

SAN DIEGO UNIFIED PORT DISTRICT

Federal Single Audit Report

For the Fiscal Year Ended June 30, 2018



**Certified
Public
Accountants**

**SAN DIEGO UNIFIED PORT DISTRICT
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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 Honorable Commissioners
of the San Diego Unified Port District
San Diego, 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 San Diego Unified Port District (District), as of and for the fiscal year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 20, 2018.

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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District'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 the District'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*.

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 District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Macias Gini & O'Connell LLP

San Diego, California
November 20, 2018

**Independent Auditor's Report on Compliance for the Major Federal Program;
Report on Internal Control Over Compliance; and Report on Schedule of
Expenditures of Federal Awards Required by the Uniform Guidance**

To the Honorable Commissioners
of the San Diego Unified Port District
San Diego, California

Report on Compliance for the Major Federal Program

We have audited San Diego Unified Port District's (District) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the District's major federal program for the fiscal year ended June 30, 2018. The District's major federal program is 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 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 the District's major federal program 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* 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 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 the Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the fiscal year ended June 30, 2018.

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 types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the 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 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. 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 District as of and for the fiscal year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements. We issued our report thereon dated November 20, 2018, which contained an unmodified opinion on those 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 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 basic 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.

Macias Gini & O'Connell LLP

San Diego, California
November 20, 2018

SAN DIEGO UNIFIED PORT DISTRICT
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2018

<u>Federal Grantor/Pass-Through Grantor/Federal Program Title</u>	<u>CFDA Number</u>	<u>Grant Identification Number</u>	<u>Total Federal Expenditures</u>	<u>Passed Through to Subrecipients</u>
<u>U.S. DEPARTMENT OF JUSTICE</u>				
<u>Direct Program</u>				
Equitable Sharing Program	16.922		\$ 128,405	\$ -
<u>U.S. DEPARTMENT OF TRANSPORTATION</u>				
<u>Direct Program</u>				
National Infrastructure Investments				
Tenth Avenue Marine Terminal Modernization Project	20.933	DTMA91G1600002A	2,294,796	-
<u>EXECUTIVE OFFICE OF THE PRESIDENT</u>				
<u>Direct Program</u>				
High Intensity Drug Trafficking Areas Program				
Narcotic Task Force	95.001		62,000	-
Marine Task Force	95.001	G17SC0001A	80,054	-
TOTAL - EXECUTIVE OFFICE OF THE PRESIDENT			142,054	-
<u>U.S. DEPARTMENT OF HOMELAND SECURITY</u>				
<u>Direct Programs</u>				
Port Security Grant Program (2015)	97.056	EMW-2015-PU-00040	638,921	-
Port Security Grant Program (2015 Harbor Police)	97.056	EMW-2015-PU-00102	531,661	-
Port Security Grant Program (2016)	97.056	EMW-2016-PU-00331	165,260	-
Port Security Grant Program (2016 Harbor Police)	97.056	EMW-2016-PU-00330	131,876	-
Port Security Grant Program (2017)	97.056	EMW-2017-PU-00651	19,600	-
Subtotal - Port Security Grant Program			1,487,318	-
National Explosives Detection Canine Team Program				
K-9 Explosives Detection Team Program	97.072	HSTS02-15-H-NCP474	252,500	-
Subtotal - Direct Programs			1,739,818	-
<u>Passed Through California Governor's Office of Emergency Services</u>				
Homeland Security Grant Program				
Operation Stonegarden (OPSG)	97.067	2016-0102	177,708	-
TOTAL - U.S. DEPARTMENT OF HOMELAND SECURITY			1,917,526	-
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 4,482,781	\$ -

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

SAN DIEGO UNIFIED PORT DISTRICT
Notes to the Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2018

(1) GENERAL

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) presents the activity of all federal award programs of the San Diego Unified Port District (District) for the fiscal year ended June 30, 2018. The Schedule includes federal awards received directly from federal agencies, as well as federal awards passed through other agencies. The District's reporting entity is defined in Note 1 to the District's basic financial statements. Because the Schedule presents only a selected portion of the operations of the District, it is not intended to and does not, present the financial position of the District. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

(2) BASIS OF ACCOUNTING

The accompanying Schedule 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 Schedule 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.

(4) INDIRECT COST RATES

The District has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance. There were no indirect costs charged to any of the District's Federal programs during the fiscal year ended June 30, 2018.

(5) NATIONAL EXPLOSIVES DETECTION CANINE TEAM PROGRAM

The District participates in the National Explosives Detection Canine Team Program. The District submitted claims during the fiscal year ended June 30, 2018, however the reimbursement of claims is based on available funds, therefore, the District cannot estimate with any certainty the amount of expenditures that will be eligible and reimbursed annually for this program. For the fiscal year ended June 30, 2018, the District received \$252,500 in reimbursements, which is reported in the accompanying Schedule under CFDA No. 97.072.

SAN DIEGO UNIFIED PORT DISTRICT
Schedule of Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2018

Section I - Summary of Auditor's Results

Financial Statements:

Type of report the auditor issued on whether the financial statements were prepared in accordance with GAAP:	Unmodified
Internal control over financial reporting:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified?	None reported
Noncompliance material to financial statements noted?	No

Federal Awards:

Internal control over major federal programs:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified?	No
Type of auditor's report issued on compliance for the major federal program:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	No

Identification of major federal program:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
20.933	National Infrastructure Investments

Dollar threshold used to distinguish between Type A and Type B programs:	\$750,000
Auditee qualified as a low-risk auditee?	Yes

**SAN DIEGO UNIFIED PORT DISTRICT
Schedule of Findings and Questioned Costs (Continued)
For the Fiscal Year Ended June 30, 2018**

Section II - Financial Statement Findings

None.

Section III - Federal Award Findings and Questioned Costs

None.

**SAN DIEGO UNIFIED PORT DISTRICT
Summary Schedule of Prior Audit Findings
For the Fiscal Year Ended June 30, 2018**

Reference Number:	2017-001
Federal Program Title:	Port Security Grant Program (PSGP)
Federal Catalog Number:	97.056
Federal Agency:	U.S. Department of Homeland Security
Federal Award Number and Year:	EMW-2014-PU-00627
Category of Finding:	Cash Management

Finding:

For two (2) out of five (5) federal expenditure transactions tested associated with grant EMW-2014-PU-00627, the expenditures were paid subsequent to the reimbursement request being submitted to the federal awarding agency. The invoices for the two (2) expenditure transactions were excluded from the weekly check run as instructed by the Project Manager. With the departure of the Project Manager from the District earlier in the year, the reason of the exclusion was unknown.

The District's standard check run process is conducted on a weekly basis and is set up to automatically pay all "open invoices" identified in the SAP financial system. As such, invoices are usually paid timely and prior to the monthly reimbursement request being prepared and submitted. While payment of the invoices were on hold, the Financial Services Department was not informed to not request reimbursement for the expenditure transactions that were placed on hold by the Project Manager. As such, the expenditure amounts were included in the monthly reimbursement request submitted to the federal awarding agency, yet the payment of the invoices was made after the submission of the reimbursement request.

Status of Corrective Action:

Implemented. The District implemented additional monitoring controls for verifying and ensuring that all invoices are paid prior to requesting reimbursement of federal funds. In addition, the District completed and submitted a copy of the updated and approved Administrative Procedure #127-219, in which the District strengthened its internal controls over federal awards with increased oversight responsibilities to the Grants Office, to Federal Emergency Management Agency (FEMA). FEMA determined this issue was resolved and closed as of May 2018.

**SAN DIEGO UNIFIED PORT DISTRICT
Summary Schedule of Prior Audit Findings (Continued)
For the Fiscal Year Ended June 30, 2018**

Reference Number:	2017-002
Federal Program Title:	Port Security Grant Program (PSGP)
Federal Catalog Number:	97.056
Federal Agency:	U.S. Department of Homeland Security
Federal Award Number and Year:	EMW-2015-PU-00040
	EMW-2015-PU-00102
	EMW-2016-PU-00331
	EMW-2016-PU-00330
Category of Finding:	Equipment and Real Property Management

Finding:

During our testing we noted that the District's Grant Office was not able to provide equipment records which included all of the required information. In addition, a physical inventory of the grant funded equipment has not been conducted within the last two years as required. The most recent physical inventory of grant funded equipment was performed by the Grants Office in June 2017, while the previous physical inventory was performed at the beginning of 2014, therefore the required two year frequency to perform the physical inventory was not met.

The equipment inventory list was designed to include information as required in 2 CFR 200.313, including asset description, serial number, barcode number, funding source, capitalization date, acquisition value, and equipment location. It is our understanding that due to organizational and staffing changes within the Grant's Office, the equipment inventory list was not updated with the required information as of June 30, 2017 and physical inventory of grant funded equipment was not performed at the required frequency.

Status of Corrective Action:

Implemented. The District established standard operating procedures and implemented a grants management software system in order to actively track and share information between the District's departments and key personnel. Additionally, the District completed and submitted copies of the PSGP equipment inventory list, and standard operating procedure on the process of performing a physical inventory of federally funded equipment to Federal Emergency Management Agency (FEMA). FEMA considered this issue resolved as of May 2018.