



CPAs AND ADVISORS

# CITY OF CHULA VISTA

JUNE 30, 2018

SINGLE AUDIT REPORT

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CITY OF CHULA VISTA, CALIFORNIA

SINGLE AUDIT REPORT

JUNE 30, 2018

**CITY OF CHULA VISTA**

**JUNE 30, 2018**

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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, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated January 31, 2019.

**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 the deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness: 2018-001.

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 to be significant deficiencies: 2018-002 and 2018-003.



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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* as described in the accompanying schedule of findings and questioned costs: 2018-004.

### **City's Response to Findings**

The City's response to the findings identified in our audit are 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 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  
January 31, 2019



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, 2018. 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 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, 2018.



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

### **Other Matters**

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2018-006, 2018-007 and 2018-009. Our opinion on each major federal program is not modified with respect to these matters.

The City's response to the noncompliance 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.

### **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 identify one deficiency in internal control over compliance that we consider to be a material weakness, as described in the accompanying schedule of findings and questioned costs as items 2018-005. However, more material weaknesses may exist that have not been identified. Furthermore, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2018-006 through 2018-009, that we consider to be significant deficiencies.

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.



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, 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, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated January 31, 2019 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.

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.

Brea, California

March 29, 2019 (except for our report on the Schedule of Expenditures of Federal Awards, for which the date is January 31, 2019.)



CITY OF CHULA VISTA

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

<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	\$ 1,493,413	\$ 257,143
Emergency Shelter Grant Program	14.231	N/A	175,226	63,777
Home Investment Partnership Program*	14.239	N/A	251,405	-
<b>Total U.S. Department of Housing and Urban Development</b>			<b>1,920,044</b>	<b>320,920</b>
<u>U.S. Department of Justice</u>				
Direct Programs:				
Edward Byrne Memorial Competitive Grant Program	16.751	N/A	92,778	-
Public Safety Partnership and Community Policing Grants	16.710	N/A	24,569	-
Passed through Cal EMA:				
Domestic Violence Response Team 2016*	16.588	DVRT 2016	102,069	-
Domestic Violence Response Team 2017*	16.588	DVRT 2017	102,118	-
Total Domestic Violence Response Team			204,187	-
Passed through the City of San Diego:				
Internet Crimes Against Children 2017	16.543	ICAC2017	39,349	-
Total Internet Crime Against Children			39,349	-
Passed through the Cal OES:				
Paul Coverdell Forensic Sciences Improvement Grant Program	16.742	CQ17076364	4,446	-
Equitable Sharing Program	16.922	N/A	55,391	-
Passed through the CA OTS:				
OTS Selective Traffic Enforcement Program 2017/18	20.600	OTSSTEP2017	724,941	-
Total OTS Selective Traffic Enforcement Program			724,941	-
<b>Total U.S. Department of Justice</b>			<b>1,145,661</b>	<b>-</b>
<u>U.S. Department of Transportation</u>				
Passed through the Cal Trans:				
Highway Planning and Construction*	20.205			
Highway Bridge Replacement and Rehabilitation		BRLS-5203(039)	446,593	-
Highway Bridge Replacement and Rehabilitation		BHLS-5203(016)	7,661,366	-
Highway Safety Improvement Program		HSIPL-5203(040)	25,000	-
Highway Safety Improvement Program		HSIPL-5203(041)	355,817	-
Highway Safety Improvement Program		HSIPL-5203(044)	23,192	-
Highway Safety Improvement Program		HSIPL-5203(043)	227,063	-
Highway Safety Improvement Program		HSIPL-5203(045)	48,506	-
Highway Safety Improvement Program		HSIPL-5203(047)	8,955	-
Highway Safety Improvement Program		HSIPL-5203(046)	34,098	-
Highway Safety Improvement Program		HSIPL-5203(048)	58,581	-
Smart Growth Grant		5005211	20,351	-
Develop Bicycle Paths and Pedestrian Access to Third Avenue		HPLU 5203 (027)	105,648	-
Total Highway Planning and Construction			9,015,170	-
<b>Total U.S. Department of Transportation</b>			<b>9,015,170</b>	<b>-</b>

CITY OF CHULA VISTA

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

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>				
Direct Programs:				
Treasury Forfeiture Fund Program	21.000	N/A	\$ 36,334	\$ -
<b>Total U.S. Department of Treasury</b>			<b>36,334</b>	<b>-</b>
<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	30,206	-
<b>Total U.S. Department of Health and Human Services</b>			<b>30,206</b>	<b>-</b>
<u>U.S. Department of Education</u>				
Direct Programs:				
Fund for the Improvement of Education Promise Neighborhood 2017	84.215N	PN2017	67,655	-
<b>Total U.S. Department of Education:</b>			<b>67,655</b>	<b>-</b>
<u>Executive Office of the President</u>				
Direct Programs:				
High Intensity Drug Trafficking Areas Program	95.001	N/A	2,724,330	-
<b>Total Executive Office of the President:</b>			<b>2,724,330</b>	<b>-</b>
<u>U.S. Department of Homeland Security</u>				
Direct Programs:				
Pre Disaster Mitigation Grant	97.047	2010-0001	83,781	-
Passed through the State of California:				
January 2017 Storm*	97.036	FEMA-4305-DR-CA	1,244,215	-
Passed through the County of San Diego:				
Emergency Management Performance Grants	97.042	FY2015EMPG/2017-007	123,385	-
Passed through San Diego Office of Homeland Security:				
Homeland Security Grant Program	97.067			
2016 State Homeland Security Program		FY2017 SHSGP/2017-0083	188,384	-
2015 Urban Area Security Initiative		FY2015 UASI/2015-00078	272,590	-
2016 Urban Area Security Initiative		FY2016 UASI/2015-00078	43,068	-
2016 Urban Area Security Initiative		FY2016 UASI/2016-00102	158,438	-
2017 Urban Area Security Initiative		HSGPSDLECC2017	2,952,714	-
2016 Operation Stone Garden		OPSG2016	110,035	-
Total Homeland Security Grant Program			3,725,229	-
<b>Total U.S. Department of Homeland Security:</b>			<b>5,176,610</b>	<b>-</b>
<b>Total Federal Expenditures:</b>			<b>\$ 20,116,010</b>	<b>\$ 320,920</b>
<b><u>Federal Loan Balances with a Continuing Compliance Requirement</u></b>				
CDBG Loan (beginning balance)	14.218		\$ 1,870,207	
HOME - Investment Partnership Program (beginning balance)*	14.239		12,473,284	
<b>Total Federal Loan Balances with a Continuing Compliance Requirement</b>			<b>14,343,491</b>	
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS INCLUDING LOANS</b>			<b>\$ 34,459,501</b>	

\* 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.

**CITY OF CHULA VISTA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2018**

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

**Note 2: Loan Programs**

- a. 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, 2018, the outstanding balance of the loans was \$6,332,000.
- b. The City participates in certain federal award programs that sponsor revolving loan programs, which are administered by the City. These programs required servicing arrangements with the City. The funds are returned to the programs upon repayment of the principal and interest. Current year transactions relating to these programs are included in the Schedule of Expenditures of Federal Awards. In accordance with 2 CFR section 200.502(b), the balance of loan program outstanding June 30, 2018 are as follows:

<u>CFDA Number</u>	<u>Program Name</u>	<u>Outstanding Balance at June 30, 2018</u>
14.218	CDBG Loans	\$ 1,870,207
14.239	HOME Loans	12,553,284
	Total Loans Outstanding	<u>\$ 14,423,491</u>

CITY OF CHULA VISTA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

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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  none reported

Noncompliance material to financial statements noted?  yes  no

Federal Awards

Internal control over major programs:

- Significant deficiencies identified?  yes  no
- Material weaknesses identified?  yes  none reported

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 Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance)?  yes  no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
14.239	HOME Investment Partnerships Program
16.588	Law Enforcement Specialized Units Program
20.205	Highway Planning and Construction Cluster
97.036	Disaster Grants – Public Assistance

Dollar threshold used to distinguish between type A and type B program \$1,033,785

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, 2018**

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**SECTION II - FINANCIAL STATEMENT FINDINGS**

**2018-001: Material Misstatements**

*Material Weakness*

Condition

Throughout the course of the audit, material misstatements were noted within certain financial statement accounts including cash and investments, capital assets, due from other governments, taxes receivable, notes and loans receivable, accounts payable, unavailable revenue, long-term debt, deferred charges on refunding's, interest revenue, intergovernmental revenues, tax revenues, and current and interest expenditures. Many of these misstatements were a result of the implementation of a new accounting system by the City and resources were constrained as such. The appropriate adjustments were made by the City and are reflected in the financial statements.

Cause

The City implemented a new accounting system and experienced difficulty reconciling all accounts in time for the year-end audit.

Criteria

All accounts should be properly reconciled prior to the audit being performed.

Effect of Condition

Accounts not properly reconciled could lead to material misstatements being included in the financial statements.

Recommendation

We recommend the City implement procedures and rearrange staff responsibilities to ensure all accounts are properly reviewed and reconciled at year-end in preparation for the audit.

Management Response and Corrective Action

This occurrence was a result of the implementation of the City's new Enterprise Resource Planning (ERP) System, which was last replaced 19 years ago. Management is confident that this is an isolated event that was corrected as a part of the yearend closing process, as noted by the auditors. Management will continue to optimize the new ERP's tools to prevent recurrence.

**2018-002: Notes & Loans Receivable**

*Significant Deficiency*

Condition

In preparation of the audit, we attempted to obtain contact information and financial information related to the City's outstanding notes and loans receivable to facilitate the mailing of confirmation requests for material balances. Notes and loans receivable were not reconciled and information was not provided in a timely manner. The information was eventually provided and confirmation requests were sent and responses were received with no discrepancies.

Cause

The City did not have notes and loans receivable balances properly reconciled at June 30, 2018.

Criteria

Notes and loans receivable balance should be properly reconciled at all times.

## CITY OF CHULA VISTA

### SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED) FOR THE FISCAL YEAR ENDED JUNE 30, 2018

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#### Effect of Condition

Not having notes and loans receivable properly reconciled could lead to material misstatements in the financial statements as well the City potentially being owed additional money in which it is unaware.

#### Recommendation

We recommend notes and loans receivable are monitored and reconciled in a timely manner as they are material to the City and contain various compliance requirements. Information relating to the notes and loans receivable should be readily available at all times.

#### Management Response and Corrective Action

During the ERP implementation project, Staff were tasked with multiple additional, one-time tasks related to the project schedule. These supplemental time commitments delayed some standard processes. Going forward, with the ERP now near full implementation, Management will confirm with Staff that this information is consistently updated and available.

### **2018-003: Bank Reconciliations**

#### *Significant Deficiency*

#### Condition

As of June 30, 2018, no bank reconciliations had been performed for the fiscal year under audit. The audit resulted in certain interfund cash adjustments and reclassifications, and overall, a net adjustment to increase cash by approximately \$181,000. The lack of timeliness in preparing the bank reconciliations was primarily attributable to the implementation of a new accounting system and difficulties encountered in the process.

#### Cause

The City was unable to prepare bank reconciliations timely during the year.

#### Criteria

Bank reconciliations should be prepared within a maximum of 90 days following the end of each month.

#### Effect of Condition

Bank reconciliations not being prepared timely could lead to errors in cash balances not being corrected timely or identified.

#### Recommendation

We recommend bank reconciliations are performed on a monthly basis. Timeliness in the preparation, review, and approval of bank reconciliations reduces the risk that errors, misstatements, and/or fraud will go unprevented or undetected.

#### Management Response and Corrective Action

As a result of the new ERP implementation, City Staff tasked with bank reconciliation functions were required to completely alter their process after multiple attempts to utilize the new ERP's bank reconciliation functionality. This effort included multiple iterations and has resulted in a hybrid process with automated and manual components. Management and Staff will continue to work with the new ERP to fully automate the process and complete the reconciliations in a timelier fashion.

**CITY OF CHULA VISTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

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**2018-004: Loans Receivable**

*Other Matters*

Condition

During our compliance testwork of expenditures incurred by the Housing Successor Fund, we noted a loan was made in the amount of \$2,922,541 for a housing development and was not recorded in the financial statements as a loan receivable. Loans receivable should be recorded and reconciled in a timely manner when loans are issued and they should be monitored regularly in accordance with the loan agreement.

Cause

The City did not have notes and loans receivable balances properly reconciled at June 30, 2018.

Criteria

Notes and loans receivable balance should be properly reconciled at all times.

Effect of Condition

Not having notes and loans receivable properly reconciled could lead to material misstatements in the financial statements as well the City potentially being owed additional money in which it is unaware.

Recommendation

We recommend notes and loans receivable are monitored and reconciled in a timely manner as they are material to the City and contain various compliance requirements. Information relating to the notes and loans receivable should be readily available at all times.

Management Response and Corrective Action

This isolated event was an oversight, in which the loan was recorded on Staff's support documents, but not in the City's ERP. Management will ensure that procedures are amended to prevent a recurrence in the future.

**CITY OF CHULA VISTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

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**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

**Finding 2018-005 – Reporting**

Material Weakness

Federal Award Information

CFDA Number: 20.205

Program Title: Highway Safety Improvement Program

Federal Award Number: HSIPL 5203 (040)

Federal Award Year: 2016

Name of Federal Agency: U.S. Department of Transportation

Pass-through Entity: State of California

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.

Condition

The SEFA provided by the City included costs charged to the 2016 Highway Safety Improvement program of \$669,526. Through our audit procedures, it was noted these expenditures did not occur this fiscal year and had been previously reported in fiscal year 2016. 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

The City did not properly monitor federal grant activity during the year.

Effect or Possible Effect

Federal expenditures during the year were initially being reported in the incorrect amount.

Questioned Costs

No questioned costs were identified (\$0).

Context

Federal expenditures need to be reported only in the year in which they are incurred.

Repeat Finding

This is a new finding for the fiscal year ended June 30, 2018.

Recommendation

We recommend that the City continue to implement procedures and controls to track federal expenditures throughout the fiscal year and capture accurate information for the development of the SEFA.

Management Response and Corrective Action

Management intends to utilize the new ERP as an implemented internal audit program to verify proper recordation of expenses and reimbursement requests as they relate to the City's grant funding in their respective year. This implementation will allow for a thorough review quarterly and throughout the year.



**CITY OF CHULA VISTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

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**Finding 2018-006 – Procurement**

Noncompliance/Significant Deficiency

Federal Award Information

CFDA Number: 20.205

Program Title: Highway Bridge Replacement and Rehabilitation

Federal Award Number: BHLS-5203 (016)

Federal Award Year: 2017

Name of Federal Agency: Department of Transportation

Pass-through Entity: California State Transportation Agency

Criteria or Specific Requirement

The non-federal entity is required to adhere to compliance guidelines and monitor any changes outlined in the Uniform Guidance in relation to internal controls and procedures over federal grant programs.

Condition

The non-federal entity did not keep up to date with changes in guidelines to compliance over federal awards and did not implement the required changes to its Procurement Policy by the given deadline.

Cause of the Condition

The City did not update its Procurement Policy timely.

Effect or Possible Effect

Federal expenditures occurring that our out of compliance with Procurement standards required under Uniform Guidance.

Questioned Costs

No questioned costs were identified (\$0).

Context

The Procurement was not updated to be in compliance with Uniform Guidance.

Repeat Finding

This is a new finding for the fiscal year ended June 30, 2018.

Recommendation

We recommend that the City monitor changes and pronouncements concerning federal awards on a strict, routine basis and update City policy in a timely fashion.

Management Response and Corrective Action

Management has prepared the draft and is in the process of legal review. Review of the final version will be conducted and once approved, the policy will be put into place and operated city wide.

**CITY OF CHULA VISTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

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**Finding 2018-007 – Reporting**

Noncompliance/Significant Deficiency

Federal Award Information

CFDA Number: 14.239

Program Title: HOME

Federal Award Number: M-16-MC-06-0505

Federal Award Year: 2016

Name of Federal Agency: U.S. Department of Housing and Urban Development

Criteria or Specific Requirement

The OMB Compliance Supplement requires that direct recipients of HOME program funding file the HUD 60002, Section 3 Summary Report, Economic Opportunities for Low-and Very Low-Income Persons (OMB No.2529-0043) electronically through HUD's online submission portal, Section 3 Performance Evaluation and Registry System (SPEARS) within 90 days of the end of the grantee's program year in Appendix XI to 2 CFR part 200. However, according to HUD, if the program providing covered HUD funding requires an annual performance report (i.e. Consolidated Annual Performance and Evaluation Report (CAPERs report)), Form HUD 60002 should be submitted electronically at the same time the program performance report is submitted.

Condition

The City is required by HUD to prepare and submit the City's CAPER within 90 days of its period year end, as well as the Section 3 Summary Report. The Section 3 Summary Report was not submitted until 1/31/2019.

Cause of the Condition

The monitoring of this programs requirements was not performed timely.

Effect or Possible Effect

The Section 3 Summary Report was not submitted timely.

Questioned Costs

No questioned costs were identified (\$0).

Context

The Section 3 Summary Report is an annual report that is filed with the CAPERs report.

Repeat Finding

This is a new finding for the fiscal year ended June 30, 2018.

Recommendation

We recommend that the City ensure the filing of the Section 3 Summary Report with the annual CAPERs report due within 90 days after the end of the program year.

Management Response and Corrective Action

This singular and isolated event occurred due to the new ERP and the information being unavailable for filing at the time information was required to be filed. Management plans to strengthen its relationship with the department and take proactive action by serving as a resource should a similar situation be encountered to assure filing of the report is met and in compliance with the CAPER requirement.

**CITY OF CHULA VISTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

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**Finding 2018-008 – Reporting**

Significant Deficiency

Federal Award Information

CFDA Number: 16.588

Program Title: Law Enforcement Specialized Units Program

Federal Award Number: LE17016364

Federal Award Year: 2017

Name of Federal Agency: U.S. Department of Justice

Pass-through Entity: California Office of Emergency Services

Criteria or Specific Requirement

The non-federal entity is required to maintain adequate controls to properly track, record, and report federal expenditures. Several components of Reporting requirements are the timeliness of report submittals and the accuracy of those reports.

Condition

It was noted during our audit procedures that the progress report for the period ended 6/30/2018 was referencing the grant award number for the previous period of performance, there was no evidence of review, and no date referenced for the submittal.

Cause of the Condition

There is a lack of review of required reports to be submitted.

Effect or Possible Effect

Reports contain the incorrect information.

Questioned Costs

No questioned costs were identified (\$0).

Context

Federal reports should be thoroughly reviewed to ensure timely submission and accurate information.

Repeat Finding

This is a new finding for the fiscal year ended June 30, 2018.

Recommendation

We recommend that the City continue to implement procedures and policies to assist its grant managers with the appropriate performance and review of its federal programs requirements.

Management Response and Corrective Action

This singular and isolated event occurred due to the departments misfiled reporting. Management intends to utilize the new ERP as an implemented internal audit driver to serve as a centralized location where this department and all other departments will be able to monitor their grant progress and compliance. In turn, Management will communicate frequently with the departments on a quarterly basis or as often as needed in a meeting style setting to discuss their grant and any concerns they may have.

**CITY OF CHULA VISTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

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**Finding 2018-009 – Allowable Costs**

Noncompliance/Significant Deficiency

Federal Award Information

CFDA Number: 20.205

Program Title: Highway Bridge Replacement and Rehabilitation

Federal Award Number: BHLS-5203 (016)

Federal Award Year: 2017

Name of Federal Agency: Department of Transportation

Pass-through Entity: California State Transportation Agency

Criteria or Specific Requirement

The non-federal entity is required to adhere to compliance guidelines, including the appropriateness and accuracy of payroll transactions that are charged to the program.

Condition

The City charges salaries and benefits of those who perform administrative work for the program. It was noted during our audit procedures that employee rates being charged to the program were not being monitored and updated throughout the year. Such as, when an employee was promoted but the rate charged to the program was not changed to the appropriate amount.

Cause of the Condition

Inaccurate rates of pay were being charged to the program.

Effect or Possible Effect

The City is charging improper amounts to the federal program.

Questioned Costs

Questioned costs were deemed to be de minimus.

Context

Payroll rates in the system were not updated resulting in improper amounts being charged to the federal program.

Repeat Finding

This is a new finding for the fiscal year ended June 30, 2018.

Recommendation

We recommend that the City creates a system of communication between those in charged with overseeing its grant programs, the finance department, and payroll system that allows for streamlined communication and availability of information in order to ensure the appropriateness of charges to its federal programs.

Management Response and Corrective Action

Project Accounting is set-up separately from the ERP where employee personnel settings are updated. Project Accounting does not auto populate from the ERP. Due to this reflection the result of an inaccurate rate was present. To rectify this and assure employee position are accurately recorded in Project Accounting to match the ERP, staff responsible for the Project Accounting system will communicate with Human Resources frequently to assure position updates reflected in the ERP are identical in Project Accounting.



**CHUIA VISTA**

**Finance Department**

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

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**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.

Cause

The City is not reviewing capital asset activity in a timely manner and there is a lack of communication between different departments.

Recommendation

We recommend that all activity relating to capital assets be reviewed in the proper period and by multiple people to ensure items are capitalized or disposed of in the correct year.

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.



**CHUIA VISTA**

**Finance Department**

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

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Cause

The City did not book the fair market value adjustment on one of their investments required by GASB 31 and 72.

Recommendation

We recommend the City ensure that all investments are recorded at fair value in the general ledger prior to providing the final trial balance.

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.

**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.

Cause

The City recorded an additional payment relating to pensions twice as it did not realize the activity had already been reflected on the general ledger.

Recommendation

We recommend all nonroutine transactions, specifically entries relating to extra pension payments, be reviewed by the Finance Director prior to being recorded to avoid any errors or double bookings being made.

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.



**CHUIA VISTA**

**Finance Department**

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

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**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.

Cause

The City was unaware that it owned these land parcels.

Recommendation

We recommend the City perform an analysis of all land parcels to ensure the ownership is properly reflected.

Management's Response and Corrective Action Plan

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



**CHUIA VISTA**

**Finance Department**

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

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**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.

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.





**CHUIA VISTA**

**Finance Department**

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

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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.)

Status of Period Finding

This finding is considered resolved.