

CITY OF SEASIDE
SINGLE AUDIT REPORT
FOR THE YEAR ENDED
JUNE 30, 2016

CliftonLarsonAllen LLP



WEALTH ADVISORY | OUTSOURCING | AUDIT, TAX, AND CONSULTING



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CITY OF SEASIDE

Single Audit Report
For the Year Ended June 30, 2016

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**INDEPENDENT AUDITOR'S 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**

The Honorable City Council
of the City of Seaside
Seaside, 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, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Seaside (City), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated February 1, 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.

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 were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a 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 accompanying schedule of findings and questioned costs to be a material weaknesses (2016-001 and 2016-002).

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 Honorable City Council
of the City of Seaside
Seaside, California

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 County's response was not subject 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.



Roseville, California
February 1, 2017



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

The Honorable City Council
of the City of Seaside
Seaside, California

Report on Compliance for Each Major Federal Program

We have audited the City of Seaside's (City) compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (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, 2016. 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) 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, 2016.

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

The Honorable City Council
of the City of Seaside
Seaside, California

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.

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.

Report on 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, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City, as of and for the year ended June 30, 2016, and have issued our report thereon dated February 1, 2017, which contained unmodified opinions 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 purposes of additional analysis as required by the Uniform Guidance 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 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 expenditure of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.



Roseville, California
February 1, 2017

CITY OF SEASIDE

Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2016

<u>Federal Grantor/Pass-Through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Disbursements/ Expenditures</u>
<u>U.S. Department of Army</u>			
Pass-Through City of Monterey, CA:			
Presidio of Monterey Base			
Operations and Maintenance Contract	99.Unknown		\$ 656,603
 <u>Department of Housing and Urban Development</u>			
Direct Programs:			
Community Development Block Grants/Entitlement Grants	14.218		474,523
 <u>U.S. Department of Justice</u>			
Direct Programs:			
Bulletproof Vest Partnership Program	16.607		5,844
Total U.S. Department of Justice			5,844
 <u>Executive Office of the President</u>			
Direct Programs:			
High Intensity Drug Trafficking Areas Program	95.001		666
 <u>Department of Homeland Security</u>			
Direct Programs:			
SAFER Grant	97.083		159,281
Assistance to Firefighters Grant (AFG)	97.044		53,941
			213,222
Total Expenditures of Federal Awards			\$ 1,350,858

See accompanying Notes to Schedule of Expenditures of Federal Awards.

CITY OF SEASIDE

Notes to Schedule of Expenditures of Federal Awards For the Year Ended June 30, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. General

The accompanying schedule of expenditures of federal awards (Schedule) presents the activity of federal award programs of the City of Seaside, California (City). The City's reporting entity is defined in Note 1A of the City's basic financial statements. All federal awards received directly from federal agencies, as well as federal awards passed through other governmental agencies to the City are included in 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.

C. Relationships to the Basic Financial Statements

The Schedule presented is prepared from only the accounts of the grant programs and, therefore, does not present the financial position or results of operations of the City. Monies received under various grant programs have been recorded within special revenue funds of the City.

D. Loans Receivable

The City offers property rehabilitation and first time home buyer loans to eligible individuals as part of its Community Development Block Grant (CDBG) program. The loans do not have continuing compliance requirements and therefore the outstanding balances are not reflected on the Schedule of Expenditures of Federal Awards. No new loans were issued during the fiscal year ended June 30, 2016.

E. Housing and Urban Development (HUD) Note

The City has a federally guaranteed loan outstanding as of June 30, 2016 with the Department of Housing and Urban Development. There are no continuing compliance requirements for this loan. The outstanding loan balance as of June 30, 2016 was \$315,000.

F. Indirect Cost Rate

The City did not elect to use the 10% de minimis indirect cost rate as covered in 2 CFR §200.414. Uniform Guidance, §200.510(6), requires the City to disclose whether or not it elected to use the 10 percent de minimis cost rate that §200.414(f) allows for nonfederal entities that have never received a negotiated indirect cost rate.

CITY OF SEASIDE

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2016

Section 1 – Summary of Audit Results

Financial Statements

Summary of Auditor's Results:

- | | |
|--|---------------|
| 1. Type of auditor's report issued: | Unmodified |
| 2. Internal controls over financial reporting: | |
| a. Material weaknesses identified? | Yes |
| b. Significant deficiencies identified not considered to be material weaknesses? | None reported |
| 3. Noncompliance material to financial statements noted? | No |

Federal Awards

- | | | |
|---|---------------|---|
| 1. Internal control over major programs: | | |
| a. Material weaknesses identified? | No | |
| b. Significant deficiencies identified not considered to be material weaknesses? | None reported | |
| 2. Type of auditor's report issued on compliance for major programs: | Unmodified | |
| 3. Any audit findings disclosed that are required to be reported in accordance with 2 CFR 1.200, Section 516? | No | |
| 4. Identification of major programs: | | |
| CFDA No. 14.218 | | Community Development Block Grants/
Entitlement Grants |
| 5. Dollar threshold used to distinguish between Type A and Type B programs? | \$750,000 | |
| 6. Auditee qualified as a low-risk auditee under 2 CFR 1.200, Section 520? | Yes | |

Section 2

Financial Statement Findings

- | | |
|-----------------------------------|----------|
| Capital Assets Completeness | 2016-001 |
| Completeness of Water Receivables | 2016-002 |

Section 3

Federal Award Findings and Questioned Costs

None reported.

CITY OF SEASIDE

Schedule of Findings and Questioned Costs For the Year Ended June 30, 2016

Finding 2016-001 **Capital Assets Completeness**

Criteria

The City should track all costs associated with capital assets, including recording the costs associated with ongoing construction projects into its Construction in Progress (CIP) account.

Condition

During the audit, we noted that the costs for several significant construction projects were recorded in the City's General Ledger, but not in the City's Construction in Progress account for Capital Assets.

Cause

The individual compiling the capital assets schedule for the City was unaware that construction costs needed to be added to the Construction in Progress account during the year. Additionally, the schedule was not reviewed for completeness prior to being provided to the auditors.

Effect of Condition

As a result of this condition, a material audit adjustment increasing construction in progress and reducing capital outlay expenses by \$1,039,679 was made in the Government-wide statements.

Recommendation

We recommend that the City add a review step in its year-end closing process to ensure that all eligible costs are included in the Construction in Progress schedule and that the general ledger is updated to reflect amounts on that schedule.

Management Response

The City agrees that some Construction-in-Progress costs were included in expenses but not transferred to the Capital Asset Account - Construction-in-Progress at year end. This error was corrected prior to the issuance of the financial statements and these costs are shown correctly in the Comprehensive Annual Financial Report.

New procedures have been established to prevent this from occurring in future years.

CITY OF SEASIDE

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2016

Finding 2016-002
Completeness of Water Receivables

Criteria

Under generally accepted accounting principles, a proprietary fund should recognize revenue on an accrual basis, meaning that revenue is considered realized when (1) the earning process is complete or virtually complete and (2) an exchange has taken place.

Condition

During the audit, we noted a \$63,627 receipt for water services provided during the period May 27, 2016 through June 28, 2016 that was not properly reported in the year ended June 30, 2016.

Cause

Cash receipts received after June 30 were not reviewed for proper accounting prior to performing the year-end close. The \$63,627 receipt was recorded in the period received instead of the period where the water services were provided.

Effect of Condition

As a result of this condition, an audit adjustment increasing accounts receivable and revenue by \$63,627 was made in the Water Fund.

Recommendation

We recommend that the City review significant cash receipts received subsequent to June 30 to ensure the year-end receivables balance is complete. We further recommend the City review its June water billings to ensure they are properly accrued in the Water Fund at year-end.

Management Response

The City agrees that the June 28, 2016 water billing of \$63,627 should have been recorded in fiscal year 2015-2016. This error was corrected prior to the issuance of the financial statements and the accounts receivable and revenues in the Water Fund are shown correctly in the Comprehensive Annual Financial Report.

New procedures have been established to prevent this from occurring in future years.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

CITY OF SEASIDE

Summary Schedule of Prior Audit Findings
For the Year Ended June 30, 2016

There were no findings in the prior year.