

**CITY OF ENCINITAS**

**Single Audit Reports**

**June 30, 2009**

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**Single Audit Reports**  
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LOS ANGELES

SAN MARCOS

SAN DIEGO

To the Honorable City Council  
of the City of Encinitas, 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 Encinitas, California (City), as of and for the year ended June 30, 2009, which collectively comprise the City's basic financial statements and have issued our report thereon dated December 8, 2009. Our report included an explanatory paragraph describing the adoption of the provisions of Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* by the City. 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'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 preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting 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 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 City's financial statements that is more than inconsequential will not be prevented or detected by City's internal control. We consider the deficiency described in the accompanying schedule of findings and questioned costs as 2009-1 to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or a 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, we believe that none of the significant deficiencies referred to above is a material weakness.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's 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.

City of Encinitas's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit City of City of Encinitas's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of the City Council, management and others within the City of Encinitas, 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 Jini & O'Connell LLP*

Certified Public Accountants  
Newport Beach, California

December 8, 2009



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The Honorable City Council  
of the City of Encinitas, 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 Encinitas 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 its major federal program for the year ended June 30, 2009. The City's major federal program is 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 its major federal program is the responsibility of the City of Encinitas's management. Our responsibility is to express an opinion on the City of Encinitas'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 Encinitas'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 Encinitas'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 its major federal program for the year ended June 30, 2009.

Internal Control Over Compliance

The management of the City of Encinitas 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 Encinitas'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 an entity'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.

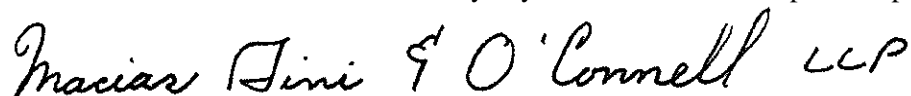
A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the City's internal control.

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 Encinitas as of and for the year ended June 30, 2009, and have issued our report thereon dated December 8, 2009. Our report included an explanatory paragraph describing the adoption of the provisions of Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* by the City.. 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 Encinitas, 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.



Certified Public Accountants  
Newport Beach, California

December 8, 2009

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CITY OF ENCINITAS  
Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2009

Federal Grantor/Pass - Through Grantor/Program Title	Federal CFDA Number	Grant Identification Number	Federal Expenditures
<b><u>Department of Housing and Urban Development</u></b>			
Direct Programs:			
Community Development Block Grant	14.218	B-08-MC-06-0574	\$ 142,431
Section 8 Housing Choice Vouchers	14.871	CA16-VISS-001	<u>1,078,489</u>
<b>Total Housing and Urban Development</b>			<u>1,220,920</u>
<b><u>Department of Health and Human Services</u></b>			
Passed through the County of San Diego:			
Nutrition Services Cluster:			
Title III-B Nutrition Services	93.044	513851	14,850
Title III-C1 Nutrition Services	93.045	513851	37,764
NSIP C1 Nutrition Services	93.053	513851	6,768
Recovery Act (ARRA) C1 Congregate Meals	93.707	513851	<u>2,179</u>
<b>Total Health and Human Services</b>			<u>61,561</u>
<b><u>Department of Homeland Security</u></b>			
Direct Programs:			
2007 Assistance to Firefighter Grant	97.044	DHS-07-GPD-044-001	52,112
2008 Assistance to Firefighter Grant	97.044	DHS-08-GPD-044-001	16,547
2007 Fire Prevention and Safety Grant	97.044	DHS-07-OGT-044-001	<u>12,471</u>
<b>Total Fire Prevention and Assistance Grants</b>			<u>81,130</u>
Passed through the City of San Diego:			
2007 Urban Areas Security Initiative	97.008	2007-2008	6,483
2008 Urban Areas Security Initiative	97.008	2008-0006	<u>1,535</u>
<b>Total Urban Areas Security Initiative</b>			<u>8,018</u>
Passed through the County of San Diego:			
2007 State Homeland Security Grant	97.073	2007-2008	<u>34,244</u>
<b>Total Department of Homeland Security</b>			<u>123,392</u>
Passed through the State of California (CalTrans)			
L.A. Emergency Relief	99.unknown	ER-4213(017)	<u>136,563</u>
<b>Total Expenditures of Federal Awards</b>			<u>\$ 1,542,436</u>

See Accompanying Notes to the Schedule of Expenditures of Federal Awards.

**CITY OF ENCINITAS**  
**Notes to the Schedule of Expenditures of Federal Awards**  
**June 30, 2009**

**(1) GENERAL**

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal awards programs of the City of Encinitas, California (City) and, therefore, does not present the financial position or results of operations of the City. The City's reporting entity is defined in Note (1) to the City's basic financial statements.

**(2) BASIS OF ACCOUNTING**

The activity of the City's federal award programs is recorded within the special revenue funds of the City. The City utilizes the modified accrual basis of accounting for the special revenue fund type as described in Note (1) to the City's basic financial statements. Accordingly, the accompanying Schedule of Expenditures of Federal Awards is presented using the modified accrual basis of accounting.

**CITY OF ENCINITAS**  
**Schedule of Findings and Questioned Costs**  
**For the Year Ended June 30, 2009**

**Section I - Summary of Auditor's Results**

***Financial statements:***

Type of auditor's report issued on the basic financial statements of the City: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? No
- Significant deficiencies identified that are not considered to be material weaknesses? Yes
- Noncompliance material to the financial statements noted? No

***Federal Awards:***

Internal control over major programs:

- Material weakness(es) identified? No
- Significant deficiencies identified that are not considered to be material weaknesses? None reported

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:

<b>CFDA number</b>	<b>Name of Federal Program</b>
14.871	Section 8 Housing Choice Voucher

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as a low-risk auditee? Yes

**CITY OF ENCINITAS**  
**Schedule of Findings and Questioned Costs**  
**For the Year Ended June 30, 2009**

**Section II - Financial Statement Findings**

2009-1 Utility Billing

During our walkthrough of internal controls and testwork, we noted a lack of segregation of duties in the utility billing process. We noted the same individual can change water rates, adjust customer accounts, post and process billing and reconcile the cash drawer when they backup the cashiering function. We also noted there is no supervisory review of the automated payments withdraws.

Managements Response

The City agrees that there are some potential conflicting duties within the utility billing process that are assigned to a Finance Technician. However, we do not agree that this constitutes a *significant deficiency* in internal controls. There are a variety of control measures in place that are appropriate and sufficient to prevent or detect errors that could be material to the District. The current supervisor/manager of this function has overseen utility billing as her primary assignment for over 15 years, and performs a significant number of reviews over the work performed by the Finance Technician. In addition, the Water Department is currently reassessing management and staff assignments in this area, with the intent of strengthening the existing control structure. However, this is a small department with only a limited number of people to call on to perform a variety of assignments. Within the constraints of existing staffing levels, Management will take the auditors concerns into consideration and plan the activities of this function to effect segregation of duties wherever practicable.

**Section III - Federal Award Findings and Questioned Costs**

No matters were reported.