

CITY OF CHULA VISTA, CALIFORNIA

SINGLE AUDIT REPORT

JUNE 30, 2017

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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, 2017, 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 28, 2017.

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 and significant deficiencies.

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. We consider finding 2017-001 in the Schedule of Findings and Questioned Costs to be a material weakness.

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 findings 2017-002 and 2017-003 in the Schedule of Findings and Questioned Costs to be significant deficiencies.



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 the instances of noncompliance or other matters, as shown as item 2017-004 in the Schedule of Findings and Questioned Costs 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 is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit and, accordingly, we express no opinion on the response.

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.

A handwritten signature in black ink that reads "Lance, Solt & Lughard, LLP". The signature is written in a cursive, flowing style.

Brea, California
December 28, 2017



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, California (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, 2017. 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; 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, 2017.



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 a 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. We identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2017-005 that we consider to be a significant deficiency.

The City's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The City'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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



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

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

We have audited the financial statements of the governmental activities, 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, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated December 28, 2017, 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.

Brea, California

March 29, 2018 (except for our report on the schedule of expenditures of federal awards, for which the date is December 28, 2017)

CITY OF CHULA VISTA

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>	<u>Passed Through to Subrecipients</u>
<u>U.S. Department of Housing and Urban Development</u>				
Direct Programs:				
Community Development Block Grant	14.218	N/A	\$ 1,963,260	\$ 761,644
Emergency Shelter Grant Program	14.231	N/A	157,114	147,320
Home Investment Partnership Program	14.239	N/A	417,689	-
Total U.S. Department of Housing and Urban Development			2,538,063	908,964
<u>U.S. Department of Justice</u>				
Direct Programs:				
Edward Byrne Memorial Competitive Grant Program	16.751	2013-DB-BX-0033	81,458	-
Public Safety Partnership and Community Policing Grants	16.710	2012-UL-WX-0006	205,445	-
Justices Assistance Grant	16.738	2016-DJ-BX-0270	47,700	-
Passed through Cal EMA:				
Domestic Violence Response Team 2015	16.588	DVRT 2015	94,487	-
Domestic Violence Response Team 2016		DVRT 2016	102,068	-
Total Domestic Violence Response Team			196,555	-
Passed through the City of San Diego:				
Internet Crimes Against Children 2015	16.543	ICAC2015	58,824	-
Total Internet Crime Against Children			58,824	-
Passed through the State of California:				
Paul Coverdell Forensic Sciences Improvement Grant Program	16.742	CQ15056364	3,492	-
Paul Coverdell Forensic Sciences Improvement Grant Program		CQ160676364	5,728	-
Total Paul Coverdell Forensic Sciences Improvement Grant Program			9,220	-
Equitable Sharing Program	16.922	N/A	153,181	-
Passed through the CA OTS:				
OTS Selective Traffic Enforcement Program 2016	20.600	OTSSTEP2016	134,770	-
OTS Selective Traffic Enforcement Program 2017		OTSSTEP2017	229,085	-
Total OTS Selective Traffic Enforcement Program			363,855	-
Total U.S. Department of Justice			1,116,238	-
<u>U.S. Department of Transportation</u>				
Passed through the State of California:				
Highway Planning and Construction	20.205			
Highway Bridge Replacement and Rehabilitation		BHLS-5203 (016)	1,453,416	-
Highway Safety Improvement Program		HSIPL 5203 (025)	133,369	-
Develop Bicycle Paths and Pedestrian Access to Third Avenue		HPLU 5203 (029)	48,776	-
Total Highway Planning and Construction			1,635,561	-
Passed through the California Office of Traffic Safety:				
Regional Collision Response & Extrication Improvement Program	20.600	EM1603	207,798	-
Total State and Community Highway Safety			207,798	-
Total U.S. Department of Transportation			1,843,360	-

CITY OF CHULA VISTA

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>	<u>Passed Through to Subrecipients</u>
<u>U.S. Department of the Treasury</u>				
Passed through the State of California: Treasury Forfeiture Fund Program	21.000	N/A	\$ 10,469	\$ -
Total U.S. Department of Treasury			10,469	-
<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	39,573	-
Total U.S. Department of Health and Human Services			39,573	-
<u>U.S. Department of Education</u>				
Direct Programs: Fund for the Improvement of Education Promise Neighborhood 2016	84.215N	PN2016	100,077	-
Total U.S. Department of Education:			100,077	-
<u>Executive Office of the President</u>				
Direct Programs: High Intensity Drug Trafficking Areas Program*	95.001	N/A	2,673,178	-
Total Executive Office of the President:			2,673,178	-
<u>U.S. Department of Homeland Security</u>				
Direct Programs: Department of Homeland Security	97.044	DHS15GPD04400099	669,355	
Passed through the County of San Diego: Rail and Transit Security Grant	97.075	MTS 2015	8,617	-
Emergency Management Performance Grants	97.042	FY2015EMPG/2015-00049	61,432	-
Passed through San Diego Office of Homeland Security: Homeland Security Grant Program*	97.067			
2015 State Homeland Security Program		FY2015SHGP/2015-00078	226,672	-
2016 State Homeland Security Program		FY2016SHGP/2016-00102	2,048,590	-
2015 Urban Area Security Initiative		FY2015 UASI/2015-00078	37,792	-
2016 Urban Area Security Initiative		FY2016 UASI/2016-00102	165,947	-
2015 Operation Stone Garden		OPSG2015	121,625	-
2016 Operation Stone Garden		OPSG2016	33,436	-
Total Homeland Security Grant Program			2,634,062	-
Total U.S. Department of Homeland Security:			3,373,465	-
Total Federal Expenditures:			\$ 11,694,423	\$ 908,964

* 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, 2017**

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, 2017, the outstanding balance of the loans was \$6,757,000.

CITY OF CHULA VISTA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unmodified Opinion

Internal control over financial reporting:

- Significant deficiencies identified? yes no
 - Material weaknesses identified? yes no
- Noncompliance material to financial statements noted? yes no

Federal Awards

Internal control over major programs:

- Significant deficiencies identified? yes no
- Material weaknesses identified? yes no

Type of auditors' report issued on compliance for major programs: Unmodified Opinion

Any audit findings disclosed that are required to be reported in accordance with section 2 CFR 200.516(a)? yes no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
95.001	HIDTA
97.067	Homeland Security

Dollar threshold used to distinguish between type A and type B program \$750,000

Auditee qualified as low-risk auditee? yes no

CITY OF CHULA VISTA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

SECTION II - FINANCIAL STATEMENT FINDINGS

2017-001 – Capital Assets

Material Weakness

Condition and Criteria

We noted certain internal service fund capital costs were expensed in fiscal year 2015-16 and capitalized in the current fiscal year. The assets should have been capitalized in fiscal year 2015-16, resulting in a restatement of net position in the amount of \$90,483.

We noted certain vehicle related costs incurred in fiscal year 2017-18, were accrued for and capitalized in the current fiscal year, however, the vehicles were not delivered until fiscal year 2017-18. An adjustment of \$93,994 was made to correct the error.

We noted the Successor Agency of the Former Chula Vista RDA sold two land parcels in fiscal year 2013-14 and the disposal of the land and related loss on disposal was never recorded in the general ledger until the current fiscal year. As a result, net position was restated in the amount of \$1,448,110.

Management's Response and Corrective Action Plan

The capital cost and vehicle cost recordation and asset recognition variances were isolated events, during which significant staff turnover and the implementation of a new Enterprise Resource Planning (ERP) System were occurring. With the establishment of the new ERP's purchasing, accounts payable, and capital asset tracking modules operational, these issues will be rectified. Typically, Management has advised the auditors of omitted entries from prior fiscal years, as evidenced by the land and building assets recordation project initiated by Management. These two Successor Agency parcels represent an oversight.

2017-002 – Fair Market Value Adjustment to Cash and Investments

Significant Deficiency

Condition and Criteria

We noted cash and investments were misstated primarily due to the fair market value adjustment booked by the City. The primary error was due to the City omitting the booking of the fair market value loss of \$376,726 on the SD Investment in County Pool. Overall, cash and investments were overstated by \$335,987, and as a result, an adjustment was made to correct the error.

Management's Response and Corrective Action Plan

This singular and isolated event occurred as a result of Management utilizing a new investment tool, due to investment limitations related to a bond issue covenant. The oversight has been corrected and will not be duplicated going forward. In the future, Management will strengthen its efforts in communicating changes such as this one to staff, and confirm sufficient understand is achieved.

CITY OF CHULA VISTA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

SECTION II - FINANCIAL STATEMENT FINDINGS (Continued)

2017-003 – Payroll Expenses and Related Liabilities

Significant Deficiency

Condition and Criteria

We noted payroll expenses and related liabilities were misstated due to a unique transaction occurring during the current fiscal year. The City made an annual lump sum payment of its employer contributions for fiscal year 2016-17. Included in the recorded expense was the employer contributions from the last pay period in fiscal year 2015-16 for which the contributions related to both fiscal year 2015-16 and 2016-17. A portion of the employer contributions from this pay period was recorded in fiscal year 2016-17 twice, once when the payroll for the pay period was recorded and once during the booking of the lump sum payment. Payroll expenses and related liabilities were overstated by \$506,452, and as a result, an adjustment was made to correct the error.

Management's Response and Corrective Action Plan

In an effort to save annual pension expense, Management exercised a pension prepayment option, for the first time in this instance. While the savings were achieved, going forward, closer inspection of accounting entries will be made to prevent this issue in the future.

2017-004 – Restatement Due to Previously Unrecorded Land

Other Matters

Condition and Criteria

In fiscal year 2016-17, the City learned it was the rightful owner of several land parcels which were not previously recorded in its records. A land appraisal was performed, and for the land parcels with material appraised values, the City deflated these values using the S&P Case Shiller San Diego Home Price Index 1/1987 – 7/2017. The acquisition date used to determine the appropriate index was obtained based on all information available to the City. As a result net position of governmental activities was restated in the amount of \$359,893,672.

Management's Response and Corrective Action Plan

No management response or corrective action is required for this item.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding 2017-005

Significant Deficiency – Period of Performance

Federal Award Information

CFDA Number: 97.067

Program Title: Homeland Security Grant Program

Federal Award Number: 2015SHGP/2015-00078 & 2016SHGP/2016-00102

Federal Award Year: 2015, 2016

Name of Federal Agency: U.S. Department of Homeland Security

Pass-through Entity: San Diego Office of Homeland Security

Criteria or Specific Requirement

The non-federal entity is required to maintain adequate controls to properly track the grant expenditures being applied to each grant year as well as the award amount remaining for each grant year to ensure the funds are spent within the period of availability and for the proper amount.

CITY OF CHULA VISTA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)

Condition

The SEFA provided by the City included costs charged to the SDLECC State Homeland Security Program 2013 of \$2,100,819. Through our audit procedures, it was noted that the grant had in fact been closed out by the grantor prior to the fiscal year start. The internal controls encompassing the City's monitoring of active grants and reporting on the SEFA failed to capture this event, resulting in an internal control finding.

Cause of the Condition

Inadequate controls regarding tracking expenditures specific to each grant year.

Effect or Possible Effect

The City could be charging expenditures to the incorrect grant and requesting more or less than the awarded amount.

Questioned Costs

No questioned costs were identified (\$0).

Context

The issue arose while reviewing the period of availability and expenditures relating to each grant year.

Repeat Finding

This is not a repeat finding.

Recommendation

We recommend that the City continue to implement procedures and controls to track expenditures specific to each grant year and reconcile those amounts throughout the year to ensure expenditures are being applied to the correct grant.

Management Response & Corrective Action

Due to staffing turnover and miscommunication with the pass-through entity, coupled with an Enterprise Resource Planning Software (ERP) system change, the grant funding requests for the award noted here were miscoded to a prior grant award within the same program. Going forward, management will work with staff to complete the implementation of the Grant Management Module within the City's new ERP to prevent a recurrence of this issue. In addition, ERP project team members will conduct Grant Module training for all operational departments who utilize grant funding from all grantors. Lastly, Finance Department Staff along with operational department staff who directly oversee grant operations will participate in additional grant management training compliant with Uniform Guidance (Code of Federal Regulations, Title 2, Subtitle A, Chapter II, Part 200.)

**SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
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 PRIOR YEAR 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.