

**CITY OF SEASIDE
SINGLE AUDIT REPORT
YEAR ENDED JUNE 30, 2019**



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**CITY OF SEASIDE
SINGLE AUDIT REPORT
YEAR ENDED JUNE 30, 2019**

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 <i>GOVERNMENT AUDITING STANDARDS</i>	1
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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

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, 2019, 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 18, 2020.

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, described in the accompanying schedule of findings and questioned costs as items 2019-001, 2019-002 and 2019-003 that we consider 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*.


The Honorable City Council
of the City of Seaside

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.



CliftonLarsonAllen LLP

Roseville, California
February 18, 2020



INDEPENDENT AUDITORS' 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, 2019. The City's major federal programs are identified in the summary of auditors' 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 (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, 2019.

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.

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, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated February 18, 2020, 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 expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.



CliftonLarsonAllen LLP

Roseville, California
February 18, 2020

**CITY OF SEASIDE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2019**

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures	Expenditures to Subrecipients
<u>U.S. Department of Housing and Urban Development</u>				
Direct Programs:				
Community Development Block Grants/Entitlement Grants	14.218		\$ 467,044	\$ -
Subtotal - CDBG Entitlement Grants Cluster			<u>467,044</u>	<u>-</u>
Total U.S. Department of Housing and Urban Development			<u>467,044</u>	<u>-</u>
<u>U.S. Department of Justice</u>				
Direct Programs:				
Bulletproof Vest Partnership Program	16.607		708	-
Total U.S. Department of Justice			<u>708</u>	<u>-</u>
<u>U.S. Department of Transportation</u>				
Passed through the State Department of Transportation:				
Highway Planning and Construction	20.205	ATPL-5316 (007)	245,763	-
Subtotal - Highway Planning and Construction Cluster			<u>245,763</u>	<u>-</u>
Total U.S. Department of Transportation			<u>245,763</u>	<u>-</u>
<u>U.S. Department of Homeland Security</u>				
Direct Programs:				
Assistance to Firefighters Grant	97.044		81,284	-
Total U.S. Department of Homeland Security			<u>81,284</u>	<u>-</u>
Total Expenditures of Federal Awards			<u>\$ 794,799</u>	<u>\$ -</u>

See accompanying Note to Schedule of Expenditures of Federal Awards.

**CITY OF SEASIDE
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2019**

NOTE 1 BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards presents the activity of all federal awards programs of the City of Seaside for the year ended June 30, 2019. The information in this schedule is presented in accordance with the 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).

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Therefore, some amounts presented in the schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

NOTE 3 CATALOG OF FEDERAL DOMESTIC (CFDA) NUMBERS

The program titles and CFDA numbers were obtained from the federal or pass-through grantor or the 2019 *Catalog of Federal Domestic Assistance*. When no CFDA number had been assigned to a program, the two-digit federal agency identifier and the federal contract number were used. When there was no federal contract number, the two-digit federal agency identifier and the word "unknown" were used.

NOTE 4 INDIRECT COST RATE

The City did not elect to use the 10 percent de minimis indirect cost rate as covered in 2 CFR §200.414. Uniform Guidance §200.510(6) requires the County 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.

NOTE 5 PASS-THROUGH ENTITIES' IDENTIFYING NUMBER

When federal awards were received from a pass-through entity, the schedule of expenditures of federal awards shows, if available, the identifying number assigned by the pass-through entity. When no identifying number is shown, the City determined that no identifying number is assigned for the program or the City was unable to obtain an identifying number from the pass-through entity.

NOTE 6 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, 2019.

**CITY OF SEASIDE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2019**

Section I – Summary of Auditors’ Results

Financial Statements

1. Type of auditors’ report issued: Unmodified
2. Internal control over financial reporting:
- Material weakness(es) identified? x yes no
 - Significant deficiency(ies) identified? yes x none reported
3. Noncompliance material to financial statements noted? yes x no

Federal Awards

1. Internal control over major federal programs:
- Material weakness(es) identified? yes x no
 - Significant deficiency(ies) identified? yes x none reported
2. Type of auditors’ report issued on compliance for major federal programs: Unmodified
3. Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? yes x no

Identification of Major Federal Programs

CFDA Number(s)

14.218

Name of Federal Program or Cluster

Community Development Block Grants/
Entitlement Grants

Dollar threshold used to distinguish between Type A and Type B programs:

\$ 750,000

Auditee qualified as low-risk auditee?

 yes x no

**CITY OF SEASIDE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2019**

Section II – Financial Statement Findings

2019 – 001 Reconciliation of Cash and Investments

Type of Finding: Material Weakness in Internal Control over Financial Reporting

Condition: While performing our audit procedures, we noted the City did not perform timely reconciliation of cash held with the County of Monterey at June 30, 2019 resulting in a misstatement of cash recorded in the City's accounting system.

Criteria or specific requirement: Cash reconciliations that compare the general ledger to the bank balance should be performed for all accounts to review accuracy and completeness of cash balances and transactions.

Context: During our testing of cash, we noted that timely reconciliations were not being performed for the external cash accounts, including cash held with Monterey County.

Effect: The misstatements to cash resulted in the following audit adjustment to the 2018/19 financial statements: 1) increase of cash and revenues by \$113,029 in the Seaside County Sanitation District fund.

Cause: The City did not complete a timely reconciliation of its outside bank accounts bank balances to the general ledger for June 30, 2019.

Repeat Finding: This is not a repeat finding.

Recommendation: We recommend that the City perform timely bank reconciliations for all outside bank accounts on a monthly basis, especially at year-end.

Views of responsible officials and planned corrective actions: The City agrees with the finding. The City finance staff is developing a comprehensive task list for use by the department. This task list will document all processes and procedures by responsibility area and provide a central location for tracking completion. Each employee will regularly (at least monthly) review the task list for adherence to all task deadlines. In addition, a year-end list is being developed to ensure that all reconciliations have been completed and the year-end balances are accurate. At this time, all cash and investment reconciliations are being completed on a monthly basis.

**CITY OF SEASIDE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2019**

2019 – 002 Accounts Receivable Completeness

Type of Finding: Material Weakness in Internal Control over Financial Reporting

Condition: While performing our audit procedures, we noted that the City did not properly accrue for reimbursement of project costs expenditures incurred during the prior year and not received as of June 30, 2019.

Criteria or specific requirement: Under generally accepted accounting principles, revenues should be recorded to the correct period regardless of when the funds are received.

Context: During our audit procedures, we noted a few reimbursement requests related to a construction project that were not recorded as receivables at June 30, 2018 and 2019 though the services were performed prior to June 30, 2018 and the reimbursements were not received until after June 30, 2019.

Effect: The misstatement resulted in an audit adjustment of \$1,477,218 to increase receivables and beginning fund balance in the capital projects fund at June 30, 2019.

Cause: The department, which submitted the reimbursement requests to the local agency for project work performed prior to June 30, 2018, did not notify the Finance Department to record a receivable for reimbursement claims submitted to the local agency despite the cash not being received for several months after year-end.

Repeat Finding: This is not a repeat finding.

Recommendation: To ensure the year-end receivable balances are accurate and complete, we recommend that the City update its year-end closing procedures to include inquiry of departments about any outstanding reimbursement request and/or unreimbursed project costs for expenditures incurred during the current year.

Views of responsible officials and planned corrective actions: The City agrees with the finding. To ensure that all receivables are correctly reported, the year-end process is being updated to include departmental inquiry of all submitted requests that are outstanding at year-end.

**CITY OF SEASIDE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2019**

2019 – 003 Reconciliation of Claims Liability

Type of Finding: Material Weakness in Internal Control over Financial Reporting

Condition: While performing our audit procedures, we noted that the City did not adjust its risk liability to agree to the tail claims detail report at June 30, 2019.

Criteria or specific requirement: Reconciliations that compare the general ledger to claim cost reports provided by third party specialists should be performed at year-end to ensure the claims liability is based on current estimates.

Context: During our testing of the claims liability, we noted the account balance had not been updated since the prior audit.

Effect: The misstatement resulted in an audit adjustment of \$1,102,340 to reduce claims liability and claims expense in the Self-Insurance Internal Service Fund at June 30, 2019.

Cause: The City did not complete a reconciliation of the tail claims cost detail to the general ledger at June 30, 2019.

Repeat Finding: This is not a repeat finding.

Recommendation: We recommend that the City Finance Department perform timely reconciliations of the claims liability account balance at least once a year, including obtaining recent claims reports from the Risk Manager.

Views of responsible officials and planned corrective actions: The City agrees with the finding. The City finance staff is developing a comprehensive ask list for use by the department. This task list will document all processes and procedures by responsibility area and provide a central location for tracking completion. Each employee will regularly (at least monthly) review the task list for adherence to all task deadlines. In addition, a year-end list is being developed to ensure that all reconciliations have been completed and the year-end balances are accurate.

Section III – Findings and Questioned Costs – Major Federal Programs

Our audit did not disclose any matters required to be reported in accordance with 2 CFR 200.516(a).