

CITY OF SAN DIEGO

**Single Audit Reports
(OMB Circular A-133)**

For the Year Ended June 30, 2012

**CITY OF SAN DIEGO
Single Audit Reports
(OMB Circular A-133)**

For the Year Ended June 30, 2012

Table of Contents

	<i>Page</i>
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 <i>Government Auditing Standards</i>	1-2
Independent Auditor’s Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133 and on the Schedule of Expenditures of Federal Awards	3-5
Schedule of Expenditures of Federal Awards	6-9
Notes to the Schedule of Expenditures of Federal Awards.....	10-11
Schedule of Findings and Questioned Costs	12-16
Summary Schedule of Prior Audit Findings	17-18

To the Honorable Mayor and City Council
of the City of San Diego
San Diego, 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, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of San Diego, California (City), as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements and have issued our report thereon dated November 30, 2012. Our report includes a reference to other auditors and contains explanatory paragraphs regarding the emphasis of certain matters related to the actuarial accrued liability exceeding the actuarial value of assets of the City's defined benefit pension plan, the actuarial accrued liability exceeding the actuarial value of assets of the City's other postemployment benefit plan, and the potential adverse fiscal impacts to the City resulting from the dissolution of redevelopment agencies throughout the State of California. 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. Other auditors audited the financial statements of the San Diego Housing Commission and the Southeastern Economic Development Corporation, as described in our report on the City's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

Management of the City is responsible for establishing and maintaining 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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses, and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness.

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 as item 2012-01 to be 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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 2012-01.

This report is intended solely for the information and use of the City Council and Mayor, the City's audit committee, City management, others within the entity, 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 Fini & O'Connell LLP

San Diego, California
November 30, 2012

To the Honorable Mayor and City Council
of the City of San Diego
San Diego, California

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT
COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB
CIRCULAR A-133 AND ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

Compliance

We have audited the City of San Diego's (City) compliance with the types of compliance requirements described in the *OMB Circular A-133 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, 2012. 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's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

The City's basic financial statements include the operations of the San Diego Housing Commission (SDHC), which expended \$232,001,984 in federal awards, which is not included in the schedule of expenditures of federal awards for the year ended June 30, 2012. Our audit, described below, did not include the operations of SDHC because SDHC engaged other auditors to perform its audit in accordance with OMB Circular A-133 as a separate engagement.

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'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's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the 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, 2012. However, the results of our auditing procedures disclosed an instance of noncompliance with those compliance requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2012-02.

Internal Control Over Compliance

Management of the City 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's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 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.

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 deficiencies, 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. However, we identified a deficiency in internal control over compliance that we consider to be a significant deficiency as described in the accompanying schedule of findings and questioned costs as item 2012-02. *A significant deficiency in internal control over compliance* is a deficiency, or 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.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City, as of and for the year ended June 30, 2012, and have issued our report thereon dated November 30, 2012, which contained unqualified opinions on those financial statements. Our report was modified to include a reference to other auditors and contains explanatory paragraphs regarding the emphasis of certain matters related to the actuarial accrued liability exceeding the actuarial value of assets of the City's defined benefit pension plan, the actuarial accrued liability exceeding the actuarial value of assets of the City's other postemployment benefit plan, and the potential adverse fiscal impacts to the City resulting from the dissolution of redevelopment agencies throughout the State of California. Other auditors audited the financial statements of the San Diego Housing Commission and the Southeastern Economic Development Corporation, as described in our report on the City's basic financial statements. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. We have not performed any procedures with respect to the audited financial statements subsequent to November 30, 2012. 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 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 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 financial statements or to the 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 City's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City'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 and Mayor, the City's audit committee, City management, others within the entity, 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

San Diego, California
March 28, 2013

CITY OF SAN DIEGO
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2012

Federal Grantor/Pass-through Entity/Federal Grant Name	Grant/Pass-through Number	Federal CFDA No.	Federal Expenditures	Pass-through Awards to Subrecipients
U.S. Department of Commerce				
<u>Direct Programs</u>				
Economic Adjustment Assistance	*	11.307	\$ 433,793	\$ -
Coastal Services Center	NA08NOS4730441	11.473	276,143	-
Total U.S. Department of Commerce			\$ 709,936	-
U.S. Department of Housing and Urban Development				
<u>Direct Programs</u>				
Community Development Block Grant (CDBG) - Entitlement Grants Cluster:				
Community Development Block Grants/Entitlement Grants	*	14.218	21,723,723	9,805,464
ARRA - Community Development Block Grants ARRA Entitlement Grants (CDBG-R)	B-09-MY-06-0542	14.253	2,376,570	2,112,070
Total CDBG - Entitlement Grants Cluster			24,100,293	11,917,534
Emergency Shelter Grants Program	E-11-MC-060542	14.231	650,215	650,215
Community Development Block Grants Section 108 Loan Guarantees	B-03-MC-06-0542	14.248	97,420	-
Economic Development Initiative-Special Project, Neighborhood Initiative and Miscellaneous Grants	B-04-NO-CA-0905	14.251	27,456	-
ARRA - Homelessness Prevention and Rapid Re-Housing Program	S-09-MY-06-0542	14.257	1,560,717	1,528,203
Healthy Homes Demonstration Grants	CALHH0204-09	14.901	456,731	-
Total U.S. Department of Housing and Urban Development			26,892,832	14,095,952
U.S. Department of the Interior				
<u>Direct Program</u>				
Water Reclamation and Reuse Program	*	15.504	6,643,358	-
Subtotal Direct			6,643,358	-
<u>Passed Through State Department of Fish and Game</u>				
Cooperative Endangered Species Conservation Fund	P1082003	15.615	246,951	-
Subtotal Passed Through State Department of Fish and Game			246,951	-
<u>Passed Through State Department of Parks and Recreation</u>				
Outdoor Recreation_Acquisition, Development and Planning	06-01661	15.916	4,359	-
Subtotal Passed Through State Department of Parks and Recreation			4,359	-
Total U.S. Department of the Interior			6,894,668	-
U.S. Department of Justice				
<u>Direct Programs</u>				
ARRA - Missing Children's Assistance	2009-SN-B9-K002	16.543	160,462	-
Missing Children's Assistance	2009-MC-CX-K034	16.543	381,590	-
Subtotal Missing Children's Assistance			542,052	-
Youth Gang Prevention	2007-JV-FX-0328	16.544	23,137	-
Public Safety Partnership and Community Policing Grants	*	16.710	1,607,511	-
Justice Assistance Grant (JAG) Program Cluster:				
Edward Byrne Memorial Justice Assistance Grant Program	2010-DG-BX-0001	16.738	175,377	-
ARRA - Edward Byrne Memorial Justice Assistance Grant (JAG)				
Program / Grants To Units of Local Government	2009-SB-B9-0784	16.804	261,359	-
Subtotal JAG Program Cluster			436,736	-
Forensic DNA Backlog Reduction Program	*	16.741	223,649	-
Subtotal Direct Programs			2,833,085	-
<u>Passed Through California Emergency Management Agency</u>				
Paul Coverdell Forensic Sciences Improvement Grant Program	*	16.742	68,975	-
Subtotal Passed Through California Emergency Management Agency			68,975	-
Total U.S. Department of Justice			2,902,060	-

* See final pages of SEFA for listing of direct grant or pass-through numbers.

See accompanying Notes to the Schedule of Expenditures of Federal Awards

CITY OF SAN DIEGO
Schedule of Expenditures of Federal Awards (Continued)
For the Year Ended June 30, 2012

Federal Grantor/Pass-through Entity/Federal Grant Name	Grant/Pass-through Number	Federal CFDA No.	Federal Expenditures	Pass-through Awards to Subrecipients
U.S. Department of Transportation				
<u>Direct Program</u>				
Airport Improvement Program	*	20.106	\$ 286,698	\$ -
Subtotal Direct Program			\$ 286,698	
<u>Passed Through State Department of Transportation</u>				
Highway Planning and Construction	*	20.205	4,555,924	-
Subtotal Passed Through State Department of Transportation			4,555,924	
Total U.S. Department of Transportation			4,842,622	-
National Endowment for the Arts				
<u>Direct Program</u>				
Promotion of the Arts, Grants to Organizations and Individuals	11-6200-7012	45.024	9,403	-
Total National Endowment for the Arts			9,403	-
Institute of Museum and Library Services				
<u>Direct Program</u>				
National Leadership Grants	CL-00-10-0014-10	45.312	6,421	-
Total Institute of Museum and Library Services			6,421	-
U.S. Environmental Protection Agency				
<u>Passed Through San Diego Association of Governments</u>				
Congressionally Mandated Projects	XP-97991601	66.202	531,005	-
Surveys, Studies, Investigations and Special Purpose Grants	XP-98923801	66.606	(251,315)	-
Subtotal Passed Through San Diego Association of Governments			279,690	
<u>Passed Through California Department of Public Health</u>				
Capitalization Grants for Drinking Water State Revolving Funds	*	66.468	29,078,800	-
Subtotal Passed Through California Department of Public Health			29,078,800	
Total U.S. Environmental Protection Agency			29,358,490	-
U.S. Department of Energy				
<u>Direct Programs</u>				
Renewable Energy Research and Development	DE-EE0002074	81.087	288,239	-
ARRA - Energy Efficiency and Conservation Block Grant Program	DE-EE0000877	81.128	8,597,862	-
Total U.S. Department of Energy			8,886,101	-
U.S. Department of Health and Human Services				
<u>Passed Through the County of San Diego</u>				
Centers for Disease Control and Prevention, Investigations and Technical Assistance	518250	93.283	36,043	-
Total U.S. Department of Health and Human Services			36,043	-
U.S. Department of Homeland Security				
<u>Direct Programs</u>				
National Urban Search and Rescue (US&R) Response System	EMW-2011-CA-00051	97.025	648,820	-
Subtotal Direct Programs			648,820	
<u>Passed Through the County of San Diego</u>				
Emergency Management Performance Grants	CALEMA073-00000	97.042	37,320	-
Homeland Security Grant Program	*	97.067	1,211,779	-
Buffer Zone Protection Program (BZPP)	N/A	97.078	912,259	-
Subtotal Passed Through County of San Diego			2,161,358	
<u>Passed Through California Emergency Management Agency</u>				
National Urban Search and Rescue (US&R) Response System	2010-SR-24-K036	97.025	296,112	-
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	*	97.036	1,547,964	-
Hazard Mitigation Grant	073-66000	97.039	128,986	-
Homeland Security Grant Program	*	97.067	19,488,182	2,190,154
Border Interoperability Demonstration Project	073-95020-2010-0011	97.120	177,424	-
Radiological/Nuclear Detection Pilot Evaluations Program	073-66000 #2010-0001	97.121	229,380	-
Subtotal Passed Through California Emergency Management Agency			21,868,048	2,190,154
Total U.S. Department of Homeland Security			24,678,226	2,190,154
Total Expenditures of Federal Awards			\$ 105,216,802	\$ 16,286,106

* See final pages of SEFA for listing of direct grant or pass-through numbers.

See accompanying Notes to the Schedule of Expenditures of Federal Awards

CITY OF SAN DIEGO
Schedule of Expenditures of Federal Awards (Continued)
For the Year Ended June 30, 2012

Federal Grantor/Grant Name/CFDA Number	Federal Expenditures
Economic Adjustment Assistance CFDA No. 11.307 Direct Program Grant Numbers	
07-49-02681	\$ 109,275
07-79-05269	244,306
07-39-03351	80,212
Subtotal Economic Adjustment Assistance	\$ 433,793
Community Development Block Grants/Entitlement Grants CFDA No. 14.218 Direct Program Grant Numbers	
B-11-MC-06-0542	\$ 16,036,769
B-10-MC-06-0542	2,440,118
B-09-MC-06-0542	828,850
B-08-MN-06-0521	63,242
B-08-MC-06-0542	2,203,513
B-07-MC-06-0542	43,832
B-06-MC-06-0542	35,684
B-04-MC-06-0542	10,261
B-03-MC-06-0542	13,000
B-02-MC-060542	40,000
B-00-MC-06-0542	8,454
Subtotal Community Development Block Grants/Entitlement Grants	\$ 21,723,723
Water Reclamation and Reuse Program CFDA No. 15.504 Direct Program Grant Numbers	
00-FC-30-0002	\$ 235,093
06-FC-35-0155	671,142
06-FC-35-0154	877,688
07-FC-35-0217	43,320
07-FC-35-0214	5,186
07-FC-35-0216	474,128
09-AC-35260	486,535
09-AC-35256	2,886,953
10-AC-35275	593,912
10-AC-35276	369,401
Subtotal Water Reclamation and Reuse Program	\$ 6,643,358
Public Safety Partnership and Community Policing Grants CFDA No. 16.710 Direct Program Grant Numbers	
2007-CK-WX-0027	\$ 1,158,968
2008-CK-WX-0465	241,830
2010-CK-WX-0097	(2,488)
2010-CS-WX-0021	209,201
Subtotal Public Safety Partnership and Community Policing Grants	\$ 1,607,511
Forensic DNA Backlog Reduction Program CFDA No. 16.741 Direct Program Grant Numbers	
2008-DN-BX-K068	\$ (64)
2009-DN-BX-K054	10,696
2008-DN-BX-K080	166,511
2011-DN-BX-K442	46,506
Subtotal Forensic DNA Backlog Reduction Program	\$ 223,649
Airport Improvement Program CFDA No. 20.106 Direct Program Grant Numbers	
AIP3-06-0211-012-2008	\$ 166,321
3-06-0213-015-2009	120,377
Subtotal Airport Improvement Program	\$ 286,698

See accompanying Notes to the Schedule of Expenditures of Federal Awards

CITY OF SAN DIEGO
Schedule of Expenditures of Federal Awards (Continued)
For the Year Ended June 30, 2012

Federal Grantor/Grant Name/CFDA Number	Federal Expenditures
Highway Planning and Construction CFDA No. 20.205 Pass-Through Grant Numbers	
DEM05L-5004(170)	\$ (501)
RPSTPLE-5004(162)	60,713
HPLU-5004(175)	195,812
RPSTPLE-5004(176)	1,963
ER-4213(019)	126,410
RPSTPLE-5004(159)	146,953
STPLP-5004(136)	(159,683)
SRTSLNI-5004(178)	213,401
CML-5004(121)	8,382
CML-5004(131)	41,513
ER-4213(018)	1,565,130
RPSTPLE-5004(161)	223,073
DEM115L-5007(149)	281,009
BHLO-5004(068)	384,659
STPLZ-5004(005)/STPLP-50	(331,954)
STPLZ-5004(040)	49,960
BPMP-5004(169)	42,297
BHLS-5004(049)	984,981
DEM117L-5007(166)	132,834
HP21L-5004(140)	(7,515)
BRLO-5004(009)	390,620
HPLU-5004(168)	(23)
STPLG-5004(135)	(296)
HPLUL-5004(187)	85,449
HPLUL-5004(181)	120,737
Subtotal Highway Planning and Construction	<u>\$ 4,555,924</u>
Capitalization Grants for Drinking Water State Revolving Funds CFDA No. 66.468 Pass-Through Program Grant Numbers	
SRF10CX120	\$ 13,078,800
SRF10CX122	16,000,000
Subtotal Capitalization Grants for Drinking Water State Revolving Funds	<u>\$ 29,078,800</u>
National Urban Search and Rescue (US&R) Response System CFDA No. 97.025 Direct Program Grant Number	
EMW-2011-CA-00051	\$ 648,820
Pass-Through Program Grant Numbers	
2010-SR-24-K036	296,112
Subtotal National Urban Search and Rescue (US&R) Response System	<u>\$ 944,932</u>
Disaster Grants - Public Assistance (Presidentially Declared Disasters) CFDA No. 97.036 Pass-Through Grant Numbers	
1731-DR-CA	\$ 37,478
1577-DR-CA	652,137
1952DR 073-66000-00	10,486
1585-DR-CA	847,863
Subtotal Disaster Grants - Public Assistance (Presidentially Declared Disasters)	<u>\$ 1,547,964</u>
Homeland Security Grant Program CFDA No. 97.067 - Pass-Through Grant Numbers	
OPSG-S	\$ 833,417
OPSG 2010	35,784
2010-0085 EMA 073-0000	338,560
2011-SS-0077 / 073-00000	4,018
Subtotal County of San Diego	<u>1,211,779</u>
2007-0008-073-66000	17,082
2008-0006-073-66000	415,034
2009-0019	8,030,637
2010-0085	8,338,355
2011-SS-0077/073-66000	2,430,896
R-2009-134	9,501
2010-0019	246,677
Subtotal California Emergency Management Agency	<u>19,488,182</u>
Subtotal Homeland Security Grant Program	<u>\$ 20,699,961</u>

See accompanying Notes to the Schedule of Expenditures of Federal Awards

CITY OF SAN DIEGO
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2012

Note 1 – General

The accompanying Schedule of Expenditures of Federal Awards (SEFA) presents the activity of all federal award programs of the City of San Diego, California (the City). The SEFA excludes the federal award programs of the San Diego Housing Commission (see Note 5). Federal awards received directly from federal agencies as well as federal awards passed through other nonfederal agencies, primarily the State of California, are included in the SEFA. The City's reporting entity is defined in Note 1(a) to the City's basic financial statements. Expenditures funded by the American Recovery and Reinvestment Act of 2009 are denoted by the prefix "ARRA" in the federal program title.

Negative amounts reported in the SEFA for the Highway Planning and Construction program (CFDA No. 20.205) represent amounts previously claimed for reimbursement and reported as expenditures in the SEFA of a prior year, but were ultimately disallowed and not reimbursed by the grantor. The negative expenditures reported for the Surveys, Studies, Investigations, and Special Purpose Grants program (CFDA No. 66.606) represents expenditures incurred for a multi-funded project and reported in a prior year, which were originally planned to be funded by the grant, but were subsequently funded from another source.

Note 2 – Basis of Accounting

The accompanying SEFA is presented using the modified accrual basis of accounting for grants accounted for in the governmental fund types and the accrual basis of accounting for grants accounted for in the proprietary fund types, as described in Note 1(c) to the City's basic financial statements.

Note 3 – Catalog of Federal Domestic Assistance (CFDA) Numbers

The CFDA numbers included in the accompanying SEFA were determined based on the program name, review of grant contract information, and the Office of Management and Budget's Catalog of Federal Domestic Assistance.

Note 4 – Relationship to the Financial Statements

Expenditures of federal awards are reported in the City's basic financial statements as expenditures/expenses in the General Fund, nonmajor special revenue funds, nonmajor capital project funds, and the enterprise funds.

Note 5 – San Diego Housing Commission (Discrete Component Unit) Federal Expenditures

The San Diego Housing Commission (SDHC) federal expenditures of \$232,001,984 are excluded from the City's SEFA because the SDHC federal expenditures are separately audited by other auditors and reported in a separate single audit report.

Note 6 – Water Reclamation and Reuse Program (CFDA No. 15.504)

During the year ended June 30, 2012, it was determined that the City did not report federal expenditures incurred during fiscal years 2009 through 2011 related to various cooperative agreements under the Water Reclamation and Reuse Program. The City should have reported a portion of the \$6,643,358 in federally reimbursed expenditures in the amounts \$592,624, \$950,940, and \$2,873,067 in its SEFA for the years ended June 30, 2009, 2010, and 2011, respectively. Expenditures for CFDA 15.504 incurred during fiscal years 2009 through 2012, have been included in the current year SEFA in the amount of \$6,643,358.

CITY OF SAN DIEGO
Notes to the Schedule of Expenditures of Federal Awards (Continued)
For the Fiscal Year Ended June 30, 2012

Note 7 – Loans Outstanding

The City participates in certain federal loan programs and the table below represents the loan balances outstanding at June 30, 2012. These loan programs do not have continuing compliance requirements.

<u>Program Title</u>	<u>Federal Catalog Number</u>	<u>Amount Outstanding</u>
Community Development Block Grants Section 108 Loan Guarantees	14.248	\$ 8,737,000
Capitalization Grants for Drinking Water State Revolving Funds	66.468	37,603,539
		<u>\$ 46,340,539</u>

Note 8 – California Emergency Management Agency (CalEMA) Grants

The following represents expenditures for the CalEMA programs for the year ended June 30, 2012. The amount reported in the SEFA is determined by calculating the federal portion of the current year expenditures.

<u>Program Title, CFDA, and Expenditure Category</u>	<u>Grant Award Number</u>	<u>Budget</u>	<u>Actual Non-match</u>	<u>Actual Total</u>	<u>Variance</u>
Federal Grant:					
Paul Coverdell Forensic Sciences Improvement Grant - 16.742	CQ 10 07 7919				
Personal services		\$ 17,084	\$ 25,752	\$ 25,752	\$ (8,668)
Operating expenses		75,855	43,223	43,223	32,632
Total		<u>\$ 92,939</u>	<u>\$ 68,975</u>	<u>\$ 68,975</u>	<u>\$ 23,964</u>
State Grant:					
Internet Crimes Against Children	IC 11 03 7919				
Personal services		\$ -	\$ 5,010	\$ 5,010	\$ (5,010)
Operating expenses		79,000	36,769	36,769	42,231
Equipment		46,000	41,044	41,044	4,956
Total		<u>\$ 125,000</u>	<u>\$ 82,823</u>	<u>\$ 82,823</u>	<u>\$ 42,177</u>

CITY OF SAN DIEGO
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2012

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?	None reported
Noncompliance material to financial statements noted?	No

Federal Awards:

Internal control over major programs:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified?	Yes
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 Circular A-133?	Yes

Identification of major programs:

CFDA Number	Program Name
	Community Development Block Grants – Entitlement Grants Cluster:
14.218	Community Development Block Grants/Entitlement Grants
14.253	ARRA - Community Development Block Grants ARRA Entitlement Grants (CDBG-R)
14.257	ARRA - Homelessness Prevention and Rapid Re-Housing Program
15.504	Water Reclamation and Reuse Program
	Justice Assistance Grant (JAG) Program Cluster:
16.738	Edward Byrne Memorial Justice Assistance Grant Program
16.804	ARRA - Edward Byrne Memorial Justice Assistance Grant Program/Grants to Units of Local Government
66.468	Capitalization Grants for Drinking Water State Revolving Funds
81.128	ARRA - Energy Efficiency and Conservation Block Grant Program

Dollar threshold used to distinguish between Type A and Type B programs:	\$3,000,000
Auditee qualified as low-risk auditee?	No

CITY OF SAN DIEGO
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2012

Section II – Financial Statement Findings

Reference Number: 2012-01 – Schedule of Expenditures of Federal Awards

Criteria:

Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Subpart A-General, section 105 Definitions

Federal financial assistance means assistance that non-federal entities receive or administer in the form of grants, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other assistance, but does not include amounts received as reimbursement for services rendered to individuals as described in section .205(h) and section .205(i).

Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Subpart C-Auditees, Section 300 Auditee responsibilities

- (d) Prepare appropriate financial statements, including the schedule of expenditures of federal awards in accordance with section .301.

Condition:

While conducting our audit and testing of the City's Schedule of Expenditures of Federal Awards (SEFA), we noted that the City did not properly include federally reimbursed expenditures associated with the Water Reclamation and Reuse Program (WRRP) (CFDA No. 15.504) in the proper accounting period.

The City has been receiving reimbursements from the United States Department of the Interior, Bureau of Reclamation (BOR) since FY 2008-09 for expenditures incurred during FY 2008-09 through FY 2011-12 related to various water projects, which include the Indirect Potable Reuse Project and Los Penasquitos Recycled Water Pipeline Project. Due to the timing of the approved Cooperative Agreements between the City and the BOR, which occurred between January 2000 and September 2010, and subsequent reimbursements of expenditures, the City should have reported a portion of the \$6,643,358 in federally reimbursed expenditures in its SEFA over the past four fiscal years, FYs 2008-09 through 2011-12. Specifically, the City should have included federal expenditures in the amounts \$592,624, \$950,940, and \$2,873,067 in its SEFA for the years ended June 30, 2009, 2010, and 2011, respectively. As a result, the WRRP program was considered a major federal award program pursuant to Office of Management and Budget (OMB) Circular A-133 for the year ended June 30, 2012, as opposed to in prior years when the City expended and received federal funds from the BOR and should have reported the program expenditures in the SEFA.

Cause:

There appears to have been miscommunication between the Public Utilities Department and the Comptroller's Office regarding whether the BOR Cooperative Agreements constituted federal financial assistance, and therefore, was subject to the requirements of OMB Circular A-133.

Effect:

The City did not properly report its federal award expenditures for the Water Reclamation and Reuse Program (CFDA No. 15.504) for the fiscal years ended June 30, 2009 through June 30, 2011 in accordance with the requirements of OMB Circular A-133. As a result, all federal award expenditures

CITY OF SAN DIEGO
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2012

incurred from July 1, 2008 through June 30, 2012 have been reported and included in the SEFA for the year ended June 30, 2012.

Furthermore, the City exposes itself to the risk of inaccurately preparing the SEFA in accordance with the requirements of OMB Circular A-133 and not properly reporting all federal award program expenditures within the proper fiscal year, which could result in the inappropriate determination of the City's major federal award programs.

Recommendation:

During the compilation and preparation of the SEFA, we recommend the Comptroller's Office perform a reconciliation between the federal expenditures incurred and reported in the SEFA, to the federal revenues and/or cash receipts recognized during each fiscal year. Performing such reconciliation should identify potential timing differences between the receipt and recognition of federal revenues and expenditures related to federal award programs. Also, the Comptroller's Office should consider preparing and disseminating a questionnaire and/or checklist to all City departments, and have departments identify all federal award expenditures incurred during the year, along with the federal program name CFDA number, and other information necessary for the City to properly prepare the SEFA. Guidance should also be provided to departments outlining what specifically constitutes federal financial assistance, as defined in OMB Circular A-133.

Management Response and Corrective Action:

The City agrees with this recommendation and has implemented correctives measures. Specifically, the business department has been instructed to forward the Grant Project Status report to the Grants section of the Comptroller's Office at the end of the fiscal year. The Comptroller's Office will also send out questionnaires to all departments and reconcile the federal expenditures and revenues on an annual basis for presentation in the SEFA.

Section III – Federal Award Findings and Questioned Costs

Reference Number:	2012-02
Federal Program Title:	Community Development Block Grants – Entitlement Grants Cluster: Community Development Block Grants/Entitlement Grants and ARRA-Community Development Block Grants ARRA Entitlement Grants (CDBG-R)
Federal Catalog Numbers:	14.218 and 14.253
Federal Agency:	U.S. Department of Housing and Urban Development
Federal Award Number and Year:	2009 – B-08-MN-06-0521 2010 – B-09-MY-06-0542
Category of Finding:	Reporting

Criteria:

Title 24: Housing and Urban Development, Subtitle A – Office of the Secretary, Department of Housing and Urban Development, Part 85-Administrative Requirements for Grants and Cooperative Agreements to State, Local and Federally Recognized Indian Tribal Governments, Subpart C-Post-Award Requirements: Reports, Records, Retention, and Enforcement, Section 85.42-Retention and Access Requirements for Records

- (a) Applicability.

CITY OF SAN DIEGO
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2012

(1) This section applies to all financial and programmatic records, supporting documents, statistical records, and other records of grantees or subgrantees which are: (i) required to be maintained by the terms of this part, program regulations of the grant agreement, or (ii) otherwise reasonably considered as pertinent to program regulations or the grant agreement.

(2)(b)(1) Except as otherwise provided, records must be retained for three years from the starting date specified in paragraph (c) of this section.

- (c) *Starting date of retention period*—(1) *General*. When grant support is continued or renewed at annual or other intervals, the retention period for the records of each funding period starts on the day the grantee or subgrantee submits to the awarding agency its single or last expenditure report for that period. However, if grant support is continued or renewed quarterly, the retention period for each year's records starts on the day the grantee submits its expenditure report for the last quarter of the Federal fiscal year. In all other cases, the retention period starts on the day the grantee submits its final expenditure report. If an expenditure report has been waived, the retention period starts on the day the report would have been due.

Condition:

During our testing of 14 out of 22 reports, we noted that the City Planning and Community Investment (CPCI) department could not provide supporting documentation used for preparing two (2) performance reports related to the Neighborhood Stabilization Program (NSP) and the HUD 60002 – Section 3 Summary Report for the CDBG-R and NSP programs.

Cause:

The Grant Coordinator was unable to locate the supporting documentation because the reports were compiled from telephone interviews by a former City employee.

Effect:

Since the supporting documents could not be located, we could not verify whether the data reported was properly accumulated and summarized, or substantiate the completeness and accuracy of the information contained in the reports.

Questioned Costs:

There are no questioned costs.

Context:

CPCI prepared and completed a total of 22 financial, programmatic, ARRA Section 1512 and Transparency Act reports required under the Community Development Block Grant/Entitlement Grants program cluster.

Recommendation:

We recommend the CPCI, as the administering department, establish a process whereby all supporting documentation is accumulated during the preparation of the various reports required to be completed pursuant to program requirements. Once the reports have been prepared, reviewed and submitted, the CPCI should maintain a file that includes the submitted reports and supporting documentation, and retain the information for the minimum timeframe pursuant to laws, regulations, contracts, or other statutes.

CITY OF SAN DIEGO
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2012

Management Response and Corrective Action:

The Economic Development & Project Management Division (Division) of the Development Services Department does have a process whereby all supporting documentation is accumulated during the preparation of various reports required to be completed pursuant to program requirements. The Division maintains files, both hard copy and electronic, which include the submitted reports and supporting documentation. The two reports in question in this report were completed with information garnered from a telephonic interview, the staff member conducting the interview vacated his position shortly thereafter and the Grant Coordinator was unable to locate his notes. It should be noted that both reports in question confirmed “zero” program activity for the FY 2012 time period and supporting documentation would simply have been “null”. As recommended in the audit report, the Economic Development & Project Management Division will establish a process whereby supporting documentation, including notes from telephone interviews, are accumulated and maintained. This process will include succession planning for transitions in staff.

CITY OF SAN DIEGO
Summary Schedule of Prior Audit Findings
For the Fiscal Year Ended June 30, 2012

Federal Awards Findings:

Reference Number:	2011-01
Federal Catalog Number/ Program Name	16.543 – Missing Children’s Assistance and ARRA – Missing Children’s Assistance
Federal Agency Name	U.S. Department of Justice
Audit Finding	<p>During our audit procedures over the City’s compliance with the Reporting compliance requirements, the City could not provide supporting documentation used to compile the two (2) ARRA Section 1512 reports selected for testing. As a result we were unable to trace to supporting documentation or verify that the data reported was properly accumulated and summarized.</p> <p>The Missing Children’s Assistance (MCA) program is required to submit monthly performance measures reports and quarterly case tracking reports to the U.S. Department of Justice’s Office of Juvenile Justice and Delinquency Prevention (OJJDP) designated website. We noted for 5 of the 12 reports selected for testing, the City did not retain documentation to support the submission of the reports. As a result, we were unable to determine if the reports were submitted before the required due date.</p> <p>The MCA program is required to submit quarterly ARRA Section 1512 reports by the 10th day of the month following each calendar quarter. Of the two (2) ARRA reports selected for testing, we noted that one was submitted past the required deadline.</p> <p>The MCA program is required to submit quarterly Federal Financial Status Reports (SF 425) within 30 days of the end of each quarter to OJJDP for both the Continuation grant and ARRA grant (8 in total). Of the two (2) SF 425 reports tested for each grant, we noted that one (1) SF 425 report for the Continuation grant and one (1) SF 425 report for the ARRA grant was submitted part the required deadline.</p>
Status of Corrective Action:	Corrected.

Reference Number:	2011-02
Federal Catalog Number/ Program Name	66.468 – Capitalization Grants for Drinking Water State Revolving Funds (DWSRF) and 81.128 – Energy Efficiency and Conservation Block Grant Program (EECBG)
Federal Agency Name	U.S. Environmental Protection Agency and U.S. Department of Energy
Audit Finding	During the performance of our testwork over procurement and suspension and debarment, we noted the following:

CITY OF SAN DIEGO
Summary Schedule of Prior Audit Findings (Continued)
For the Fiscal Year Ended June 30, 2012

DWSRF program:

For the one (1) contractor selected for testing, the City was unable to provide documentation to support that the verification of suspended and/or debarred parties was performed. However, we determined that the contractor was not listed as a suspended or debarred party per the federal government website.

EECBG program:

Out of the four (4) contractors selected for testing, the City provided documentation to support that the verification of suspended and/or debarred parties was performed. However, we determined that three of the verifications were performed approximately a month after the contracts were awarded. We also noted that none of the contractors were listed as a suspended or debarred party per the federal government website.

Status of Corrective Action Corrected.

Reference Number: 2011-03

Federal Catalog Number/
Program Name 14.257 – ARRA – Homelessness Prevention and Rapid Re-Housing Program (HPRP)

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

Audit Finding The City passed through the Homelessness Prevention and Rapid Re-Housing Program (HPRP) grant to the San Diego Housing Commission (SDHC) except for a small portion to be used to pay administration costs at the City level. We noted that no monitoring on SDHC was performed by the City during fiscal year 2011 over participant eligibility determination.

Status of Corrective Action Corrected.