

CITY OF MONTEREY
MONTEREY, CALIFORNIA

SINGLE AUDIT REPORT

JUNE 30, 2013

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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 Monterey
Monterey, California

We have audited the basic financial statements of City of Monterey as of and for the year ended June 30, 2013, and have issued our report thereon dated December 31, 2013. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the U.S. Comptroller General.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of Monterey's internal control over financial reporting as a basis for designing our auditing procedures, for the purpose of expressing our opinion on City of Monterey's basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Monterey's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of City of Monterey's internal control over financial reporting.

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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of City of Monterey's basic financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Monterey's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under *Government Auditing Standards*.

To the Honorable Mayor and
Members of the City Council
City of Monterey – Page 2

This report is intended for the information of the City Council and management of City of Monterey, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than the specified parties.

R. J. Ricciardi, Inc.

R.J. Ricciardi, Inc.
Certified Public Accountants

San Rafael, California
December 31, 2013

INDEPENDENT AUDITORS' REPORT ON
COMPLIANCE WITH REQUIREMENTS THAT COULD
HAVE A DIRECT AND MATERIAL EFFECT ON EACH
MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

Compliance

We have audited City of Monterey's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013. City of Monterey's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of the major federal programs is the responsibility of City of Monterey's management. Our responsibility is to express an opinion on City of Monterey's compliance based on our audit.

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 identified in the accompanying schedule of findings and questioned costs occurred. An audit includes examining, on a test basis, evidence about City of Monterey'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. Our audit does not provide a legal determination of City of Monterey's compliance with those requirements.

In our opinion, City of Monterey complied, in all material respects, with the compliance requirements referred to above that could have a direct and material affect on each of its major federal programs identified in the accompanying schedule of findings and questioned costs for the year ended June 30, 2013.

Internal Control Over Compliance

Management of City of Monterey is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered City of Monterey's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance 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 City of Monterey'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.

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 that might be deficiencies, significant deficiencies or material weaknesses in internal control over compliance. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Monterey as of June 30, 2013 and for the fiscal year then ended and issued our report dated December 31, 2013. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise City of Monterey's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended for the information of the City Council, audit committee, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than the specified parties.

R. J. Ricciardi, Inc.

R. J. Ricciardi, Inc.
Certified Public Accountants

San Rafael, California
March 20, 2014

City of Monterey
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2013

<u>Grantor/Pass-Through Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Grantor/ Pass-Through Entity Grant Number</u>	<u>Federal Expenditures</u>
<u>U.S. Department of the Army</u>			
Pass through the Presidio Municipal Services Agency:			
Presidio of Monterey Base Operations and Maintenance Contract	99.unknown **	DABT67-97-R-0015	\$ 11,571,576
Total U.S. Department of the Army			<u>11,571,576</u> *
<u>U.S. Department of Housing and Urban Development</u>			
Direct Program:			
Community Development Block Grant	14.218	B-07-MC-06-0004	615,589
Total U.S. Department of Housing and Urban Development			<u>615,589</u>
<u>U.S. Department of Homeland Security</u>			
Direct Program:			
Assistance to Firefighter Grant	97.044	EMW-2008-FR-00239	82,058
Staffing for Adequate Fire and Emergency Response	97.083	EMW-2012-FH-00866	133,944
Total U.S. Department of Homeland Security			<u>216,002</u>
<u>U.S. Department of Justice</u>			
Direct Program:			
Bulletproof Vest Partnership Program	16.607	OMB#1121-0235	6,214
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2011-DJ-BX-2917	15,689
Total U.S. Department of Justice			<u>21,903</u>
<u>National Park Service</u>			
Direct Program:			
New Monterey Historic Survey	15.904	HPF - 06-11-3911	12,282
National Historic Landmark District Update	15.904	HPF - 06-12-41911	20,000
Total U.S. Department of Justice			<u>32,282</u>
<u>U.S. Department of Transportation</u>			
Pass through the State of California Department of Transportation:			
HSIP - Highway Safety Improvement Program	20.614	5086 (032)	614,343
Mark Thomas Sidewalk & Bike Lane Caltrans	20.614	5086 (033)	1,565
Total U.S. Department of Transportation			<u>615,908</u> *
Total Federal Expenditures			<u>\$ 13,073,260</u>

* Major Program.

** CFDA Number Unavailable.

See Accompanying Notes to the Schedule of Expenditures of Federal Awards.

City of Monterey
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2013

NOTE 1 - BASIS OF ACCOUNTING

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus applied. All governmental funds are accounted for using the modified accrual basis of accounting. All proprietary funds are accounted for using the accrual basis of accounting. Expenditures of Federal Awards reported on the Schedule are generally recognized when they occur.

In accordance with requirements under OMB Circular A-133, any expenditures for federal awards under the American Recovery and Reinvestment Act of 2009 (ARRA) are separately identified by inclusion of the prefix "ARRA" on the Schedule of Expenditures of Federal Awards.

NOTE 2 - BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of City of Monterey (the City). The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

NOTE 3 - SUBRECIPIENTS

Of the federal expenditures presented in the schedule, City of Monterey provided federal awards to recipients as follows:

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Amount Provided to Subrecipients</u>
Community Development Block Grant	14.218	\$145,493

NOTE 4 - DEFERRED LOANS RECEIVABLE

Deferred loans from CDBG funds in the amount of \$2,619,553 are outstanding at June 30, 2013. There were no new loans made during the year. Loans made during the year would be included in the Schedule of Expenditures of Federal Awards.

NOTE 5 - RELATIONSHIP TO FINANCIAL STATEMENTS

The amounts reported in the accompanying Schedule of Expenditures of Federal Awards agree, in all material respects, to amounts reported within the City's financial statements; federal award revenues are reported principally in the City's financial statements as Intergovernmental revenue and/or debt payable in the Enterprise Funds.

NOTE 6 - PASS -THROUGH ENTITIES' IDENTIFYING NUMBER

When federal awards were received from a pass-through entity, the Schedule of Expenditures of Federal Awards shows the identifying number assigned by the pass-through entity, if available. 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.

City of Monterey
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2013

NOTE 7 - LONG TERM DEBT

Loans or debt payable at June 30, 2013 to the Federal Government were as follows:

California Energy Commission 1% Loan	\$ 1,005,419
California Energy Commission 3.95% Loan	<u>313,051</u>
Total	<u>\$ 1,318,470</u>

NOTE 8 - CATALOG OF FEDERAL DOMESTIC ASSISTANCE (CFDA) NUMBERS

The CFDA number included in the accompanying Schedule of Expenditures of Federal Awards was determined based on the program name, review of the award contract, and the Office of Management and Budget's Catalog of Federal Domestic Assistance. 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.

City of Monterey
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2013

Section I – Summary of Auditors’ Results

1. Type of auditors’ report issued: unmodified.
2. Internal control over financial reporting:
 - A. Material weaknesses identified? No
 - B. Significant deficiencies identified that were not considered to be material weakness(es)? None reported
 - C. Noncompliance material to financial statements noted? No
3. Internal control over major programs:
 - A. Material weakness(es) identified? No
 - B. Significant deficiencies identified that were not considered to be material weaknesses? None reported
 - C. The auditors’ report issued on compliance for major programs is unmodified.
 - D. Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? No

4. Audited as Major Programs:

<u>CFDA Number</u>	<u>Program Name</u>	<u>Expenditures</u>
99. Unknown	U.S Department of the Army – Presidio Base Operations and Maintenance contract	\$11,571,576
20.614	Department of Transportation	615,908

5. Dollar threshold used to distinguish between type A and type B programs: \$392,198
6. The auditee is qualified as a low-risk auditee.

Section II – Financial Statement Findings

There were no financial statement findings.

Section III – Federal Award Findings and Questioned Costs

There were no federal award findings and questioned costs.

STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS

Recommendation

Status/Explanation

There were no prior year findings or recommendations.