

**SAN DIEGO UNIFIED PORT
DISTRICT**

**Single Audit Reports
(OMB Circular A-133)**

For the Year Ended June 30, 2013

SAN DIEGO UNIFIED PORT DISTRICT

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(OMB Circular A-133)**

For the Year Ended June 30, 2013

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**Independent Auditor's 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 Board of Commissioners
of the San Diego Unified Port District

We have audited, in accordance with 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 San Diego Unified Port District (District), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 3, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District'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 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 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 the 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 District's financial statements are free of 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal 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.

Macias Jini & O'Connell LLP

San Diego, California
December 3, 2013



**Independent Auditor's Report on Compliance for Each Major Federal Program,
on Internal Control Over Compliance, and on the Schedule of Expenditures
of Federal Awards Required by OMB Circular A-133**

To the Honorable Board of Commissioners
of the San Diego Unified Port District

Report on Compliance for Each Major Federal Program

We have audited the San Diego Unified Port District's (District) 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 the District's major federal programs for the year ended June 30, 2013. The District'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 requirement of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the District'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 the major federal programs occurred. An audit includes examining, on a test basis, evidence about the District'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 the major federal program. However, our audit does not provide a legal determination of the District's compliance.

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the 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, 2013.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2013-01. Our opinion on each major federal program is not modified with respect to this matter.

The District's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The District'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 the District 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 District's internal control over compliance with the requirements that could have a direct and material effect on each of its major federal programs to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal programs 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 District'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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2013-01, that we consider to be a significant deficiency.

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

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 financial statements of the District as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements. We issued our report thereon dated December 3, 2013, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming an opinion on the District's 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 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.

Macias Jini & O'Connell LLP

San Diego, California
December 3, 2013

SAN DIEGO UNIFIED PORT DISTRICT
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2013

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Grant Identification Number	Federal Expenditures	Passed Through to Subrecipients
<u>U.S. Department of Justice</u>				
Direct:				
Edward Byrne Memorial Formula Grant Program:				
Narcotic Task Force Program - DEA	16.579		\$ 11,000	\$ -
Equitable Sharing Program	16.922		99,490	-
Total U.S. Department of Transportation			110,490	-
<u>U.S. Environmental Protection Agency</u>				
Direct:				
West Coast Estuaries Initiative	66.119	WS-00T04101-0	90,985	-
<u>Executive Office of the President</u>				
Direct:				
High Intensity Drug Trafficking Areas Program:				
Marine Task Force	95.001	G10SC0003A	62,000	-
Marine Task Force	95.001	G11SC0001A	70,870	-
Subtotal - High Intensity Drug Trafficking Areas Program			132,870	-
<u>U.S. Department of Homeland Security</u>				
Direct:				
Port Security Grant Program (Round 8)	97.056	2008-GB-T8-K009	937,326	909,339
Port Security Grant Program (Round 9)	97.056	2009-PU-T9-K007	2,271,180	-
Port Security Grant Program (Round 10)	97.056	2010-PU-TO-K046	554,084	-
Port Security Grant Program (Round 11)	97.056	EMW-2011-PU-00052	866,674	98,790
Subtotal - Port Security Grant Program			4,629,264	1,008,129
ARRA - Port Security Grant Program	97.116	2009-PU-R1-0175	587,373	-
Law Enforcement Officer Reimbursement Agreement Program:				
Immigration and Customs Enforcement	97.090		3,671	-
National Explosives Detection Canine Team Program:				
K-9 Explosives Detection Team Program	97.072	HSTS0208HCAN447	250,500	-
Subtotal Direct			5,470,808	1,008,129
Pass Through California Emergency Management Agency:				
Homeland Security Grant Program:				
Operation Stonegarden (OPSG) - 2010	97.067	2010-1085	47,328	-
Operation Stonegarden (OPSG) - 2011	97.067	2011-1077	185,255	-
Law Enforcement Terrorism Prevention Program (LETPP) - 2010	97.067	2010-085	29,492	-
Urban Areas Security Initiative (UASI) - 2010	97.067		22,978	-
Subtotal - Homeland Security Grant Program			285,053	-
Radiological/Nuclear Detection Pilot Evaluations Program:				
Domestic Nuclear Detection Office West Coast Maritime Pilot	97.121		5,808	-
Subtotal Pass Through Funding			290,861	-
Total U.S. Department of Homeland Security			5,761,669	1,008,129
Total Expenditures of Federal Awards			\$ 6,096,014	\$ 1,008,129

See accompanying notes to the schedule of expenditures of federal awards.

SAN DIEGO UNIFIED PORT DISTRICT
Notes to the Schedule of Expenditures of Federal Awards
Year Ended June 30, 2013

(1) GENERAL

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal awards programs of the San Diego Unified Port District (District) and, therefore, does not present the financial position or results of operations of the District. The District's reporting entity is defined in Note 1 to the District's basic financial statements. Expenditures funded by the American Recovery and Reinvestment Act of 2009 are denoted by the prefix "ARRA -" in the federal program title.

(2) BASIS OF ACCOUNTING

The accompanying Schedule of Expenditures of Federal Awards is presented using the accrual basis of accounting. Under the accrual basis of accounting expenditures are recognized when incurred, regardless of the timing of cash flows.

(3) CATALOG OF FEDERAL DOMESTIC ASSISTANCE (CFDA) NUMBERS

The CFDA numbers included in the accompanying SEFA were determined based on the program name, review of grant contract information, and the Office of Management and Budget's Catalog of Federal Domestic Assistance.

SAN DIEGO UNIFIED PORT DISTRICT
Schedule of Findings and Questioned Costs
Year Ended June 30, 2013

Section I - Summary of Auditor's Results

Financial statements:

Type of auditor's report issued on the basic financial statements of the District:	Unmodified
Internal control over financial reporting:	
• Material weakness(es) identified?	No
• Significant deficiencies identified that are not considered to be material weaknesses?	None reported
Noncompliance material to the financial statements noted?	No

Federal Awards:

Internal control over major programs:	
• Material weakness(es) identified?	No
• Significant deficiencies identified that are not considered to be material weaknesses?	Yes
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?	Yes

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
97.056	Port Security Grant Program
97.116	ARRA – Port Security Grant Program

Dollar threshold used to distinguish between type A and type B programs:	\$300,000
Auditee qualified as a low-risk auditee?	Yes

SAN DIEGO UNIFIED PORT DISTRICT
Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2013

Section II - Financial Statement Findings

No matters to report.

Section III - Federal Award Findings and Questioned Costs

Reference Number:	2013-01
Federal Program Title:	Port Security Grant
Federal Catalog Number:	97.056
Federal Agency:	U.S. Department of Homeland Security
Federal Award Number and Year:	EMW-2011-PU-00052; 2011
Category of Finding:	Reporting

Criteria:

Under the Federal Funding Accountability and Transparency Act (FFATA), all prime grant recipients awarded a new federal grant greater than or equal to \$25,000 as of October 1, 2010, are subject to FFATA sub-award reporting requirements, as outlined in the Office of Management and Budget guidance issued August 27, 2010. The prime grant recipient is required to file a FFATA sub-award report by the end of the month following the month in which the prime grant recipient awards any sub-grant greater than or equal to \$25,000. In FY 2011/12, the San Diego Unified Port District (District), as the prime grant recipient of the Port Security Grant, sub-granted funding to one subrecipient in the amount of \$98,790. Since the sub-grant exceeded the \$25,000 threshold, the District was subject to the reporting requirements under the FFATA. Allowable costs reimbursed to the subrecipient during FY 2012/13 were \$98,790, which were not reported via the FFATA Sub-award Reporting System (FSRS).

Condition:

The District did not report the sub-grant information to the FSRS.

Cause:

Pursuant to inquiry of responsible personnel, the District's grant administration was unaware of the FFATA reporting requirement, which became applicable when sub-grants are awarded by prime recipients related to new federal grants and cooperative agreements with an award date on or after October 1, 2010.

Effect:

The District was not in compliance with the FFATA reporting requirements and did not have internal controls sufficient to ensure that the District administers federal award programs in compliance with the applicable compliance requirements.

Questioned Costs:

None.

SAN DIEGO UNIFIED PORT DISTRICT
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2013

Recommendation:

We recommend that personnel responsible for the administration of federal award programs and compliance with applicable compliance requirements, annually review relevant grant award documents, program regulations, and other program guidelines available to ensure any new federal requirements are identified, understood, and properly communicated. Federal program rules, regulations and compliance requirements are publicly available on the website of the Office of Management and Budget (OMB) or directly through the federal grantor agency. Specifically, requirements under the FFATA have been codified in the Federal Register under Title 2 of the Code of Federal Regulations (CFR), Part 170 – Requirements for Federal Funding Accountability and Transparency Act Implementation.

Management Response and Corrective Action Plan:

The Grants Office was unaware of the new reporting requirement in 2010 when the FFATA requirements were lowered to \$25,000 from the previous \$500,000 threshold. Therefore, reporting was not completed on any sub-awards greater than \$25,000. Also, there were no sub-awards at the \$500,000 threshold prior to 2010. The District is in the process of inputting the required information for the sub-awards from 2010 on, which total \$132,000.

The FFATA website is not accepting one of the award numbers from the U.S. Department of Homeland Security (DHS), so reporting is not yet complete. FFATA requires the awarding agency to resolve the issue. Once DHS can resolve, the Grants Office will complete the reporting requirement.

The Grants Office has a checklist of all activities for each new award. On a go forward basis, FFATA reporting will be added to the checklist, where applicable. Also, an annual review of new federal funding requirements will be scheduled. Any new requirements will then be added to the grants checklist, where applicable.

SAN DIEGO UNIFIED PORT DISTRICT
Summary Schedule of Prior Audit Findings
For the Year Ended June 30, 2013

Reference Number:	2012-1
Federal Program Title:	Port Security Grant
Federal Catalog Number:	97.056
Category of Finding:	Subrecipient Monitoring

Condition:

During the subrecipient application and award process the District did not provide the CFDA number to its subrecipients. However, prior to the completion of the audit, the required communications were made to the subrecipients.

Status of Corrective Action:

Corrected – during our audit of the Port Security Grant Program in FY2012/13, we noted that the District was properly informing its subrecipients of the CFDA numbers at the time of subaward.