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CITY OF CHULA VISTA

Single Audit Report

For the Year Ended June 30, 2008

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CITY OF CHULA VISTA
Single Audit Report
June 30, 2008

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MACIAS GINI & O'CONNELL LLP
Certified Public Accountants & Management Consultants

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OAKLAND
WALNUT CREEK
LOS ANGELES
SAN MARCOS
SAN DIEGO

The Honorable City Council of
the City of Chula Vista, California

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards

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 (City) as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements, and have issued our report thereon dated January 21, 2009. Our report included an explanatory paragraph describing the implementation of new accounting standards. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Chula Vista's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the deficiencies described below in 08-1 through 08-6 to be significant deficiencies in internal control over financial reporting.

08-1 Developer Deposits

Comment

During our review of developer deposits we noted multiple cash bond deposits outstanding since 1987-1991 for engineering and planning.

Recommendation

Cash bond deposits should be closely monitored and reconciled on a regular basis to avoid carrying a liability for a long period of time and to recognize revenue when earned.

Management Response

Planning and Public Works departments annually review deposit accounts to determine if they are eligible for escheatment. The departments are currently conducting a review of all outstanding deposits to determine whether they are still valid or should be escheated. Finance staff will assist the Departments in reviewing these deposits annually.

08-2 Investment Report

Comment

During our review of the June 30, 2008 investment report we noted total cash and investments was understated by $1.8 million, the understatement was caused by the following:

- Loan proceeds received at the end of the year were not included in the investment report.
- Investments held by bond trustees for the fiduciary funds were not stated at fair market value on the City's records.

Recommendation

All investments should be stated at fair value, the fair value represents the amount the seller would be paid for the investment if it were to be sold. In addition, all investment transactions should be included in the report to ensure this reflects the total cash and investment held by the City or in the City's name at any given time.

Management Response

Management concurs with the finding and will take steps to implement the recommendation. This omission of the loan proceeds and the understatement of the investments were an oversight due to the retirement of the associate accountant and the transition of these duties to new staff.

08-3 Interest Receivable

Comment

During our testwork of interest receivable and corresponding revenues we noted total interest receivable and interest revenue were overstated by $800,000 because accrued interest on Local Agency Investment Fund (LAIF) was included twice.

Recommendation

The review process is an essential part of internal controls; management should closely review unusual or major transactions before these are posted to the general ledger. By improving the review process, errors can detected in a timely manner.

Management Response

Management concurs with the finding and will take steps to implement the recommendation.

08-4 Lease

Comment

During our review of the City Council meeting minutes we noted an approval for a capital lease agreement that was executed during the current fiscal year but was not recorded in the City's general ledger. Since the finance staff was unaware of the lease, the interest payments on the lease were miscoded to a supplies expense account.

Recommendation

We recommend Finance track all leases approved and entered into by the City to ensure they are properly recorded in the general ledger. We further recommend that all key finance staff review the City Council agendas and approved minutes on a regular basis.

Management Response

Management concurs with the finding and will ask staff to continue to review City Council agendas and approved minutes on a regular and timely basis.

08-05 Capital Assets

Comment

During our testwork of capital assets, we noted prior year construction-in-progress related to infrastructure was understated by $ 2.1 million. The amount was correctly classified as a capital improvement project but did not make distinction between operations and maintenance type projects and infrastructure projects.

Recommendation

The Public Works department should correctly identify those capital improvement projects that are for the City's infrastructure in order for the amounts to be properly reported in the City's financial records.

Management Response

Management concurs with the finding and will implement the auditor's recommendation. Public Works has recently purchased capital improvement project (CIP) management software that collects data relating to Governmental Accounting Standards Board statement 34 for required disclosures related to infrastructure amounts, which should assist the department in submitting information accurately and on a timely basis.

08-06 Deferred Revenue

Comment

During our testwork of revenues, we noted that the City received a payment of $755,952 from Scripps Memorial Hospital which had been due to the City since FY 03/04. The City had an outstanding receivable and a corresponding deferred revenue recorded in the general fund. However, the receipt of $755,952 was recorded in a miscellaneous revenue account, and the receivable and deferred revenue were still outstanding in the general fund. The result was receivable and deferred revenue were overstated in the amount of $755,952.

Recommendation

We recommend the City to implement procedures to ensure receivables and deferred revenues are reconciled on an annual basis and to ensure the assets and the liabilities are properly stated. We further recommend cash receipt postings be reviewed more carefully prior to recording.

Management Response

City staff does perform an annual reconciliation of receivables to deferred revenues and have added the additional control of blocking access to the miscellaneous revenue account to prevent the recording of revenue into this account without prior review and approval by the Fiscal Operations Manager and/or the Senior Accountant. Additionally, the staff person handling the deferred revenue and receivable accounts retired mid fiscal year which left the position vacant until the end of the fiscal year. The new staff person hired at the end of June did not realize that there was an existing receivable for the amount. The error would have been discovered at fiscal year end when reconciling the receivable accounts for preparation of the City's financial statements.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items 08-03, 08-04, 08-05 and 08-06 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Chula Vista's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

We noted certain matters that we reported to management of the City of Chula Vista in a separate letter dated January 21, 2009.

The City's response to the findings identified in our audit are described above. We did not audit the City's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the City Council, management and others within the City of Chula Vista, and the City's federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Macias Gini & O'Connell LLP

Certified Public Accountants
Newport Beach, California

January 21, 2009

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The Honorable City Council of
the City of Chula Vista, California

Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program, Internal Control Over Compliance and on the Schedule of Expenditures of Federal Awards in Accordance with OMB Circular A-133

Compliance

We have audited the compliance of the City of Chula Vista (City) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2008. 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. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City of Chula Vista's management. Our responsibility is to express an opinion on the City of Chula Vista's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Chula Vista'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. Our audit does not provide a legal determination of the City of Chula Vista's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

Internal Control Over Compliance

The management of the City of Chula Vista is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Chula Vista's internal control over compliance with requirements that could have a direct and material effect on

a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A control deficiency in the City's internal control over compliance 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 noncompliance with a type of compliance of a federal program on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the City's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the City's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the City's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

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 as of and for the year ended June 30, 2008, and have issued our report thereon dated January 21, 2009. Our report included an explanatory paragraph describing the implementation of new accounting standards. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the City Council, management and others within the City of Chula Vista, and the City's federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Macias Gini & O'Connell LLP

Certified Public Accountants
Newport Beach, California

February 13, 2009, except for the section "Schedule of Expenditures of Federal Awards" as to which the date is January 21, 2009.

CITY OF CHULA VISTA
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2008

Federal Grantor/ Pass-through Grantor/ Program Title	CFDA Number	Program Identification Number	Federal Expenditures
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:			
Direct Programs -			
Community Development Block Grant	14.218	B-05-MC-060540	$ 666,792
Community Development Block Grant	14.218	B-06-MC-060540	2,042,661
Community Development Block Grant	14.218	B-07-MC-060540	244,157
Community Development Block Grant Section 108 Loan	14.218	B-05-MC-060540	314,485
Total Community Development Block Grant			3,268,095
Direct Programs -			
Home Investment Partnership Program	14.239	M-03-MC-060505	216,400
Home Investment Partnership Program	14.239	M-04-MC-060505	944,258
Home Investment Partnership Program	14.239	M-05-MC-060505	87,990
Home Investment Partnership Program	14.239	M-06-MC-060505	733
Home Investment Partnership Program	14.239	M-07-MC-060505	63,857
Total Home Investment Partnership Program			1,313,238
Direct Programs -			
Emergency Shelter Grant Program	14.231	S-06-MC-060540	798
Emergency Shelter Grant Program	14.231	S-07-MC-060540	87,035
Total Emergency Shelter Grant Program			87,833
Total U.S. Department of Housing and Urban Development			4,669,166

CITY OF CHULA VISTA
Schedule of Expenditures of Federal Awards (Continued)
For the Year Ended June 30, 2008

Federal Grantor/ Pass-through Grantor/ Program Title	CFDA Number	Program Identification Number	Federal Expenditures
U.S. DEPARTMENT OF TRANSPORTATION:			
Passed-through the State of California:			
Business, Transportation and Housing Agency			
Office of Traffic Safety			
DUI Enforcement Grant	20.600	AL0826	125,028
OTS Sobriety Checkpoint Grant	20.600	SC08075	124,907
OTS DUI Corridor Safety Project	20.600	AL0740	3,713
OTS STEP	20.600	PT0723	167,757
"AVOID the 14"	20.600	AL0621	10,265
OTS Click It or Ticket	20.600	CT08075	9,860
Safe Route Program	20.600	SRSL-5203(023)	54,817
Total Office of Traffic Safety			496,347
Passed-through the State of California Dept of Transportation Agency & State Master Agreement No. 11-5203:			
Federal Highway Administration			
Regional Surface Transportation Program	20.205	HP21STPL-52030(019)	30,787
Highway Bridge Replacement and Rehab Program	20.205	BHLS-5203(16)	119,541
Total Regional Surface Transportation And Highway Bridge Replacement Programs			150,328
Traffic Signal Project 11-SD-0-CHV	20.610	STPLH-5203(021)	238,500
Total Federal Highway Administration			388,828
Total U.S. Department of Transporation			885,175
U.S. Department of Homeland Security			
Passed-through the County of San Diego:			
SHSGP 2006	97.073	2006-0071	46,031
SHSGP 2007	97.073	2007-0008	28,277
Total SHSGP			74,308
Emergency Management Performance Grants	97.042	2007-GR-0702	13,810
LETPP 2007	97.074	2007-0008	12,893
Passed-through the County of San Diego:			
Urban Areas Security Initiative (UASI) 2006	97.008	2006-71	91,906
Direct Programs:			
Firestorm 2007	97.036	FEMA-1731-DR-CA	149,613
SAFER	97.083	EMW-2005-FF-00289	249,300
Total U.S. Department of Homeland Security			591,830

CITY OF CHULA VISTA
Schedule of Expenditures of Federal Awards (Continued)
For the Year Ended June 30, 2008

U.S. DEPARTMENT OF JUSTICE:			
Passed-through the County of San Diego:			
JUDGE Grant	16.738	DC-05180370	266,696
Justice Assistance Gant (GAG) 2005	16.738	2005-DJ-BX-0230	559
Justice Assistance Gant (GAG) 2006	16.738	2006-DJ-BX-0230	26,537
Justice Assistance Gant (GAG) 2007	16.738	2007-DJ-BX-0611	90,139
Total Justice Assistance Grant			117,235
Direct Programs:			
Financial Crimes Task Force (2006/2007) HIDTA	16.726	I8-I7PSCP502Z	70,514
Operation Alliance Task Force (2006/2007) HIDTA	16.726	I8-I7PSCP502Z	110,777
Marine Task Force Force (2006/2007) HIDTA	16.726	I8-I7PSCP502Z	72,545
Mexican Drug Traffickers Force (2006/2007) HIDTA	16.726	I8-I7PSCP502Z	180,960
Total HIDTA			434,796
California Border Alliance (2006/2007)	16.726	I8-I7PSCP502Z	1,991,048
Direct Programs:			
Universal Hiring Grant - 2001	16.710	2001-ULWX-0013	30,000
Universal Hiring Grant -2002	16.710	2002-ULWX-0064	16,751
Total Universal Hiring Grant			46,751
Byrne Discretionary Grant- 2007	16.580	2007-DD-BX-0622	103,054
Bullet Proof Vest Partnership	16.607	BVP2006	3,596
Total U.S. Department of Justice			2,963,176
OFFICE OF CRIMINAL JUSTICE PLANNING:			
Passed-through the State of California OCJP Office of Emergency Services:			
Domestic Violence Response & Advocacy	16.588	LE06046364	84,270
U.S. DEPARTMENT OF TREASURY:			
Passed-through the U.S. Customs Service:			
Various small agreements			
(Operation BEST 14228)	21.000	2005-668	54,519
(RCFL 2008)	21.Unknown	2005-668	7,166
(Operation Gang Buster)	21.Unknown	2005-668	382
(Fugitive Apprehension Team)	21.Unknown	2005-668	15,961
(Internet Crimes Against Children)	16.543	2005-668	25,469
(Narcotic Task Force 2007 and 2008)	21.Unknown	2005-668	31,822

CITY OF CHULA VISTA
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2008 (Continued)

Federal Grantor/ Pass-through Grantor/ Program Title	CFDA Number	Program Identification Number	Federal Expenditures
Total U.S. Department of Treasury			135,319
Total Federal Expenditures			$ 9,328,936

See Accompanying Notes to Schedule of Expenditures of Federal Awards.

CITY OF CHULA VISTA
Note to Schedule of Expenditures of Federal Awards
June 30, 2008

(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 (City) that are reimbursable under federal programs of federal financial assistance. For the purposes of this schedule, federal financial assistance includes 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) Loan Programs

The City participates in certain federal award programs that sponsor revolving loan programs, which are administered by the City. These programs maintain servicing and trust arrangements with the City to collect loan repayments. The funds are returned to the programs upon repayment of the principal and interest and programs funded by these repayments are reported as expenditures in the Schedule. The federal government has imposed certain continuing compliance requirements with respect to the loans rendered under the programs. In accordance with Subpart B, Section 205 of the Office of Management and Budget Circular A-133, the City has reported the value of the total outstanding and new loans made during the current year.

The following is a summary of the loan program balances and activities that have continuing compliance requirements at June 30, 2008:

Program Title	CFDA Number	June 30, 2008 Loans Outstanding	Prior Year Loans With Continuing Compliance Requirements	Fiscal Year 2008 Loan Disbursements
Home Investment Partnership Program	14.239	$7,923,284	$6,933,284	$990,000

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CITY OF CHULA VISTA
Schedule of Findings and Questioned Costs
Year Ended June 30, 2008

Section I - Summary of Auditor's Results

Financial statements:

Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
• Material weakness(es) identified?	Yes
• Significant deficiency(ies) identified not considered to be material weaknesses?	Yes
• Noncompliance material to financial statements noted?	No

Federal Awards:

Internal control over major programs:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified not considered to be material weakness?	None Noted
Type of auditor's report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required To be reported in accordance with Section 510(a) of OMB Circular A-133?	No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
16.726	High Intensity Drug Trafficking Areas
14.239	Home Investment Partnership Program
20.600	Office of Highway Safety
16.738	Jurisdictions Unified for Drug/Gang Enforcement
97.036	Firestorm

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

CITY OF CHULA VISTA
Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2008

Section II - Financial Statement Findings

None.

Section III - Federal Awards Findings and Questioned Costs

None.

CITY OF CHULA VISTA
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2008

There were no audit findings for the year ended June 30, 2007.