

CITY OF OCEANSIDE, CALIFORNIA

SINGLE AUDIT REPORT

JUNE 30, 2017

CITY OF OCEANSIDE, CALIFORNIA

JUNE 30, 2017

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

To the Honorable Mayor and Members of the City Council
City of Oceanside, 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 Oceanside, California, (the City) as of and for the year ended June 30, 2017, 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 7, 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 (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.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control as described in the accompanying schedule of findings and questioned costs that we consider to be material weaknesses (Finding Reference Number 2017-001).



CPAs AND ADVISORS

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

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

The City of Oceanside'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 "Lance, Solt & Lughard, LLP". The signature is written in a cursive, flowing style.

Brea, California
December 7, 2017



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND
ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES
OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE

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

Report on Compliance for Each Major Federal Program

We have audited the City of Oceanside, California (the City)'s 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 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.



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

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 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 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.

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

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 of Oceanside, California, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated December 7, 2017, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic 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 additional 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 expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.



CPAs AND ADVISORS

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

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.

Lance, Solt & Loughard, LLP

Brea, California

February 5, 2018 (except for our report on the Schedule of Expenditures of Federal Awards, for which the date is December 7, 2017.)

CITY OF OCEANSIDE, CALIFORNIA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
<u>U.S. Department of Housing and Urban Development</u>				
Direct Awards:				
Community Development Block Grants/Entitlement Grants *	14.218	N/A	\$ 617,081	\$ 2,063,899
Supportive Housing Program	14.235	N/A	-	147,123
HOME Investment Partnerships Program	14.239	N/A	-	810,387
Section 8 Housing Choice Vouchers *	14.871	N/A	-	17,427,941
Total U.S. Department of Housing and Urban Development			617,081	20,449,350
<u>U.S. Department of Justice</u>				
Direct Awards:				
Edward Byrne Memorial Justice Assistance Grant Program	16.738	N/A	-	79,880
Congressionally Recommended Awards	16.753	N/A	-	22,225
Recovery Act - Internet Crimes against Children Task Force Program	16.800	N/A	-	252
Equitable Sharing Program	16.922	N/A	-	72,782
Total U.S. Department of Justice			-	175,139
<u>U.S. Department of Transportation</u>				
Direct Awards:				
Airport Improvement Program	20.106	N/A	-	186,427
Passed Through:				
State of California Department of Transportation (Caltrans):				
Highway Planning and Construction *	20.205	BRLS-5079(30)	-	798,986
Highway Planning and Construction *	20.205	BRLSZD-5079(029)	-	269,175
Highway Planning and Construction *	20.205	HSIPL-5079(031)	-	3,632
Highway Planning and Construction *	20.205	STPLR-700(238)	-	43,119
State of California Office of Traffic Safety:				
State and Community Highway Safety	20.600	PT16143	-	38,896
State and Community Highway Safety	20.600	PT1783	-	85,384
Total U.S. Department of Transportation			-	1,425,619
<u>U.S. Department of Homeland Security</u>				
Passed Through:				
County of San Diego Office of Emergency Services				
Homeland Security Grant Program *	97.067	2015-1078	-	98,015
Homeland Security Grant Program *	97.067	2016-0102	-	28,338
City of San Diego Office of Homeland Security				
Homeland Security Grant Program *	97.067	2015-00078	-	124,793
Homeland Security Grant Program *	97.067	2016-00102	-	12,852
Total U.S. Department of Homeland Security			-	263,998
Total Federal Expenditures			\$ 617,081	\$ 22,314,106

* Major Program

Note a: Refer to Note 1 to the schedule of expenditures of federal awards for a description of significant accounting policies used in preparing this schedule.

Note b: There was no federal awards expended in the form of noncash assistance and insurance in effect during the year.

Note c: The City expended \$279,194 for repayment of the Section 108 Loan Program using Community Development Block Grants/Entitlement Grants funding during fiscal year 2016-2017. Refer to Note 2 to the schedule of expenditures of federal awards for a description of the Section 108 Loan Program.

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2017**

Note 1: Summary of Significant Accounting Policies Applicable to the Schedule of Expenditures of Federal Awards

a. Scope of Presentation

The accompanying schedule presents only the expenditures incurred by the City of Oceanside, California, that are reimbursable under federal programs of federal financial assistance. For the purposes of this schedule, federal awards include both federal financial assistance received directly from a federal agency, as well as federal funds received indirectly by the City from a non-federal agency or other organization. Only the portion of program expenditures reimbursable with such federal funds is reported in the accompanying schedule. Program expenditures in excess of the maximum federal reimbursement authorized or the portion of the program expenditures that were funded with state, local or other non-federal funds are excluded from the accompanying schedule.

b. Basis of Accounting

The expenditures included in the accompanying schedule were reported on the modified accrual basis of accounting. Under the modified accrual basis of accounting, expenditures are incurred when the City becomes obligated for payment as a result of the receipt of the related goods and services. Expenditures reported included any property or equipment acquisitions incurred under the federal program. The City has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

Note 2: Section 108 Loan Program

In June 2008, the City entered into a contract with the United States Department of Housing and Urban Development for Loan Guarantee Assistance under Section 108 of the Housing and Community Development Act of 1974, as amended, 42 U.S.C. Section 5308 for Series 2008-A Certificates. The loans are due in annual installments ranging from \$154,000 to \$279,000. Interest is payable quarterly at a rate of 4.8 percent. At June 30, 2017, the outstanding balance of the loans was \$2,529,000.

CITY OF OCEANSIDE, CALIFORNIA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

SECTION II - FINANCIAL STATEMENT FINDINGS

Finding Reference Number: 2017-001

As part of our audit procedures, we reconciled beginning fund balance to the prior year's ending fund balance. We noted that the City made several material prior period adjustments to restate beginning fund balance due to corrections of errors in prior years. These prior period errors were identified by City personnel and corrected prior to our audit testwork being performed.

Recommendation

We recommend that the City implement review procedures during the year-end closing process to identify errors in a timelier manner and avoid having to restate beginning fund balance.

The City of Oceanside's View and Corrective Action

Discovery of these errors were a result of management implementing diligent monthly review of budget versus actual anomalies and an extensive balance sheet review in fiscal year 2016-2017. As stated in the auditor's finding, these adjustments were discovered by management. One adjustment was an accounting error resulting from a write-off of an invoice. Procedures are being reviewed to mitigate this in the future.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

CITY OF OCEANSIDE, CALIFORNIA

**SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

SECTION I - FINANCIAL STATEMENT FINDINGS

No matters were reported.

SECTION II - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.