

**CITY OF WATSONVILLE  
CALIFORNIA**

**SINGLE AUDIT REPORT**  
For the Fiscal Year Ended  
June 30, 2013

**CITY OF WATSONVILLE**  
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MOSS, LEVY & HARTZHEIM LLP

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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**

Honorable Mayor and City Council  
City of Watsonville  
Watsonville, 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 Watsonville (the City), as of and for the fiscal year ended June 30, 2013, 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 30, 2013.

**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. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting. Findings 2013-1 and 2013-2 as detailed on page 8 are deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

**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*.

## City of Watsonville's Responses to Findings

The City of Watsonville's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The City of Watsonville's responses were not subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on them.

## 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.

*Moss, Remy & Haugheim LLP*

Santa Maria, California  
December 30, 2013

**CITY OF WATSONVILLE**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
For The Fiscal Year Ended June 30, 2013

Federal Grantor/ Pass - Through Grantor Program Title	Federal CFDA Number	Pass-Through Program Number	Federal Expenditures
<b>U.S. Department of Housing and Urban Development:</b>			
Direct Programs			
Community Development Block Grant / Entitlement Grant	14.218	B-11-MC-06-0052	\$ 1,082,074 *
Home Investment Partnership Program	14.239	11-Home-7660	139,750
Total U.S. Department of Housing and Urban Development			<u>1,221,824</u>
<b>U.S. Department of Homeland Security:</b>			
Passed Through California Office of Emergency Services			
Urban Area Security Initiative	97.067	2011 UASI	11,077
2010 Homeland Security Grant - Police	97.067	2010-0071	75,854
2011 Homeland Security Grant - Police	97.067	2011-0071	11,746
Total U.S. Department of Homeland Security			<u>98,677</u>
<b>U.S. Department of Justice:</b>			
Direct Programs:			
Edward Byrne Justice Assistance Grant Program	16.738	2011-DJ-BX-2564	1,911
Edward Byrne Justice Assistance Grant Program	16.738	2012-DJ-BX-0452	22,066
ARRA - Public Safety Partnership and Community Policing Grants	16.710	2009RKWX0157	165,255 *
Passed-Through California Emergency Management Agency			
Project Safe Neighborhoods	16.609	US11048410	14,747
Passed-Through California Department of Corrections and Rehabilitation			
Juvenile Justice and Delinquency Prevention	16.540	CSA#389-11	207,223
Juvenile Justice and Delinquency Prevention	16.540	BSCC#389-12	49,144
Total U.S. Department of Justice			<u>460,346</u>
<b>U.S. Department of Transportation:</b>			
Passed-Through California Office of Traffic Safety			
Highway Safety Improvement Program	20.205	HSIP - 5031	4,400
Total U.S. Department of Transportation			<u>4,400</u>
<b>U.S. Department of Environmental Protection:</b>			
Passed-Through California State Water Resources Control Board			
Section 319(h) Grant	66.460	10-443-553 (2010/11)	255
Section 319(h) Grant	66.460	10-443-553 (2011/12)	55,849
Section 319(h) Grant	66.460	10-443-553 (2012/13)	67,150
Total U.S. Department of Environmental Protection			<u>123,254</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<u><u>\$ 1,908,501</u></u>

\* Denotes major program

The note to the schedule of expenditures of federal awards is an integral part of this statement.

**CITY OF WATSONVILLE**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

For the Fiscal Year Ended June 30, 2013

**NOTE 1 – BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Watsonville and is presented on the modified accrual basis of accounting. 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 City's basic financial statements.



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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND  
ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

Honorable Mayor and City Council  
City of Watsonville  
Watsonville, California

**Report on Compliance for Each Major Federal Program**

We have audited the City of Watsonville's (the City) 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 each of the City's major federal programs for the fiscal year ended June 30, 2013. 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.

***Auditors' 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 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 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, City of Watsonville 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 fiscal year ended June 30, 2013.

**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 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 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

### **Report on Schedule of Expenditure of Federal Awards Required by OMB Circular A-133**

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 Watsonville, as of and for the fiscal year ended June 30, 2013, and the related notes to the financial statements which collectively comprise the City's basic financial statements. We issued our report thereon December 30, 2013, 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 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 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 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.

*Moss, Remy & Haugheim LLP*

Santa Maria, California  
December 30, 2013



## **FINDINGS AND RECOMMENDATIONS**

**CITY OF WATSONVILLE**  
**SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS**  
For the Fiscal Year Ended June 30, 2013

**Section I – Summary of Auditors’ Results**

*Financial Statements*

Type of auditors’ report issued

Unmodified

Internal control over financial reporting:

Material weaknesses identified?

\_\_\_\_\_ Yes   X   No

Significant deficiencies identified not considered  
to be material weaknesses?

  X   Yes \_\_\_\_\_ None reported

Noncompliance material to financial statements noted?

\_\_\_\_\_ Yes   X   No

*Federal Awards*

Internal control over major programs:

Material weaknesses identified?

\_\_\_\_\_ Yes   X   No

Significant deficiencies identified not considered  
to be material weaknesses?

\_\_\_\_\_ Yes   X   None reported

Type of auditors’ report issued on compliance for major  
programs:

Unmodified

Any audit findings disclosed that are required to be  
reported in accordance with Circular A-133,  
section .510 (a)

\_\_\_\_\_ Yes   X   No

Identification of major programs:

CFDA Number(s)

14.218

16.710

Name of Federal Program or Cluster

CDBG – Entitlement Grant

ARRA - Public Safety Partnership and

Community Policing Grants

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

\$ 300,000

Auditee qualify as low-risk auditee:

  X   Yes \_\_\_\_\_ No

**CITY OF WATSONVILLE**  
**SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS**  
For the Fiscal Year Ended June 30, 2013

**Section II – Financial Statement Findings**

**FINDING 2013-1**  
**PETTY CASH**

**Criteria:**

Proper controls need to be in place and followed in order ensure that the City's gas card policies are enforced.

**Condition:**

During our testing of ten expenditures using the City's gas cards, we found that three police department purchases of fuel were missing a receipt.

**Cause:**

The police department was not properly implementing the City's policy.

**Effect:**

Potential misappropriation of funds due to lack of controls over the use of gas cards.

**Recommendation:**

The department should ensure that all employees understand the City policy and put controls in place to monitor the use of gas cards and require that a receipt is retained for all expenditures.

**City's Corrective Action Plan:**

The City has contacted the police department and reminded them of the City's policy on the use of gas cards and that the policy will be enforced. If any other purchase is made and no documentation is turned in the department will lose the privilege to use these cards. The Police Department has held a department wide meeting and has assigned various staff with the responsibility to sign out the cards and make sure all staff are following the City's policy.

**FINDING 2013-2**  
**ACCRUALS**

**Criteria:**

The City should have some type of accounting system or records from which a complete list of exactly what is in Accounts Receivable can be generated at any given time. In addition, in order to ensure proper collection of Accounts Receivables occurs and possible uncollectable balances get evaluated, the accounting records should be able to produce an Aged Accounts Receivable List.

**Condition:**

We were unable to obtain exact and comprehensive lists of exactly what the June 30, 2013, balances in Accounts Receivable consisted of. While we were able to obtain reasonable assurance that total balance in each account was materially accurate, the City is unable to properly monitor and review these accounts.

**Cause:**

The City's accounting system does not support the City's needs.

**Effect:**

Potential misappropriation of funds or misstatement of balances due to lack of controls over individual receivables.

**Recommendation:**

The City should look into improvements in its accounting system in order to support the ability to produce Accounts Receivable and Aged Accounts Receivable lists.

**City's Corrective Action Plan:**

The City has requested proposals from vendors for a new Financial Management System. The City's plan is to review the proposals and selected a vendor to be presented to Council for approval. Plans are for implementation of the General Ledger, Accounts Receivables, Accounts Payable, Cash Receipts, and Business Licenses as soon as possible.

**CITY OF WATSONVILLE**  
**SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS**  
For the Fiscal Year Ended June 30, 2013

**Section III – Federal Award Findings and Questioned Costs**

There were no federal award findings or questioned costs.

**CITY OF WATSONVILLE**  
**SUMMARY OF PRIOR FISCAL YEAR AUDIT FINDINGS AND QUESTIONED COSTS**  
For the Fiscal Year Ended June 30, 2013

**Section II – Financial Statement Findings**

**FINDING 2012-1**  
**COMPENSATED ABSENCES**

**Condition:**

We noted the compensated absences accrual of certain personnel was over accrued when compared to the City policy.

**Effect:**

The City retains a liability in excess of City policy limits which, in addition, requires cash to liquidate in tight cash times.

**Recommendation:**

We recommend compliance with City compensated absence policy and to reduce this excess compensated absence liability as cash permits. This could require a quarterly analysis of compensated absences to reduce the risk of compensated absence over-accruals in excess of City policy.

**Current Status:**

Implemented.

**CITY OF WATSONVILLE**

**SUMMARY OF PRIOR FISCAL YEAR AUDIT FINDINGS AND QUESTIONED COSTS**  
For the Fiscal Year Ended June 30, 2013

**Section III – Federal Award Findings and Questioned Costs**

There were no prior fiscal year federal award findings or questioned costs.