

CITY OF SAN DIEGO

Single Audit Reports

For the Fiscal Year Ended June 30, 2008

CITY OF SAN DIEGO
Single Audit Reports
For the Fiscal Year Ended June 30, 2008

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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

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

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 (the "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 March 26, 2009 (except for paragraphs 25 and 26 of Note 18, as to which the date is April 23, 2009; paragraph 27 of Note 18, as to which the date is May 8, 2009; and paragraphs 17 and 19 of Note 18 and paragraph 15 of Note 22, as to which the date May 21, 2009). Our report was modified to include a reference to other auditors and the City's adoption of the provisions of Governmental Accounting Standards Board (GASB) Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues* and No. 50, *Pension Disclosures*. 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, as described in our report on the City's basic 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 separately by those auditors.

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.

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 combination of control deficiencies, that adversely affects the entity'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 entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

We consider the deficiencies described in 2008-(a) in the accompanying schedule of findings and questioned costs and described in 2003-1 in the summary schedule of prior audit findings to be significant deficiencies in internal control over financial reporting.

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 entity'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 or material weaknesses. However, of the significant deficiencies described above, we consider item 2003-1 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 matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying summary schedule of prior year findings as item 2003-4. The conditions reported in 2003-4 also existed in the current year.

The City's responses to the findings identified in our audit are described in the accompanying schedules of current year findings and prior year findings. We did not audit the City's responses and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the City Council and Mayor, the City's audit committee, City management, and 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

San Diego, California
March 26, 2009



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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM, ON INTERNAL CONTROL OVER
COMPLIANCE, THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
IN ACCORDANCE WITH OMB CIRCULAR A-133 AND THE SCHEDULE OF
EXPENDITURES OF GOVERNOR'S OFFICE OF EMERGENCY SERVICES GRANT**

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

Compliance

We have audited the compliance of the City of San Diego (the 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 fiscal 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'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 City of San Diego Housing Commission (SDHC), which expended \$154,029,463 in federal awards, which are not included in the schedule of expenditures of federal awards (the Schedule) for the fiscal year ended June 30, 2008. Our audit, described below, did not include the operations of SDHC because the 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.

As described in items 2008-02, 2008-03, 2008-04 and 2008-05 in the accompanying schedule of findings and questioned costs, the City did not comply with requirements regarding reporting, subrecipient monitoring, procurement and Davis-Bacon that are applicable to its: Community Development Block Grants/Entitlement Grants and Economic Adjustment Assistance (2008-02); Community Development Block Grants/Entitlement Grants, Emergency Shelter Grants Program and Urban Areas Security Initiative (2008-03); Highway Planning and Construction and Urban Areas Security Initiative (2008-04); and Highway Planning and Construction (2008-05) programs, respectively. Compliance with such requirements is necessary, in our opinion, for the City to comply with the requirements applicable to those programs.

In our opinion, except for the noncompliance described in the preceding paragraph, 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 fiscal year ended June 30, 2008. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2008-01, 2008-02 (Airport Improvement Program and National Urban Search and Rescue Response System), 2008-04 (Airport Improvement Program and Public Safety Partnership and Community Policing Grants) and 2008-05 (Airport Improvement Program).

Internal Control Over Compliance

The 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 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 internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies and others that we consider to be material weaknesses.

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 requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity'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 entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items from 2008-01 through 2008-05 to be significant deficiencies.

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. Of the significant deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs, we consider items 2008-02 (Community Development Block Grants/Entitlement Grants

and Economic Adjustment Assistance), 2008-03 (Community Development Block Grants/Entitlement Grants, Emergency Shelter Grants Program and Urban Areas Security Initiative), 2008-04 (Urban Areas Security Initiative and Highway Planning and Construction) and 2008-05 (Highway Planning and Construction) to be material weaknesses.

Schedules of Expenditures of Federal Awards and Governor's Office of Emergency Services Grant

The accompanying schedules of expenditures of federal awards and Governor's Office of Emergency Services (OES) grant (the Schedules) are presented for purposes of additional analysis as required by OMB Circular A-133 and OES, respectively, and are not a required part of the basic financial statements. The Schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken 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 response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the City Council and Mayor, the City's audit committee, City management, and 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

San Diego, California

June 10, 2009, except for the Schedules of Expenditures of Federal Awards and

Governor's Office of Emergency Services Grant, as to which the date is March 26, 2009

CITY OF SAN DIEGO
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2008

Federal Grantor/Grant Name	Grants/Pass-through Number	Federal CFDA No.	Federal Expenditures	Pass-through Awards to Subrecipients
U.S. Department of Commerce				
<u>Direct Program</u>				
Economic Adjustment Assistance	<i>Various</i>	11.307	\$ 1,324,913	
Total U.S. Department of Commerce			\$ 1,324,913	-
U.S. Department of Housing and Urban Development				
<u>Direct Programs</u>				
Community Development Block Grants/Entitlement Grants	<i>B00MC060542</i>	14.218	11,158,234	\$ 3,744,718
Emergency Shelter Grants Program	<i>Various</i>	14.231	622,078	622,078
Community Development Block Grants Section 108 Loan Guarantees	<i>Various</i>	14.248	3,443,128	447,920
HUD Healthy Homes	<i>CALHH0158-07</i>	14.901	204,451	-
Total U.S. Department of Housing and Urban Development			15,427,891	4,814,716
U.S. Department of the Interior				
<u>Direct Programs</u>				
Water Reclamation and Reuse Program	<i>Various</i>	15.504	651,114	-
Water Desalination Research and Development Program	<i>07-FC-35-0216</i>	15.506	134,000	-
Total U.S. Department of the Interior			785,114	-
U.S. Department of Justice				
<u>Direct Programs</u>				
Missing Children's Assistance	<i>2005-MC-CX-K016</i>	16.543	174,850	-
Gang-Free Schools and Communities - Community-Based Gang Intervention	<i>2007-JV-FX-0328</i>	16.544	5,065	-
Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	<i>Various</i>	16.580	79,876	-
Grants to Encourage Arrest Policies and Enforcement of Protection Orders	<i>2006-WE-AX-0064</i>	16.590	69,663	-
Community Prosecution and Project Safe Neighborhoods	<i>2003-GP-CX-0541</i>	16.609	35,919	-
Public Safety Partnership and Community Policing Grants	<i>Various</i>	16.710	2,800,892	-
Edward Byrne Memorial Justice Assistance Grant Program	<i>Various</i>	16.738	362,758	-
Forensic DNA Capacity Enhancement Program	<i>Various</i>	16.741	134,708	-
Forensic Casework DNA Backlog Reduction Program	<i>Various</i>	16.743	263,902	-
Subtotal Direct Programs			3,927,633	-
<u>Passed Through Governor's Office of Emergency Services</u>				
Coverdell Forensic Science Improvement Grant Program	<i>CQ07057919</i>	16.742	17,760	-
Subtotal Passed Through Governor's Office of Emergency Services			17,760	-
Total U.S. Department of Justice			3,945,393	-
U.S. Department of Transportation				
<u>Direct Programs</u>				
Airport Improvement Program	<i>Various</i>	20.106	1,224,084	-
State and Community Highway Safety	<i>Various</i>	20.600	299,301	-
Subtotal Direct Programs			1,523,385	-
<u>Passed Through State Department of Transportation</u>				
Highway Planning and Construction	*	20.205	3,676,451	-
Subtotal Passed Through State Department of Transportation			3,676,451	-
Total U.S. Department of Transportation			5,199,836	-

* - See final page of SEFA for listing of pass-through numbers.

CITY OF SAN DIEGO
Schedule of Expenditures of Federal Awards (Continued)
For the Fiscal Year Ended June 30, 2008

Federal Grantor/Grant Name	Grant/Pass-through Number	Federal CFDA No.	Federal Expenditures	Pass-through Awards to Subrecipients
National Foundation on the Arts and the Humanities				
<u>Passed Through California State Library</u>				
Promotion of the Arts - Grants to Organizations and Individuals	07-6200-7024	45.024	24,690	
Total National Foundation on the Arts and the Humanities			24,690	-
U.S. Environmental Protection Agency				
<u>Passed Through California State Library</u>				
Surveys, Studies, Investigations and Special Purpose Grants	XP-98923801-1	66.606	90,163	-
Surveys, Studies, Investigations, Training Demonstrations and Educational Outreach	X8-96999101-0	66.716	54,635	-
National Community-based Lead Outreach And Training Grant Program	AB-83364201-0	66.718	77,571	-
Total U.S. Environmental Protection Agency			222,369	-
U.S. Department of Energy				
<u>Direct Program</u>				
Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training and Technical Analysis/Assistance	DE-FC36-07GO17070-A000	81.117	75,305	-
Total U.S. Department of Energy			75,305	-
U.S. Department of Education				
<u>Passed Through California State Library</u>				
Twenty-First Century Community Learning Centers	37-2002-CCLC-003	84.287	228,828	228,828
Total U.S. Department of Education			228,828	228,828
U.S. Department of Homeland Security				
<u>Direct Programs</u>				
Urban Areas Security Initiative	Various	97.008	7,374,375	4,444,722
National Urban Search and Rescue Response System	Various	97.025	1,440,414	-
Public Assistance Grants	Various	97.036	1,490,063	-
Assistance to Firefighters Grant	Various	97.044	607,675	-
Subtotal Direct Programs			10,912,527	4,444,722
<u>Passed Through the County of San Diego</u>				
Emergency Management Performance Grants	EMF-2004-GR-402, 2006.0008/073-00000, 2007-EM-E7-0006	97.042	105,188	-
Homeland Security Grant Program	C-14136	97.067	44,855	-
State Homeland Security Program	2005.15/073-00000, 2006-0071/073-66000	97.073	1,133,787	-
Law Enforcement Terrorism Prevention Program	2007-0008/073-00000	97.074	710,213	-
Buffer Zone Protection Program	2005-0068	97.078	212,880	-
Subtotal Passed Through County of San Diego			2,206,923	-
Total U.S. Department of Homeland Security			13,119,450	4,444,722
Total Expenditures of Federal Awards			\$ 40,353,789	\$ 9,488,266

See accompanying Notes to the Schedules of Expenditures of Federal Awards and Governor's OES Grant

CITY OF SAN DIEGO
Schedule of Expenditures of Federal Awards (Continued)
For the Fiscal Year Ended June 30, 2008

Highway Planning and Construction CFDA No. 20.205 pass-through numbers	Federal Expenditures
RPSTPLE-5004(163)	\$ 133,074
BPMPL-5004(169)	115,830
DPU-0041(001)	2,567
CMLG-5004(084)	18,444
CLMN-5004(084)/PRG SUP M017	34,526
CML-5004(121)	82,332
CMLG-5004(131) PRG SUP M171	95,951
CMLG-5004(132)/PGM SUPP M168	41,057
STPLV-5004(029) PRG SUP M	3,758
STPLZ-5004(040)	517,662
CMLG5004(153)	16,350
CMLG5004(152)	3,902
RPSTPLE-5004(160)	1,748,524
HPLU-5004(168)	139,171
RPSTPLE-5004(156)	36,821
ER-4213(019)	44,944
ER-4213(018)	46,459
DEM117L-5004(166)	9,131
STPLG-5004(097) PRG SUP M146R1	17,357
STPLG-5004(099)	727
BHLO-5004(150)	57,522
RPSTPLE5004(161)	79,964
RPSTPLE5004(162)	77,949
BHLS5004(049)	64,225
RPSTPLE-5004(158)	231,439
ER-4213(001)	16,429
DEM115L-5004(149)	21,507
PS0605	18,829
 Total Highway Planning and Construction:	 <u>\$ 3,676,451</u>

CITY OF SAN DIEGO

Schedule of Expenditures of Governor's Office of Emergency Services (OES) Grant
For the Fiscal Year Ended June 30, 2008

Program Title and Expenditure Category	Grant Award Number	Budget	Actual Non-match	Actual Match	Actual Total	Budget to Actual Variance
Coverdell Forensic Science Improvement Program	CQ07057919*					
Personal Services		\$ 18,993	\$ 10,482	\$ -	\$ 10,482	\$ 8,511
Operating Expenses		31,967	7,278	-	7,278	24,689
Total		<u>\$ 50,960</u>	<u>\$ 17,760</u>	<u>\$ -</u>	<u>\$ 17,760</u>	<u>\$ 33,200</u>

Note: * The non-match expenditures of \$17,760 for grant CQ07057919 are reported as federal expenditures in the Schedule of Expenditures of Federal Awards under CFDA 16.742.

CITY OF SAN DIEGO

Notes to the Schedules of Expenditures of Federal Awards and Governor's OES Grant (Continued)
For the Fiscal Year Ended June 30, 2008

Note 1 – General

The accompanying Schedule of Expenditures of Federal Awards (SEFA) presents the expenditures of all federal award programs of the City of San Diego, California (the City) for the fiscal year ended June 30, 2008, except as described in Note 4 below. The City's reporting entity is defined in Note 1(a) to the City's basic financial statements. All federal awards received directly from federal agencies, as well as federal awards passed through other government agencies, are included on the SEFA.

The accompanying Schedule of Expenditures of the Governor's Office of Emergency Services (OES) Grant (Schedule of Expenditures of OES Grant) is presented for the purpose of additional analysis as required by the Governor's OES and is not a required part of the SEFA.

Note 2 – Basis of Accounting

The accompanying SEFA and Schedule of Expenditures of OES Grant are 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 – Relationship to the Financial Statements

Expenditures of federal awards and the OES grant 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 4 – San Diego Housing Commission (Discrete Component Unit) Federal Expenditures

The San Diego Housing Commission (SDHC) federal expenditures of \$154,029,463 are excluded from the SEFA because the SDHC federal expenditures are separately audited by other auditors and reported in separate single audit report.

Note 5 – Loans Outstanding

The City participates in certain federal loan programs and the table below represents the loan balances outstanding at June 30, 2008. This loan program does 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	<u>\$ 35,896,000</u>

CITY OF SAN DIEGO
 Schedule of Findings and Questioned Costs
 For the Fiscal 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 weaknesses identified?	Yes
• Significant deficiencies identified that are not considered to be material weaknesses?	Yes
Noncompliance material to financial statements noted?	Yes

Federal Awards:

Internal control over major programs:	
• Material weaknesses identified?	Yes
• Significant deficiencies identified that are not considered to be material weaknesses?	Yes
Type of auditor’s report issued on compliance for major programs:	Qualified
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	Program Name
11.307	Economic Adjustment Assistance
14.218	Community Development Block Grants/Entitlement Grants
14.231	Emergency Shelter Grants Program
16.710	Public Safety Partnership and Community Policing Grants
20.106	Airport Improvement Program
20.205	Highway Planning and Construction
97.008	Urban Areas Security Initiative
97.025	National Urban Search and Rescue Response System
97.036	Public Assistance Grants
97.073	State Homeland Security Program

Dollar threshold used to distinguish between Type A and Type B programs:	\$1,210,614
Auditee qualified as low-risk auditee?	No

CITY OF SAN DIEGO
Schedule of Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2008

Section II – Financial Statement Findings

Finding No. 2008 - (a) Risk Management – Public Liability

Observation – The City’s internal controls over public liability reserves require the completion and authorization of a “Request for Action” form (RFA) documenting the rationale whenever an adjustment is required. In addition, changes in reserve amounts above \$100,000 are required to be reviewed and approved by a supervisor or manager. During our testing of internal controls, we noted eight instances out of forty sample items where the RFAs did not indicate the rationale for the reserve adjustment, nor was there any indication that management had reviewed or authorized any of these RFAs.

Recommendation – The City’s Risk Management Department should implement procedures to ensure proper completion and authorization of an RFA whenever an adjustment is made to a public liability reserve.

Management Response - The Risk Management department has implemented a procedure to address this audit finding and will proceed with ongoing training to ensure that staff is fully aware and compliant with it. A limitation to this procedure is that the process itself is a manual one and over the course of the past few years the two positions providing oversight to the division were vacant, likely a contributing factor to this finding. The division is now fully staffed with a Claims Supervisor and a Claims and Insurance Manager that ensure compliance with this procedure.

In addition to the aforementioned managerial controls, the reserve adjustment process will further be facilitated with the transition to a new claims system, iVos, in which business rules will be adopted to ensure that reserve adjustments are fully justified by the Claim Representative and subsequently approved by the Claims Supervisor. This systematic control will be superior to and replace the manual control.

Finding No. 2008 - (b) Continuing Annual Disclosure Requirements

Observation – The City did not submit its June 30, 2007 audited or unaudited financial statements to the National Recognized Municipal Securities repository agencies within the required time frame (285 days after year end). The City was therefore not in compliance with its continuing disclosure requirements.

Recommendation – The City should develop procedures whereby it submits its financial statements on a timely basis to the required repository agencies. In situations where the audited financial statements are not readily available, the City should consider submitting its unaudited financial statements since these will also satisfy the annual filing requirements.

Management Response - With the completion of the City’s Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2008, the City is now up to date on the issuance of its CAFRs by completing six CAFRs for the fiscal years 2003-2008 in two years. The City did not have audited financial data available for the annual report filings from 2003 to 2007 to meet the City’s continuing disclosure obligations by the annual report deadlines due to the delays caused by Vinson and Elkins and Kroll investigations. While the City had unaudited financial data available to file, the City’s general disclosure counsel and the Disclosure Practices Working Group (DWPG) advised management for the FY 2003-2007 it would be best not to release unaudited financial information as part of its annual filings and therefore the City submitted “failure to file notices” for FY 2003-2007 prior to the due dates of the annual filings. Subsequent to the release of the CAFRs, annual reports, excluding audited financial statements,

CITY OF SAN DIEGO
Schedule of Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2008

were reviewed by DPWG, which included disclosure counsel's review and approval prior to their filing with the National Repositories.

Now that the City is current on its CAFRs, we expect that the CAFRs will be completed in a timely manner (no later than 6 months after the end of the fiscal year). This will give the City the ability to complete the annual report filings by the due date, and to include audited financial statements.

Management will continue to seek the advice of disclosure counsel on whether to submit unaudited financial statements along with the annual reports if there is a delay in audited financial statements in the future; however, the City does not expect to encounter the delays it has recently corrected in completing its CAFRs.

Finding No. 2008 - (c) Redevelopment Agency – Annual Report Submission to the City Council

Observation – The California Health and Safety Code section 33080.1 states that “*every redevelopment agency shall submit an annual report to its legislative body within six months of the end of the agency’s fiscal year.*” The annual report should include: “(1) an independent financial audit report for the previous fiscal year, (2) a fiscal statement for the previous fiscal year that contains the information required pursuant to Section 33080.5, (3) a description of the agency’s activities in the previous fiscal year affecting housing and displacement that contains the information required by Sections 33080.4 and 33080.7, (4) a description of the agency’s progress, including specific actions and expenditures, in alleviating blight in the previous fiscal year, (5) a list of, and status report on, all loans made by the redevelopment agency that are \$50,000 or more, that in the previous fiscal year were in default, or not in compliance with the terms of the loan approved by the agency, (6) a description of the total number and nature of the properties that the agency owns and those properties the agency has acquired in the previous fiscal year.”

We noted that the Redevelopment Agency (Agency) did not submit a complete annual report to the legislative body within six months of the end of the Agency’s current fiscal year. The financial statements for the previous year were not submitted with audited numbers because the audit was in progress during the time that the Agency submitted its annual reports.

Recommendation – We recommend that the Agency prepare and submit all required reports to the legislative body within six months of the end of the Agency’s fiscal year end. In the case an audit has not been completed, the Agency could submit an unaudited set of financial statements and indicate that since the financial report included unaudited numbers, the submitted numbers could change when the actual audit is completed.

Management Response - Redevelopment Agency (Agency) agrees. The Agency prepared and submitted to the City Council an annual report for the previous fiscal year, within six months of the end of the fiscal year, including all items cited above, with the exception of the independent financial audit report since it had not been completed by the required time frame established under section 33080.1 of the California Health and Safety Code. The Agency plans to submit a complete annual report to the City Council in future years within six months of the end of the fiscal year. The Agency will ensure the City Council is made aware if the financial report is “unaudited” at the time of submission.

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Section III Federal Award Findings and Questioned Costs

Finding No. 2008-01 **14.218 – Community Development Block Grants/Entitlement Grants (CDBG); 20.106 – Airport Improvement Program (AIP); 97.008 – Urban Areas Security Initiative (UASI) (Allowable Costs)**

Federal Agencies Names: **Department of Housing and Urban Department; Department of Transportation; Department of Homeland Security**

Criteria:

In accordance with OMB A-87; Part C. Basic Guidelines “1. Factors affecting allowability of costs. To be allowable under Federal awards, costs must meet the following general criteria: ... g. Except as otherwise provided for in this Circular, be determined in accordance with generally accepted accounting principles.”

Also in accordance with 2 CFR §215.53, “(b) Financial records, supporting documents, statistical records, and all other records pertinent to an award shall be retained for a period of three years from the date of submission of the final expenditure report or, for awards that are renewed quarterly or annually, from the date of the submission of the quarterly or annual financial report, as authorized by the Federal awarding agency.”

Condition:

During the performance of our testwork, we noted the following:

CDBG:

Out of a sample of forty (40) expenditures selected for testing, five (5) of these expenditures, amounting to \$457,613, were incurred in the prior year but were initially improperly reported in the current year Schedule of Expenditures of Federal Awards (SEFA). This was due to the City’s accrual policy that did not capture invoices below \$100,000 that were received subsequent to year-end in the prior year. These expenditures were removed from the current year SEFA.

AIP:

Out of a sample of fifteen (15) non-payroll expenditures selected for testing, two (2) of these expenditures, amounting to \$83,670, were incurred in the prior year but were initially improperly reported in the current year SEFA. This was due to the City’s accrual policy that did not capture invoices below \$100,000 that were received subsequent to year-end in the prior year. These expenditures were removed from the current year SEFA.

UASI:

Out of a sample of forty (40) payroll expenditures selected for testing, supporting documentation (employee timecard) for one (1) of these expenditures was not available.

Questioned Costs:

UASI: \$2,800

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Recommendation:

We recommend that the respective grant coordinating departments review all expenditures to ensure that federal expenditures are reported in the correct year. The departments should develop procedures to appropriately accrue costs incurred in the period when received after year-end. Respective grant coordinating department should also establish strong controls over supporting documents retention. We also recommend that the City implement a lower level of materiality for department's federal expenditures to facilitate more accurate reporting of federal expenditures in the correct year.

Management Response:

CDBG:

Management agrees with the finding. The Comptroller's policy was to accrue items greater than \$100,000. However, the accrual policy for grants was changed to \$50,000. Additionally, the administering departments have notified the sub-recipients to submit all invoices promptly at the close of the fiscal year.

The staff of responsible CDBG program department is in the process of working with a HUD approved consultant, International Consulting Firm (ICF), to assist in setting up procedures and schedulers for 1) fiscal monitoring, 2) the application process and contracting processes, and 3) better matching of recording expenditures with draws therefore resolving timing issues of the past years. Some of these reforms are being implemented currently such as drawing down funds regularly and recording expenditure reimbursements in the City's system upon receipt. We have also begun sub-recipient fiscal monitoring to ensure timely reporting to the City. We are working to develop written procedures in support of pending program reforms schedule to be implemented in FY 2010.

AIP:

Management agrees with the finding. The Comptroller's policy was to accrue items greater than \$100,000. However, the accrual policy for grants was changed to \$50,000. Additionally, the administering departments have notified the sub-recipients to submit all invoices promptly at the close of the fiscal year.

UASI:

The Office of Homeland Security (OHS) has procedures in place that ensure there is supervisory approval on every employee's Labor Card Report. Verbal approvals are never used and were not used for Michael Ryan's PPE 2/22/08 labor card. This pay period was the first one for Mr. Ryan as a then recent hire. The City Personnel Department created duplicate new hire employee records for Mr. Ryan. When discovered, OHS requested that one of the duplicate records be deleted. However, personnel deleted the record that had the approved labor card. Once the record was deleted, no information tied to it was retrievable. This is out of the Office of Homeland Security's span of control. As a result of this incident, the Personnel department has modified their procedures to check with the Payroll section in the Comptroller's office to ensure that no time card information is linked to a personnel record in the system. If a record has to be deleted, the timecard information will be printed then re-added accordingly.

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Finding No. 2008-02 **11.307 – Economic Adjustment Assistance (EAA); 14.218 – Community Development Block Grants/Entitlement Grants (CDBG); 20.106 – Airport Improvement Program (AIP); 97.025 – National Urban Search and Rescue Response (NUSRR) (Reporting)**

Federal Agency Name: **Department of Commerce; Department of Housing and Urban Development; Department of Transportation; Department of Homeland Security**

Criteria:

For EAA, in accordance with 13 CFR §143.41(a) “*Financial reporting. (3) General. Grantees shall follow all applicable standard and supplemental Federal agency instructions approved by OMB.*”

For CDBG, in accordance with 24 CFR §85.41(a) “*General. (3) Grantees shall follow all applicable standard and supplemental Federal agency instructions approved by OMB*”. Further, Title 24 CFR §85.41, (c) “*Federal Cash Transactions Report, (4) Frequency and due date. Grantees must submit the report no later than 15 working days following the end of each quarter.*”

For AIP, in accordance with AIP Sponsor Guide, 1500, “*signed copy of the project outlay report (SF-271) or approved equivalent and submittal of a SF-271 form with each drawdown automatically satisfies the fiscal quarterly reporting requirement.*” In addition, Title 49 CFR §18.41, (ii)(b)(4), states “*when reports are required on a quarterly or semiannual basis, they will be due 30 days after the reporting period.*”

For NUSRR, in accordance with 44 CFR §13.40, (b), “*(4) Due date. When reports are required on a quarterly or semiannual basis, they will be due 30 days after the reporting period. When required on an annual basis, they will be due 90 days after the grant year. Final reports will be due 90 days after the expiration or termination of grant support.*”

Condition:

During the performance of our testwork, we noted the following:

EAA:

Out of six (6) reports selected for testing, five (5) reports had numerous miscalculations in them. In addition, for all 6 reports selected for testing, the methodology of reporting salaries and benefits was inaccurate. These inaccuracies resulted in an understatement of federal expenditures reported.

CDBG:

- Out of three (3) federal cash transaction report (SF-272) periods selected for testing, we noted the City had not submitted or even prepared any of them.
- Prior year expenditures were incorrectly reported in the current year (fiscal year 2008) IDIS report submitted to HUD. We also noted that the prior year column in this report was incorrectly stated and did not agree to the previously submitted prior year (fiscal year 2007) IDIS report.

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AIP:

Out of five (5) report time period samples selected for testing:

- All five (5) reports did not include a quarterly financial/reimbursement report.
- Two (2) reports were not submitted within the 30-days required due date.

NUSRR:

Out of a total of thirteen (13) reports selected for testing:

- One (1) out of three (3) semi-annual performance reports tested had not been submitted while two (2) were submitted more than 60 days beyond the due date.
- Two (2) out of 10 financial status reports selected for testing were submitted beyond the 30 day due date.

Questioned Costs:

EAA:	FY08 Expenditures not included in FY08 Form ED-209I report: \$5,495 FY08 Expenditures not included in FY08 Form ED-209S report: \$317,815
CDBG:	FY07 Expenditures included in FY08 IDIS report: \$1,044,940 FY08 Expenditures not included in FY08 IDIS report: \$870,944 FY09 Expenditures included in FY08 IDIS report: \$63,006
AIP:	N/A
NUSRR:	N/A

Recommendation:

The City should create policies and procedures and establish the internal controls over report preparation as well as supervision of timely submission and accuracy of report information. The City should also file amended reports for those EAA and CDBG reports with identified errors.

Management Response:

EAA:

Management agrees with this finding. Current policies and procedures in place will be expanded to include a second review of all calculations to ensure accurate reporting. The final invoice review will be done by the Comptroller's office before the invoices are submitted to the agency. The September 2008 report has been amended to incorporate any required corrections.

CDBG:

Management agrees with this finding. All efforts will be made to ensure that all reports and invoices are submitted timely. The reporting and deadlines are now traced in Microsoft Outlook Scheduler by the Grants Supervising Accountant to assist with reminding the department of the deadline. The City will now commence submission of the required SF-272 reports. In addition, corrections have been made to update the 2009 IDIS reports for any revisions.

AIP:

Management agrees with this finding. When the Comptroller's office was responsible for submitting the reimbursement requests to the FAA it was our practice to submit AIP reimbursement requests when

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the request reached approximately \$75,000. The FAA historically would not question this practice until the reimbursement requests exceeded one year.

During the past couple of years the responsibility has shifted from the Comptroller's office to the Airports department. It is believed that during this time, three elements contributed to the late submissions: staff turnover, the implementation of a new electronic FAA reimbursement system and staff turnover contributed to the late submissions of the reimbursement requests along with the Comptroller's office and the Airports department not realizing the submissions were due within 30-days following the end of each quarter.

Additional training and the transition of the AIP grants to the Grant section of the Comptroller's office, along with the implementation of SAP, will ensure that the City has tighter controls over AIP reimbursement requests.

NUSRR:

Management agrees with this finding. The San Diego Fire-Rescue department experienced a substantial work force turnover during the last year. Specifically in the Administration Division, all three analysts retired within an eight month period of time. At the same time, the City imposed several months of hiring freeze and other restrictions that prevented the Department from filling the vacant positions. At present, all the positions have been filled and the Administration Division is catching up with all the backlog work. One analyst is now fully responsible to liaison between the Fire-Rescue Department and the City Comptroller's office. This will result in a timely response to deadlines.

Finding No. 2008-03 **14.218 – Community Development Block Grants/Entitlement Grants (CDBG); 14.231 - Emergency Shelter Grants Program (ESG); 97.008 – Urban Areas Security Initiative (UASI) (Subrecipient Monitoring)**

Federal Agency Name: **Department of Housing and Urban Development; Department of Homeland Security**

Criteria:

For CDBG, in accordance with 24 CFR §570.501 (b) states “*The recipient is responsible for ensuring that CDBG funds are used in accordance with all program requirements. The use of designated public agencies, subrecipients, or contractors does not relieve the recipient of this responsibility.*”

For the CDBG, ESG and UASI, in accordance with OMB A-133; Subpart D—Federal Agencies and Pass-through Entities; §__.400 “*A pass-through entity is responsible for: [...] (d)(2) advise subrecipients of requirements imposed on them by Federal laws, regulations, and the provisions of contracts or grant agreements as well as any supplemental requirements imposed by the pass-through entity; (d)(3) monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and the performance goals are achieved; (d)(4) ensure that subrecipients expending \$500,000 or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of this part for that fiscal year.*”

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Condition:

During our test work for subrecipient monitoring, we noted the following issues:

CDBG:

From a population of 90 subrecipients, we selected twenty-two (22) subrecipients for testing,

- The City had not performed on-site monitoring for twelve (12) subrecipients during FY 2008. Further, the City did not maintain any supporting documentation indicating that the subrecipient was in compliance with the National objective or abided by the related laws, regulations, and contract provisions of CDBG.

- Out of a total of eight (8) subrecipients that were required and did submit a copy of their single audit report to the City, we noted that the City did not issue management decisions on the accuracy of the subrecipient single audit reports.

ESG:

From a population of two (2) subrecipients, we selected both subrecipients for testing, we noted that one (1) subrecipient did not have an on-site visit or other regular contact documentation required for During-the-Award monitoring. Also, there was no risk assessment/rationale as to why or when this would occur.

UASI:

From a total population of seven (7) subrecipients, we selected three (3) subrecipients for testing. We noted that one (1) subrecipient did not have a site visit or other regular contact documentation required for During-the-Award monitoring. Upon further inquiry we noted that out of the remaining four (4) subrecipients not tested, there was no site visit or other regular contact documentation required for During-the-Award monitoring for three (3) of these subrecipients.

Questioned Costs:

<u>CDBG:</u>	Total expenditures related to subrecipients with no on-site monitoring documentation: \$1,317,899
<u>ESG:</u>	Total expenditures related to subrecipients with no on-site monitoring documentation: \$201,676
<u>UASI:</u>	Total expenditures related to subrecipients with no on-site monitoring documentation: \$1,572,799

Recommendation:

The respective grant coordinating departments should: 1) perform a risk assessment of all of its subrecipients and perform “During-the-Award” monitoring procedures; 2) develop a monitoring tool to streamline the procedures to be performed for any on-site monitoring to be performed; and 3) obtain and review on a timely basis (within at least six months of receipt of) single audit reports for all applicable subrecipient and verify that corrective action has taken place if any audit findings exist within federal prescribed timelines.

Management Response:

CDBG and ESG:

Management agrees with these findings. The City is working towards improving the number of site visits (on-site monitoring) conducted on subrecipients. In response to prior HUD findings, the City has hired a

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consultant, International Consulting Firm (CF), to develop a Monitoring Plan for the City's CDBG and ESG programs. This Plan is being developed and is expected to be implemented in FY 2010.

The City has recently implemented new application and contracting procedures for FY 2010. CDBG Applicants are now required to submit a copy of their latest audit reports, audited financial statements reports, and /or agency tax documents for review. These reports and documents will be required for submission during the FY 2010 closeout process as in prior years. Our new fiscal unit will be reviewing these financial documents when submitted and/or during scheduled monitoring visits. The City will notify agencies in writing identifying any discrepancies and will file the information with the documents reviewed. Since these are published public documents and may not be material, our request for action will be to assure future statements will be corrected. Written documentation will be included in subrecipient files for any findings determined upon review of audit reports and/or financial documents.

UASI:

Management agrees with this finding. The Office of Homeland Security (OHS) has developed monitoring procedures and a schedule. Subrecipient monitoring visits for the expenditure period referenced began in June 2008 and are expected to be completed by July 2009. The County of San Diego monitoring visit is scheduled to be completed by OHS in June 2009. We are in regular communication with all of our subrecipients throughout the year and conduct grant administration workshops on a regular basis for our subrecipients to ensure compliance with federal regulations.

Finding No. 2008-04 **16.710 – Public Safety Partnership and Community Policing Grants (COPS); 20.106 – Airport Improvement Program (AIP); 20.205 – Highway Planning and Construction (HPC); 97.008 – Urban Areas Security Initiative (UASI) (Procurement, Suspension & Debarment)**

Federal Agency Name: **Department of Justice; Department of Transportation; Department of Homeland Security**

Pass-through Agency: **California Department of Transportation**

Criteria:

Procurement:

In accordance with 49 CFR§18.37 and 44 CFR§13.36; (*Procurement*) (b)(9) “Grantees and subgrantees will maintain records sufficient to detail the significant history of a procurement. These records will include, but are not necessarily limited to the following: rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price.”

In accordance with 28 CFR §66.42; “Retention and access requirements for records. b) Length of retention period. (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.”

Suspension & Debarment:

In accordance with Title 28 CFR 66.35 and Title 49 CFR 18.35, "Grantees and subgrantees must not make any award or permit any award (subgrant or contract) at any tier to any party which is debarred or

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suspended or is otherwise excluded from or ineligible for participation in Federal assistance programs under Executive Order 12549, 'Debarment and Suspension.'"

Condition:

During the performance of our testwork over procurement, suspension and debarment, we noted the following:

COPS:

Out of four (4) vendors selected for testing; the City was unable to provide supporting documentation for three (3) vendors, which shows that they performed a verification check of suspension and debarment. We did however determine that none of the contractors were listed as suspended or debarred parties on the federal government website.

AIP:

Out of five (5) vendors selected:

- The City was unable to provide supporting documentation showing that they performed a verification check of suspension and debarment for two (2) vendors. We did however determine that none of the contractors were listed as suspended or debarred parties on the federal government website.

HPC:

Out of six (6) vendors selected for testing:

- The City was unable to provide supporting documentation of the procurement process such as bidding and price analysis documentation for three (3) vendors.
- The City was unable to provide supporting documentation showing that they performed a verification check of suspension and debarment for five (5) vendors. We did however determine that none of the contractors were listed as suspended or debarred parties on the federal government website.

UASI:

Out of five (5) vendors selected for testing, the City was unable to provide the procurement bidding documentation for two (2) vendors.

Questioned Costs:

<u>COPS:</u>	N/A
<u>AIP:</u>	N/A
<u>HPC:</u>	Total expenditures related to the three vendors noted as exceptions: \$1,500,050
<u>UASI:</u>	Total expenditures related to the two vendors noted as exceptions: \$3,386,666

Recommendation:

The City should include a requirement that suspension/debarment certifications be obtained and placed in all contract files that are considered "covered transactions." In addition, the City should implement procedures whereby, before approval of a contract, the various departments determine if the vendors/subrecipients are listed in the grantor's General Service Administration's (GSA) "List of Parties Excluded from Federal Procurement or Non-Procurement Programs." In addition, the City should

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Condition:

During the performance of our procedures on the Davis-Bacon Act requirement, we noted the following:

HPC:

Out of three (3) projects selected for testing, only one (1) project had submitted weekly certified payroll reports or statement of no-performance, and these were submitted one year after the date of the performance of the work. In addition, there was no documentation that any certified payroll reports were reviewed by the project manager.

AIP:

Out of three (3) projects or forty (40) weekly certified payroll reports selected for testing:

- One (1) weekly certified payroll report did not have an authorized signature
- Thirteen (13) weekly certified payroll reports did not have submission dates on them

Questioned Costs:

HPC: Total expenditures related to projects that did not have certified payroll reports: \$879,430

AIP: N/A.

Recommendation:

The City should request and obtain certified payroll reports of its contractors/subcontractors involved in construction on a weekly basis as required by federal regulations. If certified payroll report records are maintained and reviewed on the construction site by City project managers, a control to ensure that this compliance requirement is being monitored should be implemented by signing off on these certified payroll reports indicating a review was performed.

The City should also establish a method of determining what construction contracts will be federally funded during the procurement process and include prevailing wage requirements in the contract. The City should request and obtain certified payroll reports of its contractors/subcontractors involved in construction on a weekly basis as required by federal regulations.

Management Response:

AIP:

Management agrees with this finding. Equal Opportunity Contracting Program (EOC) has added additional staff members to support Contract Compliance Officers in reviewing received certified payroll reports on a timely basis. Due to the lack of support staff during the time the projects audited were in place, certified payrolls were not reviewed in a timely manner nor were corrective measures taken. At this point, staff has been directed to review all project files with certified payrolls (prior and current) under the Davis Bacon Act and request corrections and/or explanations where necessary. While we cannot change outcomes on previous projects, all new projects will be diligently reviewed to ensure payrolls are received by the 5th day of the subsequent month in which work was performed and that certified payroll reports are labeled and signed accordingly. All prior projects under the Davis Bacon Act are also being audited and corrective measures are also being requested of the primes to ensure compliance.

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HPC:

Management agrees with this finding. The department has been under-staffed and an oversight occurred. Staffing levels have increased, which will allow us to implement control measures to ensure compliance. We have taken corrective action addressing the result of this audit and have demonstrated our commitment.

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Findings related to the financial statements:

Reference Number:	2007-(a)
Topic	Risk Management – Public Liability
Audit Finding	<p>The City’s internal controls over public liability reserves require the completion and authorization of a “Request for Action” form (RFA) documenting the rationale whenever an adjustment is required. During our testing of internal controls, we noted that none of the seven RFAs we tested indicated the rationale for the reserve adjustment, nor was there any indication that management had reviewed or authorized any of these RFAs. The City’s Risk Management Department should implement procedures to ensure proper completion and authorization of an RFA whenever an adjustment is made to a public liability reserve.</p> <p>Finding also existed in fiscal year 2008 – see current year finding 2008 (a).</p>
Status of Corrective Action	<p>The Risk Management department has implemented a procedure to address this audit finding and will proceed with ongoing training to ensure that staff is fully aware and compliant with it. A limitation to this procedure is that the process itself is a manual one and over the course of the past few years the two positions providing oversight to the division were vacant, likely a contributing factor to this finding. The division is now fully staffed with a Claims Supervisor and a Claims and Insurance Manager that ensure compliance with this procedure.</p> <p>In addition to the aforementioned managerial controls, the reserve adjustment process will further be facilitated with the transition to a new claims system, iVos, in which business rules will be adopted to ensure that reserve adjustments are fully justified by the Claim Representative and subsequently approved by the Claims Supervisor. This systematic control will be superior to and replace the manual control.</p>
Reference Number:	2007-(b)
Topic	Journal Entry – Access Controls
Audit Finding	<p>We noted that access controls for on-line journal entries do not prevent employees within the City with a greater than “view only” access from deleting any post-close on-line journal entry after the entry has been posted. This lack of access controls increases the risk of potential management override and/or errors. Currently, there are no compensating controls in place to mitigate this risk. Management should implement additional controls that prohibit limited users, such as approvers and above, the access to delete journal entries.</p>
Status of Corrective Action	<p>Corrected during the year ended June 30, 2008. Prior to the issuance of this report, the City already put controls in place to prevent on-line</p>

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journal entries from being deleted. The staff of the Comptroller's Office was provided training on revised journal entry procedures in May 2008. Additionally, as of June 30, 2008, the Operations section of the Comptroller's Office revised procedures and confirmed to management that journal vouchers for the accounting period had been properly approved. Follow up training will occur annually.

Reference Number: 2006-(a)

Topic City of San Diego Redevelopment Agency (RDA) - Properties Held for Longer than 5 Yrs

Audit Finding In accordance with CA Health & Safety Code §33334.16, the RDA is required to initiate activities to develop properties purchased with Housing Fund money within five years from the date of acquisition. If development activities have not begun within this period, the legislative body may adopt a resolution extending the period for one time, not to exceed five years. During our review of RDA's year ended June 30, 2006 property listing, we noted that out of a sample of 25 properties selected for testing, 1 property acquired with Housing Fund money did not initiate activities within the five year period nor did they attempt to obtain an extension by resolution.

Status of Corrective Action Corrected during FY 2008. Management has established monitoring controls to identify land held for resale purchased with low and moderate income housing funds that could exceed the 5 year limit established by CA Health & Safety Code §33334.16. For properties identified, management will ensure appropriate action is taken to either obtain an extension by resolution or to reimburse the housing fund for acquisition costs associated with land purchases before the 5 year limit is exceeded.

Reference Number: 2003-1

Topic Material Weakness in Internal Controls over the Financial Reporting Process

Audit Finding There were inadequate policies, procedures, internal controls and personnel to ensure the preparation of an accurate and reliable CAFR on a timely basis. Specifically, deficiencies were noted in the following areas;

CAFR Preparation; Pension Accounting; Capital Asset Accounting; Metropolitan Wastewater Utility; Risk Management; City Treasurer's Cash and Investment Pool; Procurement; Accounts Payable and Accrued Expense; Human Resources; Accounts Receivable; Information Technology. As a result of this, numerous material corrections to the CAFR for the year ended June 30, 2003 in the amount of \$1 billion were proposed and booked.

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Status of Corrective Action

In progress. However, prior to the issuance of this report several modifications to the City's financial reporting process and control environment have been made. These modifications include the hiring of new management to oversee financial reporting and internal controls, and the implementation of revised policies, procedures and training for employees.

Additionally, the implementation of OneSD will dramatically change (and improve) the year-end process; however, the preparation of the Fiscal Year 2008 Comprehensive Annual Financial Report was completed using the City's current accounting systems. Also during FY 2009, the City began implementing the Governance Risk Compliance (GRC) module of SAP, which will assist in documenting, monitoring and testing internal controls within SAP.

Also improving controls for 2008 is a new year-end processing flowchart that has been developed. It identifies tasks necessary to complete the CAFR by responsible staff member; identified items contingent on information from other sections within the Comptroller's Office and other departments within the City. Use of the flowchart along with the year-end closing calendar already in use will allow management to more effectively monitor progress toward completion of the CAFR and ensure critical components are not omitted.

Notwithstanding the improvements made prior to the issuance of this report, management agrees further improvement is necessary and remains committed to continuing to strengthen its internal controls and procedures over financial reporting.

Reference Number: 2003-3

Topic

Violations of Law: Wastewater

Audit Finding:

The Clean Water Act requires municipalities to structure their rates in a proportionate manner to ensure that each user pays his fair share. Because the City's rate structure for the ten-year period from 1995 to 2004 did not fairly allocate the significantly higher cost of treating water discharged by certain industrial users, resulting in residential users subsidizing the rates of industrial ones by millions of dollars per year, the City's rates were not proportionate and thus may have violated the Clean Water Act's proportionality requirements.

Status of Corrective Action

Corrected during FY 2008, new rates were approved in October 2007, and implemented in November 2007.

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Reference Number:	2003-4
Topic	Violations of Securities Laws
Audit Finding	<p>In November 2006, the Securities and Exchange Commission (SEC) entered an Order sanctioning the City of San Diego for committing securities fraud by failing to disclose to the investing public important information about its pension and retiree healthcare obligations. To settle the action, the City agreed to cease and desist from future securities fraud violations and to retain an independent consultant for three years to foster compliance with its disclosure obligations under the federal securities laws.</p> <p>In issuing the Order, the SEC made the following determinations:</p> <ul style="list-style-type: none">• The City failed to disclose the City’s unfunded liability to its pension plan was projected to dramatically increase.• The City failed to disclose that it had been intentionally underfunding its pension obligations so that it could increase pension benefits but defer the costs.• The City knew or was reckless in not knowing that its disclosures were materially misleading.• The City made these misleading statements through three different means:<ul style="list-style-type: none">• The City made misleading statements in the offering documents for five municipal offerings in 2002 and 2003 that raised over \$260 million from investors. The offering documents included offering statements.• The City made misleading statements to the agencies that gave the City its credit rating for its municipal bonds.• The City made misleading statements in its “continuing disclosure statements”, which described the City’s financial condition.
Status of Corrective Action	<p>In progress. The City consented to the SEC order and as part of the applicable remediation, the City has retained an independent monitor to oversee the City’s compliance with and remediation of the issues identified in the Order. The City continues to work on improving its internal control framework and address other material weaknesses which are part of the underlying cause of this finding. The City’s response to this finding has been a combination of staffing changes, modified policies and procedures along with systems initiatives to correct the internal control weaknesses that created the materially misleading disclosures. Furthermore, the City has established an audit committee and a Disclosure Practices Working Group (DPWG). The DPWG is responsible for reviewing the City’s annual financial statements to ensure that all material items are appropriately disclosed and reported in the City’s CAFR. The independent monitor required by the SEC order has reported on the City’s progress with respect to several remediation issues from the SEC order. The latest report is dated April 24, 2009 and is available for review.</p>

CITY OF SAN DIEGO
Summary Schedule of Prior Audit Findings
For the Fiscal Year Ended June 30, 2008

Findings related to federal awards:

Reference Number: 2007-01

Federal Catalog Number/
Program Name: 14.218 – Community Development Block Grants/Entitlement Grants;
84.287 – 21st Century Community Learning Center; 97.008 – Urban
Areas Security Initiative; (Subrecipient monitoring)

Federal Agency Name: Department of Housing and Urban Development; Department of
Education; Department of Homeland security

Audit Finding: During the performance of our testwork over subrecipient monitoring,
we noted the following;

Community Development Block Grants/Entitlement Grants (CDBG):

Out of (24) twenty-four subrecipients selected for testwork;

- The City did not perform during the award (on-site) monitoring for (16) sixteen subrecipients.
- For (1) one of these subrecipients, there was no documentation that the City followed up on any deficiencies noted during the award year.
- For (3) three of these subrecipients (inter-departmental), the City did not have written agreements governing the use of the CDBG funds as required in the regulation.

21st Century Community Learning Center (21CCLC):

Out of (8) eight sampled subrecipients selected for testwork;

- The City did not perform during the award (on-site) monitoring for any of the sampled subrecipients.
- The City did not document whether a copy of subrecipients single audit reports (for those requiring a single audit) was reviewed for any of these subrecipients.
- The City did not monitor the activities for any subrecipients not subject to OMB Circular A-133.
- The City did not appear to have any documentation of its verification of non-suspension and debarment for any of its subrecipients.

Urban Areas Security Initiative (UASI):

Out of (6) six sampled subrecipients selected for testwork, there was no documentation that (2) two single audit reports received from the sampled subrecipients had been reviewed or any follow-up performed on any of the reported Single Audit Findings.

Status of Corrective Action: Partially corrected during fiscal year ended June 30, 2008. See current year finding 2008-03 for the status over CDBG and UASI program. The 21CCLC award file was closed out in December 2008.

CITY OF SAN DIEGO
Summary Schedule of Prior Audit Findings
For the Fiscal Year Ended June 30, 2008

Reference Number: 2007-02

Federal Catalog Number/
Program Name: 14.218 – Community Development Block Grants/Entitlement Grants
(Allowable Costs)

Federal Agency Name: Department of Housing and Urban Development

Audit Finding: During the performance of our testwork, we noted that out of a sample of (40) forty expenditures selected for testing, (5) five of these expenditures were incurred in the prior year. These expenditures were improperly reported in the current year.

Status of Corrective Action: Not corrected during fiscal year ended June 30, 2008. See current year finding 2008-01.

Reference Number: 2007-03

Federal Catalog Number/
Program Name: 16.710 – Public Safety Partnership and Community Policing Grants;
20.205 – Highway Planning and Construction (Procurement, suspension
& debarment)

Federal Agency Name: Department of Justice; Department of Transportation

Audit Finding: During the performance of our procedures over procurement, suspension & debarment, we noted the following:

Public Safety Partnership and Community Policing Grants:

10 (ten) out of 10 (ten) contracts tested had no evidence of Suspension & Debarment certification review.

Highway Planning and Construction:

7 (seven) out of 10 (ten) contracts tested had no evidence of Suspension & Debarment certification review.

Status of Corrective Action: Not corrected during fiscal year ended June 30, 2008. See current year finding 2008-04.

CITY OF SAN DIEGO
 Summary Schedule of Prior Audit Findings
 For the Fiscal Year Ended June 30, 2008

Reference Number:	2007-04
Federal Catalog Number/ Program Name:	20.205 – Highway Planning and Construction; 84.287 – 21 st Century Community Learning Center (Document retention)
Federal Agency Name:	Department of Transportation; Department of Education
Audit Finding:	<p>During the performance of our testwork we noted the following:</p> <p><u>Highway Planning and Construction (HPC):</u> Out of (10) ten procurement samples selected for testwork, the City was unable to produce the supporting documentation for (1) one of the sampled procurements.</p> <p><u>21st Century Community Learning Center (21CCLC):</u> Out of (5) five samples selected for testing, the City was unable to produce the supporting documentation for (2) two sampled procurements.</p>
Status of Corrective Action:	Not corrected in fiscal year ended June 30, 2008. The 21CCLC Grants award file was closed out in December 2008. With respect to HPC, see current year finding 2008-4.
Reference Number:	2007-05
Federal Catalog Number/ Program Name:	84.287 – 21st Century Community Learning Centers; 07.PSCP575 – High Intensity Drug Trafficking Areas; 20.205 – Highway Planning and Construction (Reporting)
Federal Agency Name:	Department of Education; Office of National Drug Control Policy; Department of Transportation
Audit Finding:	<p>During the performance of our testwork over reporting requirements, we noted the following:</p> <p><u>21st Century Community Learning Center (21CCLC):</u> Out of (8) eight samples selected for testwork, (3) three of the reports were not submitted in a timely manner. In addition, there was no evidence that (2) two sampled reports had been submitted.</p> <p><u>High Intensity Drug Trafficking Areas (HIDTA):</u> Out of (9) nine Financial Status reports (FSR's) selected for testwork, (7) seven FSR's were found to have been submitted more than 30 days after the reporting period.</p> <p><u>Highway Planning and Construction (HPC):</u> Out of (5) five reports (reimbursement claims) selected for testwork, none of the reimbursement claims were submitted on a timely manner.</p>
Status of Corrective Action:	Corrected. The 21CCLC, HIDTA Grants award files were closed out in Fiscal year 2008. For HPC, during the current year all reports were submitted on a timely basis.

CITY OF SAN DIEGO
 Summary Schedule of Prior Audit Findings
 For the Fiscal Year Ended June 30, 2008

Reference Number: 2006-01

Federal Catalog Number/
 Program Name: 84.287 – 21st Century Community Learning Center (21CCLC) – Sub-recipient Monitoring

Federal Agency Name: Department of Education

Audit Finding: During the performance of our testwork over subrecipient monitoring, we noted that out of a sample of (5) five subrecipients selected for testwork there was no evidence of during-the-award monitoring on any of these subrecipients. In addition, the City had not obtained copies of the single audit reports for those subrecipients required to have a single audit in accordance with OMB A-133.

Status of Corrective Action: The 21CCLC Grants award file was closed out in December 2008 with no further action required.

Reference Number: 2006-03

Federal Catalog Number/
 Program Name: 16.710 – Public Safety Partnership and Community Policing Grants; 97.008 – Urban Areas Security Initiative; – Procurement, suspension & debarment

Audit Finding: During the performance of our procedures over procurement, suspension & debarment, we noted the following;

Public Safety Partnership and Community Policing Grants:
 4 (four) out of 7 (seven) contracts tested had no evidence of Suspension & Debarment certification review.

Urban Areas Security Initiative:
 1 (one) out of 7 (seven) contracts tested had no evidence of Suspension & Debarment certification review.

In each instance noted above, there were no Suspension & Debarment certifications in the files and there was no evidence that a determination of the contractors’ suspension/debarment status was made.

Status of Corrective Action: Not corrected. See current year finding 2008-04.

Reference Number: 2005-01

Federal Catalog Number/
 Program Name: 14.218 – Community Development Block Grants/Entitlement Grants (CDBG); 14.248 – Community Development Block Grants Section 108 Loan Guarantees (Section 108); 16.710 – Public Safety Partnership and Community Policing Grants (COPS); 20.205 – Highway Planning and Construction (HPC); 97.008 – Urban Areas Security Initiative (UASI); (Procurement, Suspension and Debarment)

CITY OF SAN DIEGO
 Summary Schedule of Prior Audit Findings
 For the Fiscal Year Ended June 30, 2008

Federal Agency Name: Department of Housing and Urban Development; Department of Justice; Department of Transportation; Department of Homeland Security

Audit Finding: For CDBG, (1) one out of (4) four contracts tested had no evidence of Suspension & Debarment certification review.

For Section 108, (1) one out of (3) three contracts tested had no evidence of Suspension & Debarment certification review.

For COPS, (2) two out of (3) three contracts tested had no evidence of Suspension & Debarment certification review.

For HPC, (1) one out of (9) nine contracts tested had no evidence of Suspension & Debarment certification review.

For UASI, (1) one out of (2) two contracts tested had no evidence of Suspension & Debarment certification review.

Status of Corrective Action: Partially corrected for certain programs in prior year. See current year finding 2008-04.

Reference Number: 2004-03

Federal Catalog Number/
 Program Name: 14.218 – Community Development Block Grants/Entitlement Grants (CDBG); 14.248 – Community Development Block Grants Section 108 Loan Guarantees (Section 108); 16.710 – Public Safety Partnership and Community Policing Grants (COPS); 20.205 – Highway Planning and Construction (HPC); 97.004 – State Domestic Preparedness Equipment Support Program (SDP); (Procurement, Suspension and Debarment)

Federal Agent Name: Department of Housing and urban Development; Department of Justice; department of Transportation; Department of Homeland Security

Audit Finding: For CDBG, two out of four contracts tested did not have suspension and debarment certifications.

For Section 108, (1) one out of (4) four contracts tested did not have a suspension and debarment certification

For COPS, (5) five out of (6) six contracts tested did not have suspension and debarment certifications.

For HPC, (3) three out of (13) thirteen contracts tested did not have suspension and debarment certifications.

For SDP, (2) two out of (8) eight contracts tested did not have suspension and debarment certifications.

Status of Corrective Action: Partially corrected for certain programs in prior year. See current year finding 2008-04.