

CITY OF OCEANSIDE, CALIFORNIA

SINGLE AUDIT REPORT

JUNE 30, 2015

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CITY OF OCEANSIDE

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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, 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 December 7, 2015.

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, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the schedule of findings and questioned costs as items 2015-001 and 2015-002 to be material weaknesses.

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*.





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

City's Response to Findings

The City's response to the findings identified in our audit 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 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 City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Lance, Solt & Lughard, LLP

Brea, California
December 7, 2015



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 OMB CIRCULAR A-133

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 Circular A-133 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, 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.



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 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.

Report on the Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

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, 2015, 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, 2015, 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 OMB Circular A-133 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Lance, Soll & Lughard, LLP

Brea, California

January 12, 2016 (except for the Schedule of Expenditure of Federal Awards which is as of December 7, 2015)

CITY OF OCEANSIDE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Expenditures
<u>U.S. Department of Housing and Urban Development</u>			
Direct Programs:			
Community Development Block Grant	14.218	B11-MC-06-0547	\$ 1,378,882
Supportive Housing Program	14.235	CA0714L9D0011205	82,642
HOME Investment Partnerships Program*	14.239	M09-MC-06-0523	39,159
		M010-MC-06-0523	54,559
		M12-MC-06-0523	1,585,413
			1,679,131
Section 8 Housing Choice Vouchers*	14.871	CA132VO	14,839,658
Total U.S. Department of Housing and Urban Development			17,980,313
<u>U.S. Department of Justice</u>			
Direct Program:			
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2012-DJ-BX-0059	45,625
		2013-DJ-BX-0323	27,609
			73,234
Passed through the County of San Diego			
Sheriff's Department:			
Services for Trafficking Victims	16.320	N/A	9,778
San Diego County North Regional Gang Enforcement Collaboration	16.753	N/A	20,545
Total U.S. Department of Justice			103,557
<u>U.S. Department of Transportation</u>			
Direct Program:			
New Freedom Program	20.521	643719	58,012
Airport Improvement Program	20.106	3-06-0173-008-2011	22,149
		3-06-0173-010-2012	15,686
			37,835
Passed through the State of California			
Office of Traffic Safety:			
State and Community Highway Safety*	20.600	PT1419	27,449
		SC14291	40,390
		PT15129	101,249
			169,088
Passed through the State of California			
Department of Transportation (CalTrans):			
Highway Planning and Construction	20.205	11-5079R BRLS-5079(30)	101,295
Passed through the County of San Diego			
Associated Governments:			
Highway Planning and Construction	20.205	69-8083-0-7-401	2,167
Total U.S. Department of Transportation			368,397

CITY OF OCEANSIDE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
<u>National Endowment for the Arts</u>			
Direct Program:			
Promotion of the Arts Grants to Organizations and Individuals	45.024	N/A	\$ 113
Total National Endowment for the Arts			<u>113</u>
<u>U.S. Department of Homeland Security</u>			
Direct Program:			
Staffing for Adequate Fire and Emergency Responses*	97.083	EMW-2012-FH-00423	1,154,035
Passed through the California Department of Parks and Recreation - Division of Boating:			
Boating Safety Financial Assistance	97.012	C8956115	33,826
Passed through the County of San Diego:			
Homeland Security Grant Program	97.067	2013-00110 2014-00093	137,234 134,580 <u>271,814</u>
Passed through the California Emergency Management Agency:			
Homeland Security Grant Program	97.067	2013-1110 2014	222,092 22,839 <u>244,931</u>
Total U.S. Department of Homeland Security			<u>1,704,606</u>
Total Federal Expenditures			<u>\$ 20,156,986</u>

* 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: Total amount provided to subrecipients during the year was \$206,013.

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2015**

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.

CITY OF OCEANSIDE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unmodified Opinion

Internal control over financial reporting:

- Significant deficiencies identified? ___yes Xno
- Material weaknesses identified? Xyes ___none reported

Noncompliance material to financial statements noted? ___yes Xno

Federal Awards

Internal control over major programs:

- Significant deficiencies identified? ___yes Xno
- Material weaknesses identified? ___yes Xnone reported

Type of auditors' report issued on compliance for major programs: Unmodified Opinion

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? ___yes Xno

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
14.239	HOME Investment Partnerships Program
14.871	Section 8 Housing Choice Vouchers
20.600	State and Community Highway Safety
97.083	Staffing for Adequate Fire and Emergency Response

Dollar threshold used to distinguish between type A and type B program \$604,710

Auditee qualified as low-risk auditee? ___yes Xno

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

SECTION II - FINANCIAL STATEMENT FINDINGS

Finding 2015-001: Capital Assets

Condition: During the course of our audit testwork, we noted that capital assets and related depreciation recorded in the internal service funds and Successor Agency were not properly reconciled to the underlying records.

Criteria: The capital assets subledger should be reviewed and reconciled to the general ledger on a regular basis.

Cause of Condition: We noted that the Successor Agency's capital assets subledger agreed to the supporting documentation, such as depreciation reports and capital asset listings. However, activities for construction-in-progress, improvements other than buildings, and depreciation related to infrastructure were not posted to the general ledger. For the internal service funds, there were vehicles that were recorded as additions in fiscal year 2014-15; these vehicles were actually additions for fiscal year 2013-14 and should not have been included in the additions records for fiscal year 2014-15.

Effect of Condition: Because the general ledger was not properly reconciled to the capital assets records, inaccurate reporting of capital assets activity in the Successor Agency and the internal service funds resulted.

Recommendation: To prevent prior period adjustments to capital assets accounts, we recommend that the general ledger capital asset accounts be reconciled to the detailed records on a regular basis.

Management's Response: Capital asset additions and deletions are reconciled quarterly. The accounting manager will review the asset detail to ensure that all additions and deletions are correctly entered. In addition, on a quarterly basis, the fixed asset schedules will be tied to the general ledger.

Finding 2015-002: Accounts Payable

Condition: During the course of our audit testwork, we observed an invoice for water delivery charges for May 2015 and paid in July 2015 that was not properly accrued as payable in the Water Fund at June 30, 2015.

Criteria: Proprietary funds, such as the Water Fund, are accounted for using the accrual basis of accounting. Under the accrual basis of accounting, expenses should be recognized in the period in which the liability is incurred.

Cause of Condition: The invoice was erroneously recorded in fiscal year 2015-16 due to a clerical error when entering the invoice in the accounts payable system.

Effect of Condition: Expenses and accounts payable for the Water Fund were understated by \$2,268,006.

Recommendation: We recommend that responsible personnel, other than the person entering the invoices into the accounts payable system, review subsequent payment shortly after year end to ensure that they are recorded in the proper accounting period.

Management's Response: The Finance department internal controls over accounts payable includes cross verification by two independent responsible employees of all payable data entered in the accounts payable system. This error should not have occurred based on the levels of review that were in place. We will be adding another layer of review at year end to ensure that all expenses are properly accrued in the correct accounting period.

CITY OF OCEANSIDE

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

CITY OF OCEANSIDE

**SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

SECTION II - FINANCIAL STATEMENT FINDINGS

Finding 2014-001: Restatement of Fund Balance

Significant Deficiency

Condition and Criteria

The City received a Developer Fee which was subsequently recorded in an equity account.

Cause

A cash receipt had been incorrectly posted.

Effect

This caused a restatement of fund balance. An audit adjustment was needed to correct the error.

Recommendation

We recommend that the City implement controls and develop a formal review process to prevent cash receipts from being posted to accounts other than revenue accounts.

Corrective Action Plan

Management will review the coding of revenue with all staff involved in processing the receipts. In addition, management will review equity accounts on a quarterly basis to ensure that revenue is not posted to the accounts.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.