end

**Views of Responsible Officials and Planned Corrective Actions:**

Management concurs with the recommendation. To facilitate the year-end closing process, staff will be required to review and reconcile assigned accounts periodically, not just at year-end. Management will develop a policy to write-off bad debts. And assigned staff will review the receivables quarterly to determine uncollectability of accounts. At that time, adjusting journal entries will be prepared to reflect accurate balances of receivables. The Accountant responsible for the fixed assets recordkeeping will monitor and review related transactions regularly to ensure timely and accurate recording.

**City of National City**  
**Schedule of Findings and Questioned Costs (Continued)**  
**For the fiscal year ended June 30, 2013**

---

**Section II – Financial Statement Findings (Continued)**

**Finding 2013-03      Accounting Manual**

**Criteria:**

An Accounting Manual would aid the Finance Department in providing training for accounting personnel, communicating and providing a source of reference to approved policies, and maintaining consistency of recording financial transactions.

**Condition:**

During the performance of our audit for the year ended June 30, 2013, we noted that the City does not have a comprehensive updated formal policies and procedures manual (Accounting Manual) which would define personnel roles and responsibilities, describe appropriate procedures for recording significant transactions in finance and accounting systems, define and set procedures for management oversight and review, establish key internal controls, and ensure accounting and reporting requirements established by GAAP are followed. We noted there were several sections that were outdated, and procedures detailed in the manual were inconsistent with those currently being performed by City staff.

**Cause:**

The City experienced significant staff turnovers in Finance over the last 10 years.

**Effect:**

Without a comprehensive updated Accounting Manual, personnel responsible for the daily work and transactions may not have a clear understanding of their role and responsibilities or the accounting standards applicable to their function. In addition, the absence of updated standardized procedures has and will create inefficient and inconsistent processing of transactions. Absent clear guidance, delays in financial reporting may occur if staff is unaware of where to find the answers.

**Recommendation:**

We recommend that the City expand and update its Accounting Manual to set thorough guidelines for recording transactions in the general ledger. Management should ensure the Accounting Manual includes at a minimum:

- Descriptions of functions each position performs
- Specific duties and responsibilities (desk procedures)
- Minimum required qualifications or standards
- Council/Management approved policies relating to specific transactions
- Procedures for processing of specific financial activities
- Appropriate monitoring and review controls

**Views of Responsible Officials and Planned Corrective Actions:**

Management concurs with the recommendation and will review and update its policies and procedures to reflect current procedures and changes in technology and financial systems. Management has begun to review each position in the department and will assign duties and responsibilities as appropriate. Staff members will then be tasked with developing desk procedures for their positions.

**City of National City**  
**Schedule of Findings and Questioned Costs (Continued)**  
**For the fiscal year ended June 30, 2013**

---

**Section II – Financial Statement Findings (Continued)**

**Finding: 2013-04      Untimely Cash Receipt Process from Other Departments**

**Criteria:**

Effective internal control over cash receipts provides reasonable assurance for the completeness and accuracy of revenue balances.

**Condition:**

During our review of the City’s cash receipts process, it was noted that certain October 2012 Community Service Department cash receipts (Zumba Class) were not received until May 8, 2013.

**Cause:**

The City did not have a policy relating to timely cash receipts for payments from other departments.

**Context and Effect:**

Generally, cash receipts should be deposited daily, or within a reasonable time period, to the Finance Department. During our walkthrough of cash management controls, we noted a cash receipt was received by the Finance Department in May 2013, when the cash was received from the Community Service Department in October 2012. This exposed the City to the possibility of misappropriation of funds, and affected the timely reporting of cash receipts.

**Recommendation:**

The City should implement internal controls over the cash handling process in an effort to prevent misappropriation of funds.

**Views of Responsible Officials and Planned Corrective Actions:**

Management concurs with the recommendation but disagrees with the assessment. Although at the time the receipts referenced were received by the Community Service Department a cash handling policy had not yet been implemented, the cause of the untimely submission was merely the result of an oversight, and a cash handling policy, which includes the requirement to submit cash receipts in a timely manner, was developed in Fiscal Year 2013. In addition, while the City previously did not have a formal policy relating to cash receipts, it has been a standard procedure for departments, especially those regularly receiving payments such as the Library, Police Department, and Nutrition Center, to remit funds to the Finance Department the next business day. Management will monitor cash receipts to ensure compliance with its policy

**City of National City**  
**Schedule of Findings and Questioned Costs (Continued)**  
**For the fiscal year ended June 30, 2013**

---

**Section III – Federal Award Findings**

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

**Finding: 2013-05, Allowable Costs/Cost Principles**

**Information on the Federal Program:**

Section 8 Housing Choice Vouchers - H (CFDA Number 16.922, US Department of Justice)

**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.)

**Condition:**

During our review of direct and material compliance requirements, it was noted a monthly rental fee and an indirect facility maintenance charge were being charged to the program.

**Questioned Costs:**

\$40,392

**Context and Effect:**

While both rent and facility maintenance charges comply with the guidelines of OMB Circular A-87, Attachment A, paragraph C.1 as allowable expenses, the lack of documentation clearly delineating the nature of the rent fee makes it difficult to determine whether the fee included maintenance charges and, therefore, whether the separately-applied facility maintenance charge represented a duplicate expense.

**Recommendation:**

It is recommended the City and the Housing Authority execute a contractual agreement for the rental of City-owned property for administration of the Section 8 program.

**Views of Responsible Officials and Planned Corrective Actions:**

Management concurs with the recommendation. From November 2004 through September 2008, the Section 8 program operated in third-party-owned office space for which the program paid rent. Upon the Section 8 program's relocation to City-owned property in September 2008, the City charged the program a rental fee 11.6% lower than that paid to the third party. The rental rate has remained unchanged since first charged. The Section 8 program began to incur the facilities maintenance charge, internally named "Building Services Charges," upon the City-wide implementation of revised internal service charges in July 2012. Although the nature of the rental fee is distinct and separate from that of the facilities maintenance charge, as noted, the City did not execute a rental agreement with the Housing Authority clearly stipulating the rental fee applied only to the use of space. The City will work closely with the Housing Authority to develop a rental agreement for the use of City-owned property by the Section 8 program.

**City of National City**  
**Schedule of Findings and Questioned Costs (Continued)**  
**For the fiscal year ended June 30, 2013**

---

**Section III – Federal Award Findings (Continued)**

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

**Finding 2012-09:** Suspension and Debarment Compliance  
**Federal Agency:** Department of Homeland Security  
**Program Name:** Homeland Security Grant Program  
**CFDA Number:** 97.008/97.067  
**Program Expenditures:** \$478,774  
**Award Year:** 2012

Corrective action has been taken.

**Finding 2012-10:** Depository Agreement  
**Federal Agency:** Department of Housing and Urban Development  
**Program Name:** Section 8 Housing Choice Vouchers  
**CFDA Number:** 14.871  
**Program Expenditures:** \$9,311,031  
**Award Year:** 2012

Corrective action has been taken.