

CITY OF MONTEREY
MONTEREY, CALIFORNIA

SINGLE AUDIT REPORT

JUNE 30, 2015

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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, 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 City of Monterey as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise City of Monterey's basic financial statements, and have issued our report thereon dated December 4, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered City of Monterey'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 City of Monterey's internal control. Accordingly, we do not express an opinion on the effectiveness of City of Monterey'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 City of Monterey'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 Monterey – Page 2

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 City of Monterey's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Monterey's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

R. J. Ricciardi, Inc.

R.J. Ricciardi, Inc.
Certified Public Accountants

San Rafael, California
December 4, 2015

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 OMB CIRCULAR A-133

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

Report on Compliance for Each Major Federal Program

We have audited City of Monterey'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 its 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 City of Monterey'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 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 on compliance for City of Monterey's federal programs. However our audit does not provide a legal determination of City of Monterey's compliance.

Opinion

In our opinion, City of Monterey 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.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 2015-001. Our opinion on each major federal program is not modified with respect to these matters.

City of Monterey's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. City of Monterey's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of City of Monterey 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 City of Monterey’s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal programs 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 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. 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

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

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, 2015 and for the fiscal year then ended and the related notes to the financial statements. We issued our report dated December 4, 2015, which contained unmodified opinions on those financial statements. Our audit was performed for the purpose of forming our 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 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 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 financial statements or to the 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 financial statements as a whole.

R. J. Ricciardi, Inc.

R. J. Ricciardi, Inc.
Certified Public Accountants

San Rafael, California
March 25, 2016, except with respect to the supplemental information only, for which the date is May 18, 2017.

City of Monterey
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2015

<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	\$ <u>9,375,081</u>
Total U.S. Department of the Army			<u>9,375,081</u> *
<u>U.S. Department of Housing and Urban Development</u>			
Direct Program:			
Community Development Block Grant	14.218	B-07-MC-06-0004	<u>707,414</u>
Total U.S. Department of Housing and Urban Development			<u>707,414</u>
<u>U.S. Department of Homeland Security</u>			
Direct Program:			
Staffing for Adequate Fire and Emergency Response	97.083	EMW-2012-FH-00866	<u>681,473</u>
Total U.S. Department of Homeland Security			<u>681,473</u>
<u>U.S. Fish and Wildlife Service</u>			
Direct Program:			
Boating infrastructure grant program	15.622	12-109-701-FF	<u>100,000</u>
Total U.S. Fish and Wildlife Service			<u>100,000</u>
<u>U.S. Environmental Protection Agency</u>			
Pass through the State of California Water Resource Control Board:			
Capitalization Grants for Clean Water State Revolving Funds	66.458	C-06-5228-110 & 120	<u>1,862,073</u>
Total U.S. Environmental Protection Agency			<u>1,862,073</u> *
Total Federal Expenditures			<u>\$ 12,726,041</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, 2015

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 (CDBG)	14.218	\$126,050

NOTE 4 - DEFERRED LOANS RECEIVABLE

Deferred loans from CDBG funds in the amount of \$3,547,407 are outstanding at June 30, 2015. 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, 2015

NOTE 7 - LONG TERM DEBT

Loans or debt payable at June 30, 2015 to the Federal Government were as follows:

California Energy Commission 1% Loan	\$ 801,590
California Energy Commission 3.95% Loan	<u>270,515</u>
Total	<u>\$ 1,072,105</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, 2015

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. Type of auditors’ report issued on compliance for major programs: Unmodified.
 - D. Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? Yes
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	\$9,375,081
66.458	U.S Environmental Protection Agency – Capitalization Grants for Clean Water State Revolving Funds	1,862,073

5. Dollar threshold used to distinguish between type A and type B programs: \$381,781
6. The auditee is qualified as a low-risk auditee.

Section II – Financial Statement Findings

There are no financial statement findings.

Section III – Federal Award Findings and Questioned Costs

Item: 2015-001 Activities Allowed or Unallowed, Allowable Costs and Cost Principles, Cash Management

Finding Type: Noncompliance

Federal Agency: U.S. Department of Army

Federal Program: Presidio Municipal Services Agency

CFDA No.: 99.Unknown

Award No.: DABT67-97-R-0015

Award Year: July 1, 2014 – June 30, 2015

City of Monterey
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2015

Criteria and requirement: The Defense Contract and Audit Agency performed an independent audit on the City of Monterey's Presidio Municipal Service Agency Accounting System. The results of the audit reported noncompliance with required accounting system criteria resulting in deficiencies in areas of preparing reimbursement claims and accumulating and segregating costs.

Condition: The results of the Defense Contract and Audit Agency's post award audit of the City of Monterey's Presidio Municipal Services Agency fund's accounting system, identified noncompliance with DFARS 252.242-7006©.

Questioned Costs: There was \$86,000 of questioned costs identified and relating to Presidio inventory parts used by the City of Monterey's General Fund.

Context: City of Monterey's non-compliance with required procedures as identified in the Defense Contract and Audit Agency's report was determined by us to be immaterial non-compliance.

Possible Asserted Cause and Effect: Deficiencies identified by Defense Contract and Audit Agency as a result of their audit.

Recommendation: The City of Monterey has responded to the audit findings and has developed a plan of corrective action. The City of Monterey is working with the Presidio's contracting office to implement their corrective action plan. We recommend the City of Monterey continue its efforts to correct their noncompliance with applicable regulations discussed above.

Views of Responsible Officials: Management concurs with the questioned costs of \$86,000 listed above, and is implementing recommended policy and procedure changes.

Independent Audit Report on the City of Monterey's (DBA Presidio Municipal Service Agency)
Accounting System Deficiencies
Corrective Action Plan

Finding #	Action Plan	Responsible Party	Implementation Date
1	City to notify Contracting Officer in writing (via fax) when PMSA is within 60 days of reaching 75% of funding or cost	Plans & Public Works Admin	Implemented
	City to include 75% target limits for funding and cost on the City's monthly vouchers to aid monitoring of funding and cost limits.	Finance Department	Implemented
	City to update "Reporting 75% Funding Usage" policy	Plans & Public Works Admin	May 6, 2016
2	Request due date extension for completion of Cost Allocation Plan (CAP) and Indirect Cost Rate Proposal when City cannot meet the December 31 st deadline	Finance Department	Implemented for FY14/15 Plan; annually by December 31 st
3	Prepare annual "true up" to reflect amount due or credit upon completion of the Cost Allocation Plan and automatically bill as a separate line item along with the current billing or voucher.	Finance Department	Annually upon completion of CAP plan (FY14/15 by April 15, 2016) and invoiced on the following month's billing or voucher
4	Update General Services "Standard Operating Procedures" to reflect procedures for stand-by/overtime cost.	Plans & Public Works Admin	May 6, 2016
	Submit letter MICC at the beginning of the contract to exist for the life of the contract, notifying of potential overtime incurred per year for emergency call-out.	Plans & Public Works Admin	May 6, 2016
	Establish random sampling of timecards to provide internal oversight.	Plans & Public Works Admin	May 6, 2016; ongoing
5	Create new "Notification of Subcontractor" form to Contracting Officer to provide advance written notification before placing any subcontracts.	Plans & Public Works Admin	Form created and approved by Contracting Officer March 4, 2016.
	Incorporate Notification of Subcontractor form into General Services Division's Standard Operating Procedures.	Plans & Public Works Admin	May 6, 2016
6	Update Timekeeping policies and disseminate to General Services, Parks, Streets and Engineering.	Plans & Public Works Admin	May 6, 2016
	Establish random sampling of timecards to provide internal oversight.	Plans & Public Works Admin	May 6, 2016; ongoing
7	Segregate inventory and validate system to exclude City inventory items from contract items. Move City inventory off-site.	Plans & Public Works Admin	May 6, 2016
	Reimburse Army for overcharged inventory.	Finance Department	Implemented
8	Update "Cost Policy Statement" to include a	Finance	April 15, 2016

Independent Audit Report on the City of Monterey's (DBA Presidio Municipal Service Agency)
 Accounting System Deficiencies
 Corrective Action Plan

	written description for each element of the contents of the indirect pool and base.	Department	
9	Readily calculate interim indirect cost rate either upon request by Contracting Officer or when significant changes to budget are made.	Plans & Public Works Admin and Finance Department	Process for interim rate calculation in place by May 6, 2016

STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS

<u>Recommendation</u>	<u>Status/Explanation</u>
<p>Item: 2014-01 Earmarking</p> <p>Federal Agency: U.S. Department of Housing and Urban Development</p> <p>Federal Program: Community Development Block Grant</p> <p>CFDA No.: 14.218</p> <p>Award No.: B-07-MC-06-0004</p> <p>Award Year: July 1, 2011 – June 30, 2014</p> <p>Condition: Per review of CDBG Financial Summary Report (PR 26), the funds were not being used beginning in year 2011. 0 percent of the funds were used over the past 3 years of time.</p> <p>Recommendation: We recommend that the program should be expended to benefit more qualified persons.</p>	<p>U.S. Department of Housing and Urban Development made a determination. The City of Monterey qualifies for an exception to the timeliness policy and the City's 2015 grant will not be reduced.</p>