



CPAs AND ADVISORS

CITY OF OCEANSIDE

JUNE 30, 2018

SINGLE AUDIT REPORT

Focused
on YOU



CITY OF OCEANSIDE, CALIFORNIA

SINGLE AUDIT REPORT

JUNE 30, 2018

CITY OF OCEANSIDE, CALIFORNIA

JUNE 30, 2018

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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, 2018, 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 12, 2018.

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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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





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

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, Soll & Lughard, LLP

Brea, California
December 12, 2018



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, 2018. 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 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, 2018.



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, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated December 12, 2018, 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 12, 2019 (except for the Report on the Schedule of Expenditures of Federal Awards, which is dated December 12, 2018)

CITY OF OCEANSIDE, CALIFORNIA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

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	\$ 73,978	\$ 1,046,363
Supportive Housing Program	14.235	N/A	-	146,086
HOME Investment Partnerships Program	14.239	N/A	-	36,170
Section 8 Housing Choice Vouchers *	14.871	N/A	-	18,548,195
Total U.S. Department of Housing and Urban Development			73,978	19,776,814
<u>U.S. Department of Interior</u>				
Direct Awards:				
Title XVI Water Reclamation Research and Reuse Program	15.504	N/A	-	35,906
Total U.S. Department of Interior			-	35,906
<u>U.S. Department of Justice</u>				
Direct Awards:				
Congressionally Recommended Awards	16.753	N/A	-	11,707
Recovery Act - Internet Crimes against Children Task Force Program	16.800	N/A	-	3,640
Equitable Sharing Program	16.922	N/A	-	23,906
Total U.S. Department of Justice			-	39,253
<u>U.S. Department of Transportation</u>				
Direct Awards:				
Airport Improvement Program	20.106	N/A	-	53,515
Passed Through:				
State of California Department of Transportation (Caltrans):				
Highway Planning and Construction	20.205	94-900-7744	-	200,879
Highway Planning and Construction	20.205	94-900-7744	-	118,136
Highway Planning and Construction	20.205	94-900-7744	-	1,324
Highway Planning and Construction	20.205	94-900-7744	-	153,215
State of California Office of Traffic Safety:				
State and Community Highway Safety *	20.600	96-505-3908	-	85,175
State and Community Highway Safety *	20.600	96-505-3908	-	144,263
Total U.S. Department of Transportation			-	756,507
<u>U.S. National Endowment for the Arts</u>				
Direct Awards:				
Promotion of the Arts Grants to Organizations and Individuals	45.024	N/A	-	15,309
Passed Through:				
CA State Library				
Grants to States	45.310	95-020-5898	-	18,125
Total U.S. National Endowment for the Arts			-	33,434
<u>U.S. Department of Homeland Security</u>				
Direct Awards:				
Assistance to Firefighters Grant	97.044	N/A	-	15,962
Passed Through:				
County of San Diego Office of Emergency Services				
Homeland Security Grant Program	97.067	00-958-1646	-	9,480
Homeland Security Grant Program	97.067	00-958-1646	-	80,797
Homeland Security Grant Program	97.067	00-958-1646	-	3,066
City of San Diego Office of Homeland Security				
Homeland Security Grant Program	97.067	00-958-1028	-	126,769
Homeland Security Grant Program	97.067	00-958-1028	-	451,324
Homeland Security Grant Program	97.067	00-958-1028	-	13,131
Homeland Security Grant Program	97.067	00-958-1028	-	37,841
Total U.S. Department of Homeland Security			-	738,370
Total Federal Expenditures			\$ 73,978	\$ 21,380,284

* 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 \$280,412 for repayment of the Section 108 Loan Program using Community Development Block Grants/Entitlement Grants funding during fiscal year 2017-2018. 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, 2018**

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, 2018, the outstanding balance of the loans was \$2,375,000.

CITY OF OCEANSIDE, CALIFORNIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unmodified Opinion

Internal control over financial reporting:

- Significant deficiencies identified? yes no
- Material weaknesses identified? yes none reported

Noncompliance material to financial statements noted?

yes no

Federal Awards

Internal control over major programs:

- Significant deficiencies identified? yes no
- Material weaknesses identified? yes none 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 the Uniform Guidance?

yes no

Identification of major programs:

CFDA Number(s)

Name of Federal Program or Cluster

14.871
20.600

Section 8 Housing Choice Vouchers
State and Community Highway Safety

Dollar threshold used to distinguish between type A and type B program

\$750,000

Auditee qualified as low-risk auditee?

yes no

CITY OF OCEANSIDE, CALIFORNIA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

SECTION II - FINANCIAL STATEMENT FINDINGS

No matters were reported.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.



CITY OF OCEANSIDE

FINANCIAL SERVICES DEPARTMENT

SCHEDULE OF PRIOR YEAR FINDINGS FOR THE YEAR ENDED JUNE 30, 2017

SECTION I - 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 test work 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.

Status of Prior Year Finding

We consider Finding 2017-001 to be resolved.

SECTION II - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.