

CITY OF CHULA VISTA, CALIFORNIA

SINGLE AUDIT REPORT

JUNE 30, 2016

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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 Chula Vista, 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 Chula Vista, California, (the City) as of and for the year ended June 30, 2016, 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 14, 2016.

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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as findings 2016-001, 2016-002 and 2016-003 to be material weaknesses.



To the Honorable Mayor and Members of the City Council
City of Chula Vista, California

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's Response to Findings

The City's response to the findings identified in our audit was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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

Brea, California
December 14, 2016



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND
ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES
OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE

To the Honorable Mayor and Members of the City Council
City of Chula Vista, California

Report on Compliance for Each Major Federal Program

We have audited the City of Chula Vista (the City)'s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2016. 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 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 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 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 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, the City 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, 2016.



To the Honorable Mayor and Members of the City Council
City of Chula Vista, California

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 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 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.

Report on the Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

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 Chula Vista, California, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated December 14, 2016, which contained an unmodified opinion 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 the 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 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.



CPAs AND ADVISORS

To the Honorable Mayor and Members of the City Council
City of Chula Vista, California

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.

Lance, Solt & Loughard, LLP

Brea, California

March 3, 2017 (except for our report on the Schedule of Expenditures of Federal Awards, for which the date is December 14, 2016)

CITY OF CHULA VISTA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Expenditures	Passed Through to Subrecipients
<u>U.S. Department of Housing and Urban Development</u>				
Direct Programs:				
Community Development Block Grant*	14.218			
2014 Community Development Block Grant		B-14-MC-060540	\$ 827,868	\$ -
2015 Community Development Block Grant		B-15-MC-060540	630,087	242,962
Total Community Development Block Grant			1,457,955	242,962
Emergency Shelter Grant Program	14.231			
2014 Emergency Shelter Grant Program		E14-MC-060540	31,580	-
2015 Emergency Shelter Grant Program		E15-MC-060540	131,368	62,777
Total Emergency Shelter Grant Program			162,948	62,777
Home Investment Partnership Program	14.239			
2013 Home Investment Partnership Program		M13-MC-060505	456,163	-
2014 Home Investment Partnership Program		M14-MC-060505	406,064	-
2015 Home Investment Partnership Program		M15-MC-060505	122,327	-
Total Home Investment Partnership Program			984,554	-
Total U.S. Department of Housing and Urban Development			2,605,457	305,739
<u>U.S. Department of Justice</u>				
Direct Programs:				
Domestic Violence Response Team 2014	16.588	DVRT 2014	95,495	-
Domestic Violence Response Team 2015		DVRT 2015	86,791	-
Total Domestic Violence Response Team			182,286	-
Edward Byrne Memorial Competitive Grant Program	16.751	2013-DB-BX-0033	119,108	-
Public Safety Partnership and Community Policing Grants	16.710	2012-UL-WX-0006	250,008	-
Passed through the City of San Diego:				
Internet Crimes Against Children 2015	16.543	ICAC2015	31,768	-
Total Internet Crime Against Children			31,768	-
Passed through the County of San Diego:				
Edward Byrne Memorial Justice Assistance Grant Program				
2014 Justice Assistance Grant	16.738	2015DJ-BX-0185	45,481	-
Total Justice Assistance Grant			45,481	-
Passed through the State of California:				
Paul Coverdell Forensic Sciences Improvement Grant Program	16.742	CQ15056364	1,447	-
Paul Coverdell Forensic Sciences Improvement Grant Program		CQ140476364	4,381	-
Total Paul Coverdell Forensic Sciences Improvement Grant Program			5,828	-
Equitable Sharing Program	16.922	N/A	83,080	-
Total U.S. Department of Justice			717,559	-
<u>U.S. Department of Transportation</u>				
Passed through the California Office of Traffic Safety:				
Highway Planning and Construction*	20.205			
SafeTea-Lu		HPLU-5203 (028)	81,514	-
Highway Bridge Replacement and Rehabilitation		BHLS-5203 (016)	2,982,693	-
Highway Safety Improvement Program		HSIPL 5203 (025)	92,444	-
Public Lands Discretionary Grant		HPLU 5203 (029)	100,218	-
Total Highway Planning and Construction			3,256,869	-
Passed through the California Office of Traffic Safety:	20.600			
State and Community Highway Safety*				
2015 Selective Traffic Enforcement Program		OTSSTEP2015	131,300	-
2016 Selective Traffic Enforcement Program		OTSSTEP2016	309,075	-
Total State and Community Highway Safety			440,375	-
Total U.S. Department of Transportation			3,697,244	-

CITY OF CHULA VISTA

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Expenditures	Passed Through to Subrecipients
<u>U.S. Department of the Treasury</u>				
Passed through the State of California: Treasury Forfeiture Fund Program*	21.000	N/A	165,768	-
Total U.S. Department of Treasury			165,768	-
<u>U.S. Department of Health and Human Services</u>				
Passed through the Community Health Improvement Partners Racial and Ethnic Approaches to Community Health	93.738	5834-122-04	39,352	-
Total U.S. Department of Health and Human Services			39,352	-
<u>U.S. Department of Education</u>				
Direct Programs:				
Fund for the Improvement of Education	84.215N			
Promise Neighborhood 2015		PN2015	42,784	-
Promise Neighborhood 2016		PN2016	78,255	-
Total U.S. Department of Education:			121,039	-
<u>Executive Office of the President</u>				
Direct Programs:				
High Intensity Drug Trafficking Areas Program	95.001			
2016 SWB HIDTA San Diego Imperial Valley		G16SC0002A	1,128,887	-
2015 SWB HIDTA San Diego Imperial Valley		G15SC0002A	1,187,831	-
2015 National HIDTA Assistance Center		G15AC0011A	92,155	-
2016 National HIDTA Assistance Center		G16AC0002A	79,588	-
Total High Intensity Drug Trafficking Areas Program			2,488,461	-
Total Executive Office of the President:			2,488,461	-
<u>U.S. Department of Homeland Security</u>				
Passed through the County of San Diego:				
Rail and Transit Security Grant	97.075	MTS 2015	74,990	-
Emergency Management Performance Grants	97.042	FY2015EMPG/2015-00049	61,621	-
Passed through San Diego Office of Homeland Security:				
Homeland Security Grant Program	97.067			
2014 State Homeland Security Program		FY2014 SHGP/2014-00093	13,876	-
2015 State Homeland Security Program		FY2015 SHGP/2015-00078	21,498	-
2014 Urban Area Security Initiative		FY2014 UASI/2014-00093	623,411	-
2015 Urban Area Security Initiative		FY2015 UASI/2015-00078	226,845	-
2013 SDLECC State Homeland Security Program		HSGP-SDECC2013	1,278,937	-
2014 Operation Stone Garden		OPSG2014	95,366	-
Total Homeland Security Grant Program			2,259,933	-
Total U.S. Department of Homeland Security:			2,396,544	-
Total Federal Expenditures:			\$ 12,231,424	\$ 305,739

* Major Program

Note a: Refer to Note 1 to the schedule of expenditures of federal awards for a description of significant accounting policies used in preparing this schedule.

Note b: There was no federal awards expended in the form of noncash assistance and insurance in effect during the year.

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2016**

Note 1: Summary of Significant Accounting Policies Applicable to the Schedule of Expenditures of Federal Awards

a. Scope of Presentation

The accompanying schedule presents only the expenditures incurred by the City of Chula Vista, California, that are reimbursable under federal programs of federal financial assistance. For the purposes of this schedule, federal awards include both federal financial assistance received directly from a federal agency, as well as federal funds received indirectly by the City from a non-federal agency or other organization. Only the portion of program expenditures reimbursable with such federal funds is reported in the accompanying schedule. Program expenditures in excess of the maximum federal reimbursement authorized or the portion of the program expenditures that were funded with state, local or other non-federal funds are excluded from the accompanying schedule.

b. Basis of Accounting

The expenditures included in the accompanying schedule were reported on the modified accrual basis of accounting. Under the modified accrual basis of accounting, expenditures are incurred when the City becomes obligated for payment as a result of the receipt of the related goods and services. Expenditures reported included any property or equipment acquisitions incurred under the federal program.

c. Indirect Cost Rate

The City has elected not to use the 10-percent *de minimis* indirect cost rate allowed under Uniform Guidance.

Note 2: Section 108 Loan Program

In June 2008, the City entered into a Contract for Loan Guarantee Assistance with the U.S. Department of Housing and Urban Development ("HUD") as part of the Section 108 Loan Program in the amount of \$9,500,000. The Section 108 Loan is an "advance" of future CDBG entitlement funds and, as such, is repaid with a portion of the City's annual entitlement. Proceeds of the loan will be used to fund multiple capital improvement projects. Debt service payments will be made with future CDBG entitlements for 20 years, with interest payments beginning with fiscal year 2009. At June 30, 2016, the outstanding balance of the loans was \$7,161,000.

CITY OF CHULA VISTA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

SECTION II - FINANCIAL STATEMENT FINDINGS

2016-001 – Accounting for Capital Assets

Material Weakness

Condition and Criteria

In the prior year audit, the City identified certain completed construction in progress items that were not properly recorded as being placed in service, requiring management to correct this error. The previous error led management to perform an in-depth analysis of their ongoing and past projects and discovered costs that related to these projects, such as project design, management, staff time, etc., that should have been capitalized in the year they were incurred, but rather were expensed. This error was corrected by management during the year, causing a restatement of net position in the government-wide statement of activities for both governmental and business-type activities.

Cause and Effect

The City identified certain completed construction in progress items that were not properly recorded as being placed in service, therefore, estimated lives and cost of service were not properly recorded for these assets. As a result, depreciation expense was incorrectly calculated and did not include the cost of these assets; requiring management to correct the error. This resulted in a restatement of net position in the current year.

Management's Response and Corrective Action Plan

Management completed a comprehensive review and analysis of the City's Construction-In-Progress projects. Management is confident the issue has been fully rectified, and has established ongoing operational practices to prevent a recurrence in the future.

2016-002 – Accounting for Accounts Payable

Material Weakness

Condition and Criteria

During our search for unrecorded liabilities, we noted an invoice relating to goods received or services performed prior to the end of the fiscal year were not recorded as a liability in the proper accounting period.

Cause and Effect

Generally accepted accounting principles requires that expenditures be recognized in the period in which they are incurred and the corresponding payable be established. The invoice noted resulted in an audit entry to bring Accounts Payables to its appropriate amount.

Management's Response and Corrective Action Plan

In the future, Management will strengthen its efforts in communicating the need for departments to provide prior year invoices by the August deadline. If late invoices are received prior to audit fieldwork, Management will amend the City's financials in compliance with proper period expenditure recognition.

2016-003 – Accounting for Successor Agency Long Term Debt

Material Weakness

Condition and Criteria

As a result of our audit procedures, it was discovered that the Successor Agency, a private-purpose trust fund of the City, recorded principal payments as expenditures and did not record accrued interest amounts at the end of the fiscal year. A private-purpose trust fund uses the economics resources measurement focus employed by accrual basis of accounting.

CITY OF CHULA VISTA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

SECTION II - FINANCIAL STATEMENT FINDINGS (Continued)

Cause and Effect

Under the accrual basis of accounting, interest expense must be accrued for the portion of the payment period prior to the end of the reporting period. Furthermore, principal payments on long-term debt are only recognized as expenditures in funds that use the modified accrual basis of accounting. The accrual basis of accounting requires that these payments be offset to the liability recorded for the outstanding debt. The audit entries offset the liability recorded to the outstanding debt.

Management's Response and Corrective Action Plan

Management's research into this issue illustrated that the requisite amendments to accounting procedures due to the former Redevelopment Agency's dissolution, and subsequent change in the fund category and type did not occur in prior years and were perpetuated through fiscal year 2015/16. Going forward, Management will make all necessary changes to the accounting processes to ensure proper recordation of Successor Agency Long Term Debt activities.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

**SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

SECTION II - FINANCIAL STATEMENT FINDINGS

2015-001 – Accounting for Capital Assets

Material Weakness

Condition and Criteria

The City maintained capital assets that had been placed in service as construction in progress items. Generally accepted accounting principles require that once an asset is considered to be placed in service, the cost of that service is to be calculated on a straight-line basis; using an estimated life (i.e. depreciation expense).

Cause and Effect

The City identified certain completed construction in progress items that were not properly recorded as being placed in service, therefore, estimated lives and cost of service were not properly recorded for these assets. As a result, depreciation expense was incorrectly calculated and did not include the cost of these assets; requiring management to correct the error. City Management discovered and disclosed this issue, prior to our inclusion in this report, during final quantification of FY 2015 fixed assets.

Management's Response and Corrective Action Plan

New capital asset management procedures have been established since the completion of FY 2014-15. Subsequent to audit fieldwork, Management presented this issue to the auditors. Future years' CAFRs will incorporate these new procedures, which will address this issue.

2015-002 – Accounting for Capital Lease

Material Weakness

Condition and Criteria

Under generally accepted accounting principles, if a new capital lease is purchased within a governmental fund, the City is required to record the capital lease as a capital outlay item as well as an other financing sources item. These items are then reconciled on the Government-Wide statements as a capital asset and corresponding long-term debt item.

Cause and Effect

The City recorded the payments on the capital lease as an expenditure; however, did not record the acquisition of the lease, as described above, in accordance with generally accepted accounting principles. As a result of our audit procedures, an audit adjustment was made to record a capital lease in the amount of \$578,224.

Management's Response and Corrective Action Plan

Due to Finance Department senior management turnover, one of the two journal entries required for this transaction was omitted. In addition, the City had not utilized this form of financing in recent years. The City intends to use this type of financing mechanism going forward and will ensure that all requisite accounting entries are made in a timely manner for each occurrence.

CITY OF CHULA VISTA

**SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

SECTION II - FINANCIAL STATEMENT FINDINGS (Continued)

2015-003 – Fund Balance Restatement

Significant Deficiency

Condition and Criteria

Under generally accepted accounting principles, premiums and discounts relating to the issuance of debt are to be recorded and amortized over the remaining life of the outstanding debt. The City restated its net position as of June 30, 2014, to recognize premium relating to the 2014 Refunding Certificates of Participation. This correction was brought to our attention after management identified the issue. City Management identified and brought forward the issue and its proper correction, subsequent to the completion of the FY 2014 CAFR.

Cause and Effect

Beginning net position in the governmental activities and beginning fund balance in the Public Financing Authority was restated in the amount of \$728,426 due to interest expense and premiums relating to the 2014 Refunding COP not being properly recorded.

Management's Response and Corrective Action Plan

City Staff inadvertently posted the journal entry to record the cost of issuance (bond closing costs) in FY 2014-15 rather FY 2013-14. This variance was discovered during FY 2014-15 budget to actual reconciliations by City Staff.

2015-004 – Grants Revenue and Unavailable Revenue

Significant Deficiency

Condition and Criteria

Generally accepted accounting principles require matching of revenues to associated expenses as they are incurred and reimbursable. In addition, the modified accrual basis of accounting requires that revenue earned from cost reimbursement grants are deferred to future periods if the cost reimbursements are not received within the City's revenue recognition period. City Management discovered and disclosed this issue, prior to our inclusion in this report, prior to audit field work.

Cause and Effect

As a result of our audit procedures, it was noted that grant revenues did not appear to be properly reconciled. Certain grant revenues recorded in fiscal year 2015 included revenues resulting from cost reimbursements of expenditures that were incurred in prior periods.

Management's Response and Corrective Action Plan

Management has initiated an internal audit program to verify proper recordation of expenses and reimbursement requests related to the City's grant funding. This program includes a thorough review of all City Council actions related to grant funding, as well as, a quarterly reconciliation of all expenditures within grant related accounting funds. These efforts will assist in rectifying this issue.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.