

CITY OF SAN DIEGO

Single Audit Reports

For the Fiscal Year Ended June 30, 2006

CITY OF SAN DIEGO
Single Audit Reports
For the Fiscal Year Ended June 30, 2006

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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 fiscal year ended June 30, 2006, which collectively comprise the City's basic financial statements and have issued our report thereon dated March 21, 2008. Our report was modified to include a reference to other auditors. 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 in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. A reportable condition is described in the accompanying Schedule of Findings and Questioned Costs as 2006-(a). Reportable conditions are also described in the Summary Schedule of Prior Audit Findings (findings related to financial statements) as items 2004-(b) and 2003-1. The conditions reported in items 2004-(b) and 2003-1 also existed in the current year.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items 2004-(b) and 2003-1 to be material weaknesses. The conditions reported in items 2004-(b) and 2003-1 also existed in the current year.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs (findings related to financial statements) and Summary Schedule of Prior Audit Findings as items 2006-(a), 2003-3, and 2003-4. The conditions reported in items 2003-3 and 2003-4 also existed in the current year.

We also noted certain other matters that we reported to management of the City, in a separate letter dated March 21, 2008.

The City's response to the findings identified in our audit is 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 audit committee, City Council and Mayor, 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 21, 2008



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

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM, 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 GRANTS**

Compliance

We have audited the compliance of City of San Diego, California (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, 2006. 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 Redevelopment Agency (RDA) and the City of San Diego Housing Commission (SDHC), which expended \$1,756,602 and \$137,133,490, respectively, in federal awards, which are not included in the schedule of expenditures of federal awards (the Schedule) for the fiscal year ended June 30, 2006. Our audit, described below, did not include the operations of the RDA because we audited and reported on the RDA in accordance with OMB Circular A-133 as a separate engagement and 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 item 2006-01 in the accompanying schedule of findings and questioned costs, the City did not comply with the requirements regarding Subrecipient Monitoring applicable to its 21st Century Community Learning Center grants. Compliance with such requirements is necessary, in our opinion, for the City to comply with the requirements applicable to that program.

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, 2006.

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with 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 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 and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operations that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the City's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 2006-01, 2006-02 and 2006-03.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items 2006-01 to be a material weakness.

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

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented components units, each major fund, and the aggregate remaining fund information of the City of San Diego, California (the City), as of and for the fiscal year ended June 30, 2006, which collectively comprise the City's basic financial statements and have issued our report thereon dated March 21, 2008. Our report was modified to include a reference to other auditors. Other auditors audited the financial statements of the San Diego Housing Commission, as described in our report on the City's basic financial statements.

The accompanying schedules of expenditures of federal awards and Governor's Office of Emergency Services (OES) grants (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.

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

April 11, 2008, except for the Schedules of Expenditures of federal awards and Governor's Office of Emergency Services Grants as to which date is March 21, 2008.

CITY OF SAN DIEGO
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2006

Federal Grantor/Grant Name	Federal CFDA No.	Federal Expenditures	
Office of National Drug Control Policy			
<u>Direct Programs</u>			
High Intensity Drug Trafficking Areas	07.PSCP575	\$ 8,063,976	
Total Office of National Drug Control Policy			<u>8,063,976</u>
 U.S. Department of Housing and Urban Development			
<u>Direct Programs</u>			
Community Development Block Grants/Entitlement Grants	14.218	19,355,078	
Emergency Shelter Grants Program	14.231	636,351	
Community Development Block Grants_Section 108 Loan Guarantees	14.248	10,436,678	
Total U.S. Department of Housing and Urban Development			<u>30,428,107</u>
 U.S. Department of Interior			
<u>Direct Programs</u>			
Small Reclamation Projects	15.503	552,000	
Water Reclamation and Reuse Program	15.504	1,319,436	
Total U.S. Department of Interior			<u>1,871,436</u>
 U.S. Department of Justice			
<u>Direct Programs</u>			
Missing Children's Assistance	16.543	108,210	
State Justice Statistics Program for Statistical Analysis Centers	16.550	1,131,062	
National Institute of Justice Research, Evaluation, and Development Project Grants	16.560	98,883	
Byrne Formula Grant Program	16.579	17,234	
Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	16.580	692,498	
Violence Against Women Formula Grant	16.588 *	95,167	
Local Law Enforcement Block Grants Program	16.592	164,567	
Bulletproof Vest Program	16.607	61,534	
Community Prosecution and Project Safe Neighborhoods	16.609	112,379	
Public Safety Partnership and Community Policing Grants	16.710	938,828	
Edward Byrne Memorial Justice Assistance Grant Program	16.738	651,374	
DNA capacity Enhancement Program	16.741	162,202	
Misc Federal Agreements	16.Unknown	977,165	
Subtotal Direct Programs			5,211,103
<u>Passed Through Governor's Office of Emergency Services</u>			
Violence Against Women Formula Grant	16.588 *	56,380	
Coverdell Forensic Science Improvements	16.742	27,529	
Subtotal Passed Through County of San Diego			83,909
Total U.S. Department of Justice			<u>5,295,012</u>
* - Total CFDA 16.588 expenditures are \$151,547			
 U.S. Department of Transportation			
<u>Passed Through State Department of Transportation</u>			
Highway Planning and Construction	20.205	9,428,846	

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

CITY OF SAN DIEGO

Schedule of Expenditures of Federal Awards (Continued)

For the Fiscal Year Ended June 30, 2006

Federal Grantor/Grant Name	Federal CFDA No.	Federal Expenditures
U.S. Department of Transportation (Continued)		
<u>Passed Through State Business, Transportation, and Housing Agency</u>		
State and Community Highway Safety	20.600	<u>237,586</u>
Total U.S. Department of Transportation		<u>9,666,432</u>
National Foundation on the Arts and the Humanities		
<u>Passed Through California State Library</u>		
Promotion of the Arts_Grants to Organizations and Individuals	45.024	<u>16,403</u>
Total National Foundation on the Arts and the Humanities		<u>16,403</u>
U.S. Environmental Protection Agency		
<u>Passed Through California State Library</u>		
Surveys, Studies, Investigations, Demonstrations, and Training Grants	66.436	42,589
Special Purpose Grant	66.606	<u>195,090</u>
Total U.S. Environmental Protection Agency		<u>237,679</u>
U.S. Department of Education		
<u>Passed Through California State Library</u>		
Twenty-First Century Community Learning Centers	84.287	<u>4,288,125</u>
Total U.S. Department of Education		<u>4,288,125</u>
<u>Passed Through State Department of Health Services</u>		
Refugee and Entrant Assistance_Discretionary Grants	93.576	<u>51,457</u>
Total U.S. Department of Health and Human Services		<u>51,457</u>
U.S. Department of Homeland Security		
<u>Passed Through the Governor's Office of Emergency Services</u>		
State Domestic Preparedness Equipment Support Program	97.004	4,569,982
Urban Areas Security Initiative	97.008	2,180,098
National Urban Search and Rescue (US&R) Response System	97.025	635,989
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	<u>535,225</u>
Total U.S. Department of Homeland Security		<u>7,921,294</u>
Total Expenditures of Federal Awards		<u><u>\$ 67,839,921</u></u>

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

City of San Diego
Schedule of Expenditures of Governor's Office of Emergency Services (OES) Grants
For the Fiscal Year Ended June 30, 2006

Program Title and Expenditure Category	Grant Award Number	Budget	Actual Non-match	Actual Match	Actual Total	Budget to Actual Variance
Violence Against Women Formula Grants	VV04067919*					
Personal Services		\$ 231,290	\$ 56,380	\$ 18,793	\$ 75,174	\$ 156,116
Total		<u>\$ 231,290</u>	<u>\$ 56,380</u>	<u>\$ 18,793</u>	<u>\$ 75,174</u>	<u>\$ 156,116</u>
Coverdell Forensic Science Improvement Program	CQ04037919**					
Operating Expenses		\$ 35,649	\$ 24,733	\$ -	\$ 24,733	\$ 10,916
Total		<u>\$ 35,649</u>	<u>\$ 24,733</u>	<u>\$ -</u>	<u>\$ 24,733</u>	<u>\$ 10,916</u>
Coverdell Forensic Science Improvement Program	CQ05047919**					
Operating Expenses		\$ 48,000	\$ 2,796	\$ -	\$ 2,796	\$ 45,204
Total		<u>\$ 48,000</u>	<u>\$ 2,796</u>	<u>\$ -</u>	<u>\$ 2,796</u>	<u>\$ 45,204</u>

Note: * The non-match expenditures of \$56,380 for grant VV04067919 are reported as federal expenditures in the Schedule of Expenditures of Federal Awards under CFDA 16.588.

** The non-match expenditures of \$24,733 for grant CQ04037919 and \$2,796 for grant CQ05047919 are reported as federal expenditures in the Schedule of Expenditures of Federal Awards under CFDA 16.742.

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

CITY OF SAN DIEGO

Notes to the Schedules of Expenditures of Federal Awards and Governor’s OES Grants
For the Fiscal Year Ended June 30, 2006

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, 2006, 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) Grants (Schedule of Expenditures of OES Grants) 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 Grants 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 grants 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 Redevelopment Agency (Blended Component Unit) and San Diego Housing Commission (Discrete Component Unit) Federal Expenditures

The San Diego Redevelopment Agency (RDA) federal expenditures of \$1,756,602 and the San Diego Housing Commission (SDHC) federal expenditures of \$137,133,490 are excluded from the SEFA because the RDA federal expenditures are separately audited; while the SDHC federal expenditures are separately audited by other auditors. Both of these are reported in separate single audit reports.

Note 5 – Loans Outstanding

The City participates in certain federal award programs that sponsor revolving loan programs, which are administered by the City. These programs maintain servicing and trust arrangements with the City to collect loan repayments. The City had the following loan balances outstanding at June 30, 2006. Loans made during the year are included in the federal expenditures presented in the SEFA.

<u>Program Title</u>	<u>Federal Catalog Number</u>	<u>Amount Outstanding</u>
Community Development Block Grants Section 108 Loan Guarantees	14.248	<u>\$ 42,499,000</u>

CITY OF SAN DIEGO

Notes to the Schedules of Expenditures of Federal Awards and Governor's OES Grants (Continued)
For the Fiscal Year Ended June 30, 2006

Note 6 – Amount Provided to Subrecipients

Of the federal expenditures presented in the SEFA, the City provided federal awards to subrecipients as follows:

<u>Program Title</u>	<u>Federal Catalog Number</u>	<u>Amount</u>
Community Development Block Grants/Entitlement Grants	14.218	\$ 2,959,406
Community Development Block Grants/Entitlement Grants –passed through to SDHC	14.218	2,662,740
Community Development Block Grants/Entitlement Grants –passed through to the RDA	14.218	1,157,394
Emergency Shelter Grants Program	14.231	378,694
Community Development Block Grants Section 108 Loan Guarantees –passed through to the RDA	14.248	5,020
High Intensity Drug Trafficking Areas	07.PSCP575	7,032,871
Twenty-First Century Community Learning Centers	84.287	1,380,421

CITY OF SAN DIEGO
 Schedule of Findings and Questioned Costs
 For the Fiscal Year Ended June 30, 2006

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
• Reportable conditions 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
• Reportable conditions 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
14.218	Community Development Block Grants/Entitlement Grants
14.248	Community Development Block Grants Section 108 Loan Guarantees
07.PSCP575	High Intensity Drug Trafficking Areas
16.550	Criminal records management
16.710	Public Safety Partnership and Community Policing Grants
20.205	Highway Planning and Construction
84.287	21 st Century Community Learning Centers
97.008	Urban Areas Security Initiative

Dollar threshold used to distinguish between Type A and Type B programs:	\$1,722,097
Auditee qualified as low-risk auditee?	No

CITY OF SAN DIEGO
Schedule of Findings and Questioned Costs (Continued)
For the Fiscal Year Ended June 30, 2006

Section II – Financial Statement Finding

Finding No. 2006-(a) City of San Diego Redevelopment Agency (RDA) - Properties Held for Longer than 5 Yrs

Observation – 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.

Recommendation – The RDA should consistently monitor its properties in order to maintain compliance with CA Health & Safety Code §33334.16. RDA should obtain the appropriate resolutions to extend the periods of time for properties approaching 5 years, or sell the property and the money from the sale less reimbursement to the agency for the cost of the sale should be deposited in the agency's Housing Fund.

Management Response: SEDC management agrees. The subject property is located in the Southcrest Redevelopment Project Area immediately north of the former 252 Corridor – a former abandoned right-of-way that was redeveloped in part with a public investment of \$11.8 million. The acquisition of the property was a part of the development strategy and effort employed by SEDC to assemble developable parcels without the use of eminent domain. The development contemplated for the subject property at the time of its acquisition was affordable housing which was to be accomplished by private development consistent with the goals of the Southcrest Redevelopment Plan and the requirements of the California Redevelopment Law (CRL). In this regard, SEDC has been engaged in various marketing efforts and strategies to promote the requisite affordable housing opportunities. However, given the financial challenges associated with this effort, SEDC has unfortunately been unable to attract the type of quality development contemplated for this property. Therefore, SEDC is going to request that the City Council extend for a period of five (5) additional years the time in which it may initiate on the property the requisite affordable housing opportunities pursuant to Section 33334.16 of the CRL.

Section III – Federal Award Findings and Questioned Costs

Finding No. 2006-01 84.287 – 21st Century Community Learning Center; - Subrecipient monitoring.

Criteria:

In accordance with OMB A-133; Subpart D—Federal Agencies and Pass-through Entities; §__.400 “Responsibilities. A pass-through entity is responsible for: [...] (i) advising 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; (ii) monitoring 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; (iii) ensuring that subrecipients expending \$500,000 or more in federal awards during the subrecipient’s fiscal year have met the audit requirement of this part for that fiscal year.”

CITY OF SAN DIEGO
Schedule of Findings and Questioned Costs (Continued)
For the Fiscal Year Ended June 30, 2006

Condition:

During the performance of our testwork over subrecipient monitoring, we noted that out of a sample of 5 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.

Questioned Costs:

\$407,753.

Questioned costs represent the amount of federal expenditures in the current year for the related subrecipients.

Recommendation:

The respective grant coordinating departments should: (1) develop a risk assessment of all of its subrecipients and perform subrecipient 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 (at least annually) single audit reports for all applicable subrecipients and verify that corrective action has been taken place if any audit findings exist.

Management Response:

The City agrees with the finding. The entire program is in transition. Major parts of the program are being transferred to the San Diego Unified School District, while others will be eliminated. The City's program project managers did conduct programmatic monitoring during the current year, but, due to staff turnover and the dismantling of the program, the documentation required to substantiate this monitoring was not available. The program is scheduled to end for the City on December 31, 2007.

Finding No. 2006-02

**16.710 – Public Safety Partnership and Community Policing Grants;
97.008 – Urban Areas Security Initiative; – Allowable costs**

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:... j. Be adequately documented.”

CITY OF SAN DIEGO
Schedule of Findings and Questioned Costs (Continued)
For the Fiscal Year Ended June 30, 2006

Condition:

During the performance of our testwork over allowable costs we noted the following;

Public Safety Partnership and Community Policing Grants

Out of a sample of 14 invoices selected for testing, the City was unable to provide supporting documentation for 1 of the invoiced expenditure items.

Urban Areas Security Initiative

Out of 18 samples selected for testing, even though all samples were adequately supported, 5 samples were for costs incurred in the prior year.

Questioned Costs:

Public Safety Partnership and Community Policing Grants - \$53,000,
Urban Areas Security Initiative - \$413,698

Recommendation:

The respective grant coordinating departments should improve their documentation retention requirements to ensure that supporting documentation for all federal expenditures is maintained. The departments should also endeavor to ensure that expenditures for the federal programs are reported in the correct year to ensure proper accounting and reporting of period expenditures.

Management Response:

Urban Areas Security Initiative

Expenditures and reimbursements occur on an ongoing basis throughout the grant performance period. Federal and State grant guidelines require us to incur the cost prior to submission of any reimbursement requests as long as expenditures and reimbursements are within the grant performance period. We reimburse sub-recipients upon receiving full supporting documentation. Often times, we receive reimbursement requests from sub-recipients before the end of a City fiscal year, but are not able to process for payment until after the City's fiscal year has ended due to lack of proper documentation or having to wait for more information. In addition, the City's Office of Homeland Security (OHS) may reimburse the sub-recipient during the prior year and seek reimbursement from the State OHS in the next City fiscal year. Supporting documents for reimbursements are currently reviewed and approved at 3 supervisory levels. OHS does have existing processes to work with sub-recipients to process reimbursements timely. OHS process includes training the sub-recipients at the bi-annual grant workshops of all grant and City fiscal year deadlines. OHS also notifies all sub-recipients all year long via e-mail about approaching Grant and City fiscal year end deadlines. OHS will continue this process.

Public Safety Partnership and Community Policing Grants

The City agrees with this finding. However, every attempt was made to locate the hard copy of this document. The department was able to provide copies of the purchase order without the copy of the warrant check.

The City, as of July 1, 2007, now scans all warrants, payment documents and invoices which are available electronically and this will alleviate any potential for lost hard copy documents.

CITY OF SAN DIEGO
Schedule of Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2006

Finding No. 2006-03 **16.710 – Public Safety Partnership and Community Policing Grants;**
97.008 – Urban Areas Security Initiative; – Procurement, suspension
& debarment

Criteria:

In accordance with 28 CFR 66.35; "*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 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 procedures over procurement, suspension & debarment, we noted the following;

Public Safety Partnership and Community Policing Grants:

Out of 7 samples selected for testing, for 4 samples, the City was unable to provide supporting documentation that shows that they performed a verification check of suspension and debarment.

Urban Areas Security Initiative:

Out of a sample of 7 items selected for testing, the City was unable to provide supporting documentation that shows they performed a verification check of suspension and debarment.

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. Alternatively, we determined that none of the contractors were listed as suspended or debarred parties on the federal government website and therefore we have not reported any questioned costs.

Questioned Costs:

Not applicable.

Recommendation:

The City should include a requirement that suspension/debarment certifications be obtained and placed in all contract files that are considered "covered transactions." For current vendors/subrecipients, the City should make sure that suspension/debarment certification documentation is included in the procurement files. 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."

Management Response:

Public Safety Partnership and Community Policing Grants & Urban Areas Security Initiative:

Management agrees. The City has revised standard contract language to include suspension and debarment terms. The City is also instituting revised procedures to determine if vendors and subrecipients are on the GSA "List of Parties Excluded from Federal Procurement or Non-Procurement Programs."

CITY OF SAN DIEGO
Summary Schedule of Prior Audit Findings
For the Fiscal Year Ended June 30, 2006

Findings related to the financial statements

Reference Number: 2005-(a)

Topic Risk Management (Public Liability)

Audit Finding: The City's internal controls over public liability reserves requires 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 12 RFAs we selected for testing indicated the rationale for the reserve adjustment, nor was there any indication that management had reviewed or authorized any of these RFAs.

Status of Corrective Action: Corrected. Risk Management implemented procedures on April 20, 2006 to ensure proper completion and authorization of a Request for Action (RFA) whenever an adjustment is made to a public liability reserve. The procedure applies to reserves exceeding \$100,000. Reserves exceeding \$100,000 will require the claims representatives to document the basis for adjustment on an RFA. Once completed, the RFA will be forwarded to the Claims Supervisor for review and approval. To ensure consistency of the procedure within the division, a quarterly report listing claims including reserves that exceed \$50,000 will be generated. The quarterly report will be forwarded to the Claims and Insurance Manager, at which time claims filed will be pulled randomly for review. The Claims and Insurance manager will evaluate whether reserve adjustment procedures were adhered to.

Reference Number: 2004-(a)

Topic Key Estimates and Assumptions Development Process

Audit Finding: The City did not have an established methodology for determining allowances for a significant portion of its governmental fund accounts receivable balances despite the fact that a sizeable percentage of these were over one year old.

Status of Corrective Action: Corrected. The City developed a methodology and implemented this process during the current year ended June 30, 2006. Procedures are now in place to obtain detailed receivable listings for both current invoices and invoices referred to the City Treasurer's Collections division. An analysis is performed on the age of all receivables and an allowance percentage is calculated for current and invoices referred to the City Treasurer's Collections division separately. This allowance for uncollectible receivables is then booked as a contra asset account to accounts receivable within the financial statements of the CAFR to reduce the net receivable balances for each fiscal year ending June 30.

Reference Number: 2004-(b)

Topic Accounting for Land-held-for-resale

CITY OF SAN DIEGO
 Summary Schedule of Prior Audit Findings (Continued)
 For the Fiscal Year Ended June 30, 2006

Audit Finding: The San Diego Redevelopment Agency (RDA) utilizes two management companies to administer some of the RDA's project areas (Southeastern Economic Development Corporation manages four project areas and Centre City Development Corporation manages two project areas.) The two corporations did not communicate information relating to sales of land or transfers of land to capital assets to the RDA in a timely fashion. As a result, the RDA had reduced the reported land-held-for-resale balance by \$22 million for errors related to the existence of land-held-for-resale and \$11 million related to unrecorded net realizable value adjustments to the beginning balance in its 2003 statements.

Status of Corrective Action: In progress. This finding was not corrected during the fiscal year ended June 30, 2006 but was corrected shortly thereafter. On October 26, 2006 the City implemented revised procedures including confirmations of land inventory balances to component units and revised procedures for monitoring the effects of various Developer Disposition Agreements on the status of land held in inventory.

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.

Status of Corrective Action: In progress. This finding was not corrected during the fiscal year ended June 30, 2005. 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 the implementation of revised policies, procedures and training for employees. Notwithstanding the improvements made prior to the issuance of this report, many more improvements need to be made to financial reporting controls in order to fully mitigate all aspects of the finding.

Reference Number: 2003-2

Topic Violations of the Internal Revenue Code

Audit Finding: San Diego City Employees' Retirement System (SDCERS) operates as a retirement system trust fund under Section 401(a) of the Internal

CITY OF SAN DIEGO
 Summary Schedule of Prior Audit Findings (Continued)
 For the Fiscal Year Ended June 30, 2006

Revenue Code of 1986, as amended (“IRC”). The City and SDCERS may not have complied with the IRC in the manner in which it funds and administers healthcare and other benefits for employees. Between 1982 and 2005, the SDCERS may have violated the qualification requirements of IRC Sections applicable to defined benefit plans.

Status of Corrective Action: Corrected. In February 2005, after exhausting the balance of the 401(h) account, the City began funding and paying its retiree healthcare benefit on a pay-as-you-go basis. On January 18, 2008 the City entered into an agreement with CalPERS to administer the City’s post-employment healthcare benefits. The plan requires the City to pre-fund the plan in an amount not less than \$5,000,000; however, the City intends to pay an amount not less than 50% of the ARC, as calculated by an actuary of the City’s choice.

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: Not corrected during the fiscal year ended June 30, 2006. Settlement was reached with plaintiff during the fiscal year ended June 30, 2007. Additionally, prior to the issuance of this report, the City has taken several actions in order to correct flaws in its rate structure.

Reference Number: 2003-4

Topic Violations of Securities Laws

Audit Finding: 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.

CITY OF SAN DIEGO
 Summary Schedule of Prior Audit Findings (Continued)
 For the Fiscal Year Ended June 30, 2006

Audit Finding: In issuing the Order, the SEC made the following determinations:

- 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:
 - 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: 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 in part 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.

Findings related to federal awards

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)

Audit Finding: For CDBG, 1 out of four contracts tested had no evidence of Suspension & Debarment certification review.
 For Section 108, 1 out of three contracts tested had no evidence of Suspension & Debarment certification review.
 For COPS, 2 out of three contracts tested had no evidence of Suspension & Debarment certification review.
 For HPC, 1 out of nine contracts tested had no evidence of Suspension & Debarment certification review.

CITY OF SAN DIEGO
 Summary Schedule of Prior Audit Findings (Continued)
 For the Fiscal Year Ended June 30, 2006

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

Status of Corrective Action: Not corrected during fiscal year ended June 30, 2006. See current year finding 2006-03.

Reference Number: 2005-02

Federal Catalog Number/
 Program Name: 14.218 – Community Development Block Grants/Entitlement Grants (CDBG); (Earmarking)

Audit Finding: During the performance of our procedures, we noted that the total amount of CDBG funds obligated for public service activities in FY05 amounted to \$3,337,849, which is greater than 15% of the entitlement grant for the program year plus program income for the prior year of \$3,290,521.

Status of Corrective Action: Corrected.

Reference Number: 2005-03

Federal Catalog Number/
 Program Name: 07.PSCP575 – High Intensity Drug Trafficking Areas (HIDTA); (Subrecipient Monitoring)

Audit Finding: During the performance of our procedures, we noted that (a) there were no reviews performed of the subrecipients' single audit reports and (b) the only evidence of subrecipient monitoring was the desk review performed by the both the San Diego Police Department and the California Border Alliance Group on reimbursement packets submitted by subrecipients. There was no evidence of any other monitoring procedures performed, on-site or otherwise.

Status of Corrective Action: Corrected.

Reference Number: 2005-04

Federal Catalog Number/
 Program Name: 07.PSCP575 – High Intensity Drug Trafficking Areas (HIDTA); 20.205 – Highway Planning and Construction (HPC); (Reporting)

Audit Finding: For HIDTA, nine out of 13 Financial Status Reports were submitted subsequent to the 30 day time frame.
 For HPC, all 13 reimbursement claims selected for testing were submitted subsequent to the 30 day time frame.

Status of Corrective Action: Corrected.

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

CITY OF SAN DIEGO
 Summary Schedule of Prior Audit Findings (Continued)
 For the Fiscal Year Ended June 30, 2006

Support Program (SDP); (Procurement, Suspension and Debarment)

Audit Finding: For CDBG, two out of four contracts tested did not have suspension and debarment certifications.
 For Section 108, one out of four contracts tested did not have a suspension and debarment certification
 For COPS, five out of six contracts tested did not have suspension and debarment certifications.
 For HPC, three out of thirteen contracts tested did not have suspension and debarment certifications.
 For SDP, two out of eight contracts tested did not have suspension and debarment certifications.

Status of Corrective Action: Not corrected during fiscal year ended June 30, 2006. See current year finding 2006-03.

Reference Number: 2004-04

Federal Catalog Number/
 Program Name: 07.PSCP575 – High Intensity Drug Trafficking Areas (Subrecipient Monitoring)

Audit Finding: For all four sample items selected for testing (a) there were no reviews performed on subrecipients single audit reports and (b) there was no evidence of subrecipient monitoring performed. The only review performed was a desk review of reimbursement packets.

Status of Corrective Action: Corrected.

Reference Number: 2003-02

Federal Catalog Number/
 Program Name: 07.PSCP575 – High Intensity Drug Trafficking Areas (Subrecipient monitoring)

Audit Finding: For all four sample items selected for testing (a) there were no reviews performed on subrecipients single audit reports and (b) there was no evidence of subrecipient monitoring performed. The only review performed was an extensive review of reimbursement packets.

Status of Corrective Action: Corrected.

Reference Number: 2003-04

Federal Catalog Number/
 Program Name: 14.248 – Community Development Block Grant Section 108 Loan Guarantees (Procurement, Suspension and Debarment)

Audit Finding: For two out of the three vendors selected for testing, the contract did not contain a clause regarding suspension and debarment. In addition, there did not appear to be a system to determine whether a vendor was suspended and/or debarred.

Status of Corrective Action: Corrected.

CITY OF SAN DIEGO
Summary Schedule of Prior Audit Findings
For the Fiscal Year Ended June 30, 2006

Reference Number: 2003-06

Federal Catalog Number/
Program Name: 16.592 – Local Law Enforcement Block Grants Program (Reporting)

Audit Finding: The City did not prepare any quarterly, semiannual or annual progress reports during the year for this program.

Status of Corrective Action: This was not corrected during FY 2006. The City, however did commence preparation and submission of progress reports during FY 2008.