

CITY OF SAN DIEGO

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

For the Fiscal Year Ended June 30, 2010

CITY OF SAN DIEGO
Single Audit Reports
For the Fiscal Year Ended June 30, 2010

Table of Contents

	<i>Page</i>
Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	1-2
Independent Auditor’s Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program, Internal Control Over Compliance in Accordance with OMB Circular A-133, The Schedule of Expenditures of Federal Awards, and the Schedule of Expenditures of the California Emergency Management Agency Grant	3-5
Schedule of Expenditures of Federal Awards	6-9
Schedule of Expenditures of California Emergency Management Agency Grant	10
Notes to the Schedules of Expenditures of Federal Awards and California Emergency Management Agency Grant	11
Schedule of Findings and Questioned Costs	12-20
Summary Schedule of Prior Audit Findings	21-28

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

INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of San Diego, California (the “City”), as of and for the year ended June 30, 2010, which collectively comprise the City’s basic financial statements and have issued our report thereon dated August 31, 2011. Our report includes a reference to other auditors and an explanatory paragraph describing the City’s implementation of new accounting standards effective July 1, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the San Diego Housing Commission and the Southeastern Economic Development Corporation, as described in our report on the City’s 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 on 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of current year findings, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness and another deficiency that we consider to be a significant deficiency.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of current year findings as item 2010-(b) to be a material weakness.

A *significant deficiency* is a deficiency, or combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of current year findings as item 2010-(a) to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of current year findings as item 2010-(c).

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

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

San Diego, California
August 31, 2011

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 THAT
COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM,
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB
CIRCULAR A-133, THE SCHEDULE OF EXPENDITURES OF FEDERAL
AWARDS, AND THE SCHEDULE OF EXPENDITURES OF THE
CALIFORNIA EMERGENCY MANAGEMENT AGENCY GRANT**

Compliance

We have audited the City of San Diego’s (the “City”) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City’s major federal programs for the year ended June 30, 2010. 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 \$185,535,176 in federal awards which is not included in the schedule of expenditures of federal awards (the Schedule) for the year ended June 30, 2010. Our audit, described below, did not include the operations of the SDHC because SDHC engaged other auditors to perform its audit in accordance with OMB Circular A-133 as a separate engagement.

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

In our opinion, the City complied in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010. However, the results of our auditing procedures disclosed instances of noncompliance with those compliance 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 2010-01 through 2010-02.

Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as items 2010-01 through 2010-02. A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

We have audited the financial statements of the governmental activities, business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City as of and for the year ended June 30, 2010, and have issued our report thereon dated August 31, 2011 which contained an unqualified opinion on those financial statements. Our report includes a reference to other auditors and an explanatory paragraph describing the City's implementation of new accounting standards effective July 1, 2009. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise the City's basic financial statements. Other auditors audited the financial statements of the San Diego Housing Commission and the Southeastern Development Corporation, as described in our report on the City's basic financial statements. The accompanying schedules of expenditures of federal awards and California Emergency Management Agency (CalEMA) grant (the Schedules) are presented for purposes of additional analysis as required by OMB Circular A-133 and CalEMA, respectively, and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain other procedures, including comparing and reconciling such information to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects, in relation to the 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 responses and, accordingly, we express no opinion on the responses.

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

Macias Fini & O'Connell LLP

San Diego, California
August 31, 2011

CITY OF SAN DIEGO
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2010

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	*	11.307	\$ 226,779	\$ -
Coastal Services Center	NA08NOS4730441	11.473	136,877	-
Subtotal Direct Program			363,656	
<u>Passed Through California Emergency Management Agency</u>				
Public Safety Interoperable Communications Grant Program	2007-GS-H7-0008	11.555	5,845,389	-
Subtotal Passed Through Governor's Office of Homeland Security			5,845,389	
Total U.S. Department of Commerce			6,209,045	-
U.S. Department of Housing and Urban Development				
<u>Direct Programs</u>				
Community Development Block Grant (CDBG) - Entitlement Grants Cluster:				
Community Development Block Grants/Entitlement Grants	*	14.218	23,380,291	14,667,579
ARRA - Community Development Block Grants ARRA Entitlement Grant	B-09-MY-06-0542	14.253	738,770	-
Subtotal CDBG Cluster			24,119,061	14,667,579
Emergency Shelter Grants Program	*	14.231	685,057	685,057
Community Development Block Grants Section 108 Loan Guarantees	*	14.248	324,721	-
Economic Development Initiative - Special Project, Neighborhood Initiative and Miscellaneous Grants	B-04-NO-CA-0905	14.251	114,940	-
ARRA - Homelessness Prevention and Rapid Re-Housing Program	S-09-MY-06-0542	14.257	290,025	264,004
Healthy Homes Demonstration Grants	*	14.901	407,395	-
Total U.S. Department of Housing and Urban Development			25,941,199	15,616,640
U.S. Department of the Interior				
<u>Passed Through State Department of Parks and Recreation</u>				
Outdoor Recreation_Acquisition, Development and Planning	06-01661	15.916	32,574	-
Total U.S. Department of the Interior			32,574	-
U.S. Department of Justice				
<u>Direct Programs</u>				
Juvenile Justice and Delinquency Prevention-Allocation to States	2008-JL-FX-0232	16.540	92,079	-
Missing Children's Assistance	*	16.543	333,562	-
Youth Gang Prevention	2007-JV-FX-0328	16.544	71,074	-
Grants to Encourage Arrest Policies and Enforcement of Protection Orders Program	2006-WE-AX-0064	16.590	59,479	-
Public Safety Partnership and Community Policing Grants	*	16.710	1,474,552	-
Gang Resistance Education and Training	2007-DD-BX-0649	16.737	44,077	-
Edward Byrne Memorial Justice Assistance Grant Program	*	16.738	2,667,042	-
Forensic DNA Backlog Reduction Program	2008-DN-BX-K068	16.741	180,644	-
ARRA - Edward Byrne Memorial Justice Assistance Grant (JAG) Grant Program	2009-SB-B9-0784	16.804	3,475,774	-
Subtotal Direct Programs			8,398,283	
<u>Passed Through California Emergency Management Agency</u>				
Paul Coverdell Forensic Sciences Improvement Grant Program (2008)	CQ-08-06-7919	16.742	60,707	-
Subtotal Passed Through California Emergency Management Agency			60,707	
Total U.S. Department of Justice			8,458,990	-
U.S. Department of Transportation				
<u>Direct Programs</u>				
Airport Improvement Program	AIP3-06-0213-013-2008	20.106	906,970	-
Subtotal Direct Programs			906,970	
<u>Passed Through State Department of Transportation</u>				
Highway Planning and Construction	*	20.205	9,726,996	-
Subtotal Passed Through State Department of Transportation			9,726,996	
Total U.S. Department of Transportation			10,633,966	-
National Foundation on the Arts and the Humanities				
<u>Passed Through California State Library</u>				
Grants to States - Museum and Library Services	40-7411	45.310	55,536	-
Total National Foundation on the Arts and the Humanities			55,536	-

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

See accompanying Notes to the Schedules of Expenditures of Federal Awards and California Emergency Management Agency Grant

CITY OF SAN DIEGO
Schedule of Expenditures of Federal Awards (Continued)
For the Fiscal Year Ended June 30, 2010

Federal Grantor/Grant Name	Grants/Pass-through Number	Federal CFDA No.	Federal Expenditures	Pass-through Awards to Subrecipients
U.S. Environmental Protection Agency				
<u>Direct Program</u>				
National Community-Based Lead Outreach and Training Grant Program	*	66.718	65,892	-
Subtotal Direct Programs			65,892	-
<u>Passed Through San Diego Association of Governments</u>				
Congressionally Mandated Projects	XP-97991601	66.202	212,034	-
Surveys, Studies, Investigations and Special Purpose Grants	XP-98923801	66.606	85,210	-
Subtotal Passed Through San Diego Association of Governments			297,244	-
<u>Passed Through State Water Resources Control Board</u>				
Capitalization Grants for Clean Water State Revolving Funds	02-806-550-0	66.458	3,858,257	-
Subtotal Passed Through State Water Resources Control Board			3,858,257	-
Total U.S. Environmental Protection Agency			4,221,393	-
U.S. Department of Energy				
<u>Direct Program</u>				
Renewable Energy Research and Development	DE-EE0002074	81.087	1,877	-
Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training and Technical Analysis/Assistance	DE-MOA36-07GO17070	81.117	37,965	-
ARRA - Energy Efficiency and Conservation Block Grant Program	DE-EE0000877	81.128	149,143	-
Total U.S. Department of Energy			188,985	-
U.S. Department of Health and Human Services				
<u>Passed Through the County of San Diego</u>				
Centers for Disease Control and Prevention Investigations and Technical Assistance	518250	93.283	115,841	-
Total U.S. Department of Health and Human Services			115,841	-
U.S. Department of Homeland Security				
<u>Direct Programs</u>				
National Urban Search and Rescue (US&R) Response System	*	97.025	650,943	-
Assistance to Firefighters Grant	*	97.044	926,998	-
Pre-Disaster Mitigation	PDMC-PJ-09-CA-2005-083	97.047	73,909	-
Subtotal Direct Programs			1,651,850	-
<u>Passed Through the County of San Diego</u>				
Emergency Management Performance Grants	2008-EM-E8-0009, 2009-EM-E9-0015	97.042	166,439	-
Subtotal Passed Through County of San Diego			166,439	-
<u>Passed Through California Emergency Management Agency</u>				
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	*	97.036	1,124,609	-
Hazard Mitigation Grant	073-66000	97.039	669,839	-
Homeland Security Grant Program	*	97.067	9,411,424	511,966
Subtotal Passed Through State Office of Emergency Services			11,205,872	511,966
<u>Passed Through the State Department of Boating & Waterways</u>				
Boating Safety	08-204-778	97.011	79,823	-
Subtotal Passed Through State Department of Boating & Waterways			79,823	-
Total U.S. Department of Homeland Security			13,103,984	511,966
Total Expenditures of Federal Awards			\$ 68,961,513	\$ 16,128,606

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

See accompanying Notes to the Schedules of Expenditures of Federal Awards and California Emergency Management Agency Grant

CITY OF SAN DIEGO
Schedule of Expenditures of Federal Awards (Continued)
For the Fiscal Year Ended June 30, 2010

Federal Grantor/Grant Name/CFDA Number	Federal Expenditures
Economic Adjustment Assistance CFDA No. 11.307 Direct Program Grant Numbers	
07-49-02681	\$ 8,372
07-79-05269	193,407
07-39-03351	25,000
Subtotal Economic Adjustment Assistance	<u>\$ 226,779</u>
Community Development Block Grants/Entitlement Grants CFDA No. 14.218 Direct Program Grant Numbers	
B-09-MC-06-0542	\$ 16,929,852
B-08-MN-06-0521	6,450,439
Subtotal Community Development Block Grant/Entitlement Grant	<u>\$ 23,380,291</u>
Emergency Shelter Grants Program CFDA No. 14.231 Direct Program Grant Numbers	
S-08-MC-06-0542	\$ 38,928
S-09-MC-06-0542	646,129
Subtotal Emergency Shelter Grants Program	<u>\$ 685,057</u>
Community Development Block Grants Section 108 Loan Guarantees CFDA No. 14.248 Direct Program Grant Numbers	
B-02-MC-06-0542B	\$ 7,006
B-01-MC-06-0542	72
B-00-MC-06-0542A	38,326
B-98-MC-06-0542A	279,317
Subtotal CDBG Section 108 Loan Guarantees	<u>\$ 324,721</u>
Healthy Homes Demonstration Program CFDA No. 14.901 Direct Program Grant Numbers	
CALHH0158-07	\$ 401,420
CALHH0204-09	5,975
Subtotal Healthy Homes Demonstration Program	<u>\$ 407,395</u>
Missing Children's Assistance CFDA No. 16.543 Direct Program Grant Numbers	
2005-MC-CX-K016	\$ 103,666
2009-SN-B9-K002	66,858
2009-MC-CX-K034	163,038
Subtotal Missing Children's Assistance	<u>\$ 333,562</u>
Public Safety Partnership and Community Policing CFDA No. 16.710 Direct Program Grant Numbers	
2003-HS-WX-0004	\$ 2,918
2004-IN-WX-0005	119,383
2007-CK-WX-0027	1,208,770
2008-CK-WX-0465	143,481
Subtotal Public Safety Partnership and Community Policing	<u>\$ 1,474,552</u>
Edward Byrne Memorial Justice Assistance Grant Program CFDA No. 16.738 Direct Program Grant Numbers	
2006-DJ-BX-0936	\$ 390,694
2007-DJ-BX-0312	566,381
2008-DJ-BX-0097	193,458
2009-DJ-BX-0247	1,516,509
Subtotal Edward Byrne Memorial Justice Assistance Grant Program	<u>\$ 2,667,042</u>
Highway Planning and Construction CFDA No. 20.205 Pass-Through Grant Numbers	
HP21L-5004(140)	\$ 10,236
CMLG-5004(153)	2,440
CMLG-5004(152)	21,066

See accompanying Notes to the Schedules of Expenditures of Federal Awards and California Emergency Management Agency Grant

CITY OF SAN DIEGO
Schedule of Expenditures of Federal Awards (Continued)
For the Fiscal Year Ended June 30, 2010

Federal Grantor/Grant Name/CFDA Number	Federal Expenditures
Highway Planning and Construction CFDA No. 20.205 Pass-Through Grant Numbers (continued)	
ER-46X1(001)	\$ 691,855
HPLU-5004(168)	332,104
RPSTPLE-5004(156)	257,929
DEM112L-5004(174)	83,491
ER-4213(019)	10,557
ER-4213(018)	51,320
DEM117L-5007(166)	6,432
STPLZ-5004(040)	3,186,756
RPSTPLE-5004(161)	7,090
RPSTPLE-5004(162)	14,870
BHLS-5004(049)	540,028
RPSTPLE-5004(158)	10,691
ER-4213(001)	187,267
DEM115L-5007(149)	252,166
STPLP-5004(136)	2,299,944
BPMP-5004(169)	11,660
CML-5004(131)	103,677
STPLZ-5004(005)/STPLP-50	1,641,274
STPLG-5004(132)	619
DEM05L-5004(170)	1,306
SRTSLNI-5004(178)	1,065
RPSTPLE-5004(176)	1,153
Subtotal Highway Planning and Construction	<u>\$ 9,726,996</u>
National Community-Based Lead Outreach And Training Grant Program CFDA No. 66.718 Direct Program Grant Numbers	
X8-96999101	\$ 36,455
AB-83364201	29,437
Subtotal National Community-Based Lead Outreach And Training Grant Program	<u>\$ 65,892</u>
National Urban Search and Rescue Response System CFDA No. 97.025 Direct Program Grant Numbers	
EMW-2008-CA-0518	\$ 60,115
2009-SR-24-K010	590,828
Subtotal National Urban Search and Rescue Response System	<u>\$ 650,943</u>
Disaster Grants - Public Assistance (Presidentially Declared Disasters) CFDA No. 97.036 Pass-Through Grant Numbers	
FEMA-1731-DR-CA	\$ 796,319
FEMA-1577-DR-CA	227,135
FEMA-1585-DR-CA	101,155
Subtotal Disaster Grants - Public Assistance (Presidentially Declared Disasters)	<u>\$ 1,124,609</u>
Assistance to Firefighters Grant CFDA No. 97.044 Direct Program Grant Numbers	
EMW-FP-01859	\$ 677,640
EMW-2008-FO-07344	249,358
Subtotal Assistance to Firefighters Grant	<u>\$ 926,998</u>
Homeland Security Grant Program CFDA No. 97.067 Pass-Through Grant Numbers	
2005-0015	\$ 396,707
2007-0008	3,924,468
2008-0006	3,469,892
2009-0019	1,170,292
2007-00008	187,114
2009-0134	230,566
2009-0019	32,385
Subtotal Homeland Security Grant Program	<u>\$ 9,411,424</u>

See accompanying Notes to the Schedules of Expenditures of Federal Awards and California Emergency Management Agency Grant

CITY OF SAN DIEGO
Schedule of Expenditures of the California Emergency Management Agency (CalEMA) Grant
For the Fiscal Year Ended June 30, 2010

<u>Program Title and Expenditure Category</u>	<u>Grant Award Number</u>	<u>Budget</u>	<u>Actual</u>	<u>Actual Total</u>	<u>Budget to Actual Variance</u>
Coverdell Forensic Science Improvement Program	CQ08067919				
Personal Services		\$ 36,555	\$ 21,713	\$ 21,713	\$ 14,842
Operating Expenses		57,427	38,994	38,994	18,433
Total		<u>\$ 93,982</u>	<u>\$ 60,707</u>	<u>\$ 60,707</u>	<u>\$ 33,275</u>

See accompanying Notes to the Schedules of Expenditures of Federal Awards and California Emergency Management Agency Grant.

CITY OF SAN DIEGO
Notes to the Schedules of Expenditures of Federal Awards and
California Emergency Management Agency Grant
For the Fiscal Year Ended June 30, 2010

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, 2010, 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 governmental agencies, are included in the SEFA. Expenditures funded by the American Recovery and Reinvestment Act of 2009 are denoted by the prefix “ARRA” in the federal program title.

The accompanying Schedule of Expenditures of the California Emergency Management Agency (CalEMA) Grant (Schedule of Expenditures of CalEMA Grant) is presented for the purpose of additional analysis as required by CalEMA and is not a required part of the SEFA.

Note 2 – Basis of Accounting

The accompanying SEFA and Schedule of Expenditures of CalEMA 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 – Catalog of Federal Domestic Assistance (CFDA) Numbers

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

Note 4 – Relationship to the Financial Statements

Expenditures of federal awards and the CalEMA 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 5 – San Diego Housing Commission (Discrete Component Unit) Federal Expenditures

The San Diego Housing Commission (SDHC) federal expenditures of \$185,535,176 are excluded from the City’s SEFA because the SDHC federal expenditures are separately audited by other auditors and reported in a separate single audit report.

Note 6 – Loans Outstanding

The City participates in certain federal loan programs and the table below represents the loan balances outstanding at June 30, 2010. 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>\$ 31,496,000</u>

CITY OF SAN DIEGO
Schedule of Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2010

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?	No
• Significant deficiencies identified that are not considered to be material weaknesses?	Yes
Type of auditor’s report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	Yes

Identification of major programs:

CFDA	Program Name
11.307	Economic Adjustment Assistance
11.555	Public Safety Interoperable Communications Grant
	Community Development Block Grants – Entitlement Grants Cluster:
14.218	Community Development Block Grants/Entitlement Grants
14.253	Community Development Block Grant ARRA Entitlement Grants (CDBG-R)
14.231	Emergency Shelter Grants Program
14.248	Community Development Block Grants Section 108 Loan Guarantees
16.710	Public Safety Partnership and Community Policing Grants
16.738	Edward Byrne Memorial Justice Assistance Grant Program
16.804	Recovery Act - Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to Units of Local Government
20.106	Airport Improvement Program
20.205	Highway Planning and Construction
66.458	Capitalization Grants for Clean Water State Revolving Funds
97.025	National Urban Search and Rescue (US&R) Response System
97.067	Homeland Security Grant Program

Dollar threshold used to distinguish between Type A and Type B programs:	\$2,068,845
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, 2010

Section II – Financial Statement Findings

Finding No. 2010 - (a) SAP/HCM Module Implementation Resulted in Processing Errors

Observation – Appropriate general IT controls should ensure that a system implementation is configured to provide accurate and complete data and information results. The City’s SAP/HCM module implementation initially contained configuration errors in the distribution of employee costs among the City funds and departments. There were several causes for the initial configuration errors, including; incomplete configuration definitions being communicated to the project implementers, incomplete post-implementation testing, absence of production sign-off by business users after the first completed business cycle, and incomplete preparation of testing scenarios prior to the system go-live. While City IT and Comptroller staff identified the errors in processing and after considerable time and effort resolved the processing configuration issues, the City’s FY 2010 and a portion of FY 2011 payroll transactions had to be re-processed leading to a delay of the FY 2010 audit cycle.

Recommendation – In future implementation projects, the City IT department, working with the functional user department’s business process coordinator, should designate an individual to be responsible for ensuring that oversight of the project implementation is documented and complete per the City’s OneSD Functional Change process.

Response – The City agrees with this recommendation and it has already been implemented. The OneSD Functional Change process referenced in the recommendation was implemented in February 2010 and continues to be part of the City’s IT control structure. The oversight of the process as applied to ongoing support functions is already performed by staff in the City’s ERP Department, and the scope of the oversight has been extended to include new/future SAP projects.

The controls included in the Functional Change process include Business Process Coordinator (BPC) wet signature approval of all functional specifications before development work begins, documented testing results of the program change, and BPC authorization to move changes to the production environment. The controls listed above are reviewed for accuracy and completeness during a formal Change Control meeting, prior to the change being approved by the ERP Department for deployment to production. After the change has been implemented in production, the BPC validates the change is working as desired in the production environment.

During future projects, all implementation software and code, as well as subsequent break/fix changes, enhancements, and design changes, will be subject to the Functional Change process with oversight by the ERP Department.

Using the 2010 Functional Change process during project implementation and continuously throughout production deployment, bug/fix, and in on-going support scenarios will ensure a situation similar to the processing errors identified in this finding will not occur in the future.

CITY OF SAN DIEGO
Schedule of Findings and Questioned Costs (Continued)
For the Fiscal Year Ended June 30, 2010

Section II – Financial Statement Findings (continued)

Finding No. 2010 - (b) Schedule of Expenditures of Federal Awards (SEFA)

Observation – While conducting our audit of the City’s financial statements and testing of the SEFA, we noted that the City did not properly include \$3,858,257 in federally reimbursed expenditures associated with the Capitalization Grants for Clean Water State Revolving Funds (CWSRF) program (federal catalog number 66.458) in the proper accounting period.

The City received reimbursement in FY 2006-07 from the State Water Resources Control Board (SWRCB) for expenditures incurred during FY 2002-03 through FY 2004-05 related to the Point Loma Fourth Sludge Pump Modifications project. Due to the timing of the approved loan agreement between the City and SWRCB, which occurred in November 2006, and subsequent reimbursement of expenditures, the City should have reported the \$3,858,257 in federally reimbursed expenditures in its SEFA for the year ended June 30, 2007. As a result, the CWSRF program was considered a major federal award program pursuant to Office of Management and Budget (OMB) Circular A-133 during FY 2009-10, as opposed to FY 2006-07, when the City received the federal funds from the SWRCB and should have reported the program in the SEFA.

Recommendation – During the compilation and preparation of the SEFA, we recommend the Comptroller’s Office perform a reconciliation between the federal expenditures incurred and reported in the SEFA, to the federal revenues and/or cash receipts recognized during each fiscal year. Performing such a reconciliation should identify potential timing differences between the receipt and recognition of federal revenues and expenditures related to federal award programs.

Response – The City agrees with this recommendation and has implemented corrective measures. Specifically, the business department has been instructed to notify the Comptroller’s office upon receipt of approved loan agreements between the City and the SWRCB. The Comptroller’s office will reconcile the federal expenditures and revenues on an annual basis for presentation in the SEFA schedule.

Compliance Finding:

Finding No. 2010 - (c) Continuing Annual Disclosure Requirements

Observation – Due to the delays in the year-end closing process resulting from the City’s newly implemented ERP system, the City did not submit its June 30, 2010 audited financial statements to the Electronic Municipal Market Access (EMMA) system within the required time frame (generally 270 days after year-end), as the audited financial statements were not issued until August 2011. The City was therefore, not in compliance with its continuing disclosure contractual obligations for the fiscal year ended June 30, 2010.

Recommendation – In the future, if the City anticipates not having the ability to satisfy its continuing disclosure requirement to file audited financial statements by the 270 day period after fiscal year-end, in consultation with the City’s Disclosure Practices Working Group and reviewing the circumstances behind the delay, management should consider filing unaudited financial statements, if available, until such time that the audited financial statements can be filed. The continuing disclosure agreements and securities laws provide for the interim filing of unaudited financial statements.

CITY OF SAN DIEGO
Schedule of Findings and Questioned Costs (Continued)
For the Fiscal Year Ended June 30, 2010

Section II – Financial Statement Findings (continued)

Understanding that the reason for not satisfying the continuing disclosure requirements was due to a one-time delay related to the ERP implementation, this should not be an ongoing compliance finding for the year ended June 30, 2011.

Management Response – The City agrees with this recommendation. Even though future delays are not expected, the City will assess the availability of unaudited financial statements leading up to the continuing disclosure filing dates in the event of a delay of the audited financial statements.

CITY OF SAN DIEGO
Schedule of Findings and Questioned Costs (Continued)
For the Fiscal Year Ended June 30, 2010

Section III Federal Award Findings and Questioned Costs

Reference Number: 2010-01
Category of Finding: Reporting
Federal Agency Name: U.S. Department of Housing and Urban Development
Federal Program Title: Community Development Block Grant/Entitlement Grants
Community Development Block Grant ARRA Entitlement
Grants (CDBG-R)
Federal Catalog Number: 14.218 and 14.253
Award Year: 2009
Award Number: B-09-MY-06-0542

Criteria:

TITLE 24--HOUSING AND URBAN DEVELOPMENT, CHAPTER I--OFFICE OF ASSISTANT SECRETARY FOR EQUAL OPPORTUNITY, DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT, PART 135_ECONOMIC OPPORTUNITIES FOR LOW- AND VERY LOW-INCOME PERSONS--Table of Contents, Subpart E--Reporting and Recordkeeping, Sec. 135.90--Reporting.

Each recipient which receives directly from HUD financial assistance that is subject to the requirements of this part shall submit to the Assistant Secretary an annual report in such form and with such information as the Assistant Secretary may request, for the purpose of determining the effectiveness of section 3. Where the program providing the section 3 covered assistance requires submission of an annual performance report, the section 3 report will be submitted with that annual performance report. If the program providing the section 3 covered assistance does not require an annual performance report, the section 3 report is to be submitted by January 10 of each year or within 10 days of project completion, whichever is earlier. All reports submitted to HUD in accordance with the requirements of this part will be made available to the public.

Condition:

During our testing over the City's compliance with the Reporting compliance requirement, we noted that the City did not submit the Section 3 Summary Report (HUD 60002) for its Community Development Block Grant ARRA Entitlement Grants (CDBG-R) and Neighborhood Stabilization Program (NSP) programs.

Cause:

Due to confusion at the City Planning and Community Investment (CPCI) department regarding the timeline for submission of the performance report provided by HUD, the Section 3 Summary Report for the CDBG-R and NSP were delayed and the submission to HUD occurred subsequent to the January 10, 2011 deadline.

Effect:

City is not in compliance with the reporting compliance requirements and funding could be withheld until submission of the Section 3 Summary Report.

Questioned Costs:

There are no questioned costs.

CITY OF SAN DIEGO
Schedule of Findings and Questioned Costs (Continued)
For the Fiscal Year Ended June 30, 2010

Context:

The City has subsequently submitted the required annual Section 3 Summary Report and the issue appears to be an isolated incident. As the City is now aware of the requirement, in the future the report will be submitted on a timely basis.

Recommendation:

MGO recommends that CPCI establish internal controls and report preparation procedures that allow program staff to be fully informed on important Federal award program requirements and updates.

Management Response and Corrective Action:

Section 3 Summary Reports for FY 2009/10 were not submitted as of the date of the letter of recommendation due to confusion regarding the timeline for submission provided by HUD. This is because the sections of OMB Circular A-133 and 24 CFR §135.90 state that the form HUD 60002 should be submitted with the grant's annual performance report, which the CDBG-R and NSP grants do not require the submission of a Consolidated Annual Performance Evaluation Report (CAPER). The FY 2009/10 Section 3 Summary Reports for the CDBG-R and NSP grants were submitted to HUD via HUD's Section 3 Summary Report website on March 9, 2011. Future Section 3 Summary Reports for these grants will be submitted at the time of the CDBG program's CAPER.

Reference Number:	2010-02
Category of Finding:	Procurement and Suspension and Debarment
Federal Agency Name:	U.S. Department of Justice
Federal Program Title:	Edward Byrne Memorial Justice Assistance Grant (JAG) Program
Federal Catalog Number:	16.738
Award Year:	2006 2007
Award Number:	2006-DJ-BX-0936 2007-DJ-BX-0312
Federal Agency Name:	U.S. Department of Transportation
Federal Program Title:	Highway Planning and Construction (HPC)
Pass Through Entity:	California Department of Transportation
Federal Catalog Number:	20.205
Award Year:	2005 2006 2009
Award Number:	BHLS-5004(049) ER-4213(001) ER-46X1(001)
Federal Agency Name:	U.S. Department of Homeland Security
Federal Program Title:	Homeland Security Grant Program (HSGP)
Pass Through Entity:	California Emergency Management Agency (CalEMA)
Federal Catalog Number:	97.067
Award Year:	2007 2008
Award Number:	2007-0008 2008-0006

CITY OF SAN DIEGO
Schedule of Findings and Questioned Costs (Continued)
For the Fiscal Year Ended June 30, 2010

Criteria:

Procurement:

TITLE 44--EMERGENCY MANAGEMENT AND ASSISTANCE, CHAPTER I--FEDERAL EMERGENCY MANAGEMENT AGENCY, DEPARTMENT OF HOMELAND SECURITY, PART 13_UNIFORM ADMINISTRATIVE REQUIREMENTS FOR GRANTS AND COOPERATIVE AGREEMENTS TO STATE AND LOCAL GOVERNMENTS--Table of Contents Subpart C_Post-Award Requirements Sec. 13.36 Procurement.

TITLE 49--TRANSPORTATION, Subtitle A--Office of the Secretary of Transportation, PART 18_UNIFORM ADMINISTRATIVE REQUIREMENTS FOR GRANTS AND COOPERATIVE AGREEMENTS TO STATE AND LOCAL GOVERNMENTS--Table of Contents Subpart C_Post-Award Requirements Sec. 18.36 Procurement.

- (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.

Suspension and Debarment:

TITLE 28--JUDICIAL ADMINISTRATION, CHAPTER I--DEPARTMENT OF JUSTICE, PART 66_UNIFORM ADMINISTRATIVE REQUIREMENTS FOR GRANTS AND COOPERATIVE AGREEMENTS TO STATE AND LOCAL GOVERNMENTS--Table of Contents Subpart C_Post-Award Requirements Sec. 66.35 Subawards to debarred and suspended parties.

TITLE 49--TRANSPORTATION Subtitle A--Office of the Secretary of Transportation, PART 18_UNIFORM ADMINISTRATIVE REQUIREMENTS FOR GRANTS AND COOPERATIVE AGREEMENTS TO STATE AND LOCAL GOVERNMENTS--Table of Contents Subpart C_Post-Award Requirements Sec. 18.35 Subawards to debarred and suspended parties.

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.

Documentation Retention:

TITLE 49--TRANSPORTATION, Subtitle A--Office of the Secretary of Transportation, PART 18_UNIFORM ADMINISTRATIVE REQUIREMENTS FOR GRANTS AND COOPERATIVE AGREEMENTS TO STATE AND LOCAL GOVERNMENTS--Table of Contents Subpart C_Post-Award Requirements Sec. 18.35 Subawards to debarred and suspended parties.

- (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. However, if grant support is continued or renewed quarterly, the retention period for each year's records starts on the day the grantee submits its expenditure report for the last quarter of the Federal fiscal year. In all other cases, the retention period starts on the day the grantee submits its [[Page 216]] final expenditure report. If an expenditure report has been waived, the retention period starts on the day the report would have been due.

CITY OF SAN DIEGO
Schedule of Findings and Questioned Costs (Continued)
For the Fiscal Year Ended June 30, 2010

Condition:

The City's current Suspension and Debarment Procedures (July 1, 2008) stipulate that it is the responsibility of the Procurement Specialist/Contract Specialist/Associate Analyst to verify the suspension and/or debarment status of each bidder submitting bids/proposals to the City by (1) utilizing the federal government's Excluded Parties List System (EPLS) or the State of California Division of Labor Standards Enforcement (DLSE) website; (2) print the screen results from the query of the EPLS or DLSE and attach to a Suspension and Debarment Verification Form; (3) the Procurement Specialist/Contract Specialist/Associate Analyst will sign the Suspension and Debarment Verification Form; (4) completed forms and results will be placed in a contract folder; and (5) any results that indicate a bidder is identified as excluded/debarred is to be forwarded to the appropriate Principal Contract Specialist or Principal Procurement Specialist for further review and/or resolution.

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

JAG program:

For the three (3) contractors selected for testing, the City was unable to provide documentation to support that the verification of suspended and/or debarred parties was performed. However, we determined that none of the contractors were listed as suspended or debarred parties on the federal government website.

HPC program:

Out of six (6) contractors selected for testing, the City was unable to provide documentation for three (3) of the contractors to support that the verification of suspended and/or debarred parties was performed. However, we determined that none of these contractors were listed as suspended or debarred parties on the federal government website.

HSGP program:

Out of five (5) contractors selected for testing, the City was unable to provide documentation for two (2) of the contractors to support that the verification of suspended and/or debarred parties was performed. However, we determined that none of these contractors were listed as suspended or debarred parties on the federal government website.

Cause:

The procurements discussed above were made prior to implementation of the City's current Suspension and Debarment Procedures (July 1, 2008) and therefore, the required documentation to provide evidence that the verification of suspended or debarred contractors was actually performed.

Effect:

The City did not adhere to the requirements concerning the verification of suspended and/or debarred parties pursuant to the Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments.

Questioned Costs:

There are no questioned costs.

CITY OF SAN DIEGO
Schedule of Findings and Questioned Costs (Continued)
For the Fiscal Year Ended June 30, 2010

Context:

The instances of noncompliance were related to procurements that occurred prior to implementation of the City's current Suspension and Debarment Procedures (July 1, 2008). For procurements occurring subsequent to the change in the City's procedures relating to suspension and debarment, the City appears to have addressed the compliance issues.

Recommendation:

The City should follow their suspension/debarment verification documentation policy of attaching the screen prints from EPLS and/or DLSE website to the procurement verification form to ensure that the City has documented the verification that the bidder/potential contractors have not been listed on the excluded party list.

Management Response and Corrective Action:

We agree - the City of San Diego Purchase & Contract department (P&C) will perform the verification function, and therefore, have revised the procurement and suspension and debarment procedures. P&C will now additionally be responsible for verifying suspension and debarment for each bidder submitting sole source requests/non-profits, etc. to the City. The revised policy has been effective since December 22, 2010 and each Procurement Specialist/Contract Specialist/Associate Analyst has been trained on the December 22, 2010 procedures. Internal audits will be conducted periodically to ensure adherence to the procedure.

CITY OF SAN DIEGO
Summary Schedule of Prior Audit Findings
For the Fiscal Year Ended June 30, 2010

Findings related to the Financial Statements:

Reference Number:		2009-(a)
Topic	Risk Management – Public Liability	
Audit Finding	The City’s internal controls over public liability reserves require the completion and authorization of a “Request for Action” form (RFA) by a claims adjuster 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 (8) out of forty-five (45) transaction selected for testing 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. This is a repeat finding from the prior two (2) fiscal year audits.	
Status of Corrective Action	Implemented and corrected – Results of our current year testing of 45 transactions resulted in no findings.	
Reference Number:		2009-(b)
Topic	Risk Management – Expenditure Accruals	
Audit Finding	During the testing of internal controls over the City’s Risk Management department’s cash disbursements related to claims liabilities, we noted that two (2) out of forty-five (45) transactions selected for testing were for services rendered in fiscal year 2008. These services were for outside legal counsel related to claims and judgments. These expenditures should have been recognized (accrued) when incurred in fiscal year 2008.	
Status of Corrective Action	Implemented and corrected – Results of our current year testing of 45 transactions resulted in no findings.	
Reference Number:		2009-(c)
Topic	Timely Capitalization of Donated Capital Assets from Developer Contributions	
Audit Finding	During the performance of our testwork over donated capital assets, we noted that fifty-seven (57) out of one hundred and fifty-four (154) donated assets that were capitalized in fiscal year 2009 were actually donated in and should have been capitalized in prior fiscal years (2006-2008).	
Status of Corrective Action	Implemented and corrected – Results of our current year testing identified contributions of capital assets were recorded in the proper accounting period.	

CITY OF SAN DIEGO
Summary Schedule of Prior Audit Findings
For the Fiscal Year Ended June 30, 2010

Reference Number:	2009-(d)
Topic	Land Held for Resale Documentation
Audit Finding	During the testing of internal controls over the Redevelopment Agency's (Agency) additions to property held for resale, we noted that for one (1) out of four (4) transactions selected for testing, the Agency could not provide the supporting documents to verify reasonableness of the historical value. The property was originally acquired as a capital asset prior to 1980, reported in the Agency financial statements as land, and transferred to property held for resale during fiscal year 2009.
Status of Corrective Action	Corrected – The Agency has implemented the corrective action and all additions are properly documented and the supporting transactions are added to the land held for the resale and capital assets permanent folder.

Reference Number:	2009-(e)
Topic	Electronic Data Processing General Controls
Audit Finding	During the electronic data processing review, the following findings were observed: <ul style="list-style-type: none"> a. There is no formal policy and associated procedures in place to ensure that system and application access is rescinded for inactive users. The policy and associated procedures should state and ensure that system and application access is removed as part of the separation procedures for employees from the City. b. There is no formal policy and associated procedures in place to ensure all system and application access rights are up-to-date and at an appropriate level to enforce a proper segregation of duties. c. All transactional data is currently stored within the City's core financial management application, AMRIS. As the amount of data stored within the core financial management system increases, system performance may be adversely affected.
Status of Corrective Action	<ul style="list-style-type: none"> a. Corrected – The City formally adopted Administrative Regulation 90.63, Information Security Policy, which specifies that all department and City computer system privileges must be promptly terminated at the time a user leaves City employment or ceases to provide services to or receives services from the department or the City. The termination of access must occur as soon as possible and no more than three business days after access is no longer required.

CITY OF SAN DIEGO
Summary Schedule of Prior Audit Findings
For the Fiscal Year Ended June 30, 2010

- b. Corrected – Along with the SAP system, the City implemented a robust set of authorization roles that define specific transactions that can be conducted by individual employees. The City also implemented both access and process controls that identify segregation of duty issues in the authorization roles as well as in the actual transactions conducted by employees. Additionally, Administrative Regulation 90.63, Information Security Policy, specifies that user accounts shall be reviewed at least annually.
- c. Corrected – With the implementation of the City’s SAP system, AMRIS is no longer used for transactional processing.

Reference Number:	2009-(f)
Topic	Continuing Annual Disclosure Requirements
Audit Finding	During the performance of our testwork over continuing annual disclosure requirements, we noted that the Redevelopment Agency of the City of San Diego (Agency) did not submit one (1) out of the thirty-five (35) required Annual Reports for fiscal year 2008 to the Electronic Municipal Market Access (EMMA) within the required time frame, generally 270 days after year-end.
Status of Corrective Action	Corrected – The Agency prepared and submitted the required Annual Report for fiscal year 2009 and 2010 to the EMMA within the required time frame.

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.

CITY OF SAN DIEGO
Summary Schedule of Prior Audit Findings
For the Fiscal Year Ended June 30, 2010

Status of Corrective Action Corrected -The implementation of OneSD has improved the year-end financial reporting process. During the year ended June 30, 2010, there were no adjustments identified that resulted in material misstatements related to the City's Comprehensive Annual Financial Report (CAFR).

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.

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

- The City failed to disclose the City's unfunded liability to its pension plan, which 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.

CITY OF SAN DIEGO
Summary Schedule of Prior Audit Findings
For the Fiscal Year Ended June 30, 2010

Status of Corrective Action

Corrected – The City consented to the SEC Order and as part of the applicable remediation, the City retained an independent consultant to monitor the City’s compliance with and remediation of the issues identified in the Order. The City’s response to this finding has been a combination of staffing changes, modified policies and procedures along with system improvements to correct the internal control weaknesses that contributed to the materially misleading disclosures. Furthermore, the City established an Audit Committee of the City Council 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 consultant has reported on the City’s progress with respect to several remediation issues from the SEC Order. The 2008 Annual Report of the Independent Consultant to the City of San Diego (Report) was dated March 25, 2008, the 2009 Report was dated April 24, 2009, and the 2010 Report was dated February 24, 2010; all of the reports are available.

CITY OF SAN DIEGO
Summary Schedule of Prior Audit Findings
For the Fiscal Year Ended June 30, 2010

Findings related to Federal Awards:

Reference Number:	2009-01
Federal Catalog Number/ Program Name	14.218 – Community Development Block Grants/Entitlement Grants (CDBG); 14.231 – Emergency Shelter Grants Program (ESGP); 20.106 – Airport Improvement Program (AIP); 20.205 – Highway Planning and Construction (HPC); 97.025 – National Urban Search and Rescue Response (NUSRR) System; 97.067 – Homeland Security Grant Program (HSGP); (Allowable Costs)
Federal Agency Name	Department of Housing and Urban Department; Department of Transportation; Department of Homeland Security
Audit Finding	<p><u>CDBG:</u> Out of forty-three (43) expenditure transactions tested, seven (7) transactions, amounting to \$381,310, were incurred in the prior year but were initially improperly reported in the current year Schedule of Expenditures of Federal Awards (SEFA).</p> <p><u>ESGP:</u> Out of forty (40) expenditure transactions tested, two (2) transactions, amounting to \$94,655, were incurred in the prior year but were initially improperly reported in the current year SEFA.</p> <p><u>AIP:</u> Out of twenty (20) expenditure transactions tested, two (2) transactions, amounting to \$281,149 where accruals for expenditures were not reversed appropriately. As a result, the transaction was recorded twice. In addition, two (2) transactions, amounting to \$40,701, were incurred in the prior year but were initially improperly reported in the current year SEFA.</p> <p><u>HPC:</u> Out of forty (40) payroll transactions tested, two (2) employees with expenditures amounting to \$1,508 did not have a supervisor’s approval in the payroll system.</p> <p><u>NUSRR:</u> Out of forty-eight (48) expenditure transactions tested, three (3) transactions, amounting to \$36,538, were incurred in the prior year but were initially improperly reported in the current year SEFA. In addition, out of forty (40) payroll transaction tested, fourteen (14) payroll timesheets were not approved by supervisors. Of those instances, ten (10) out of the fourteen (14) timesheets were not submitted by the employee, but submitted and approved by one payroll specialist.</p>

CITY OF SAN DIEGO
Summary Schedule of Prior Audit Findings
For the Fiscal Year Ended June 30, 2010

HSGP:

Out of forty (40) expenditure transactions tested, two (2) transactions, amounting to \$94,655, were incurred in the prior year but were initially improperly reported in the current year SEFA.

Status of Corrective Action Corrected.

Reference Number: 2009-02

Federal Catalog Number/
Program Name 11.307 – Economic Adjustment Assistance (EAA); 14.218 – Community Development Block Grants/Entitlement Grants (CDBG); 97.025 – National Urban Search and Rescue Response (NUSRR) (Reporting)

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

Audit Finding

EAA:

Out of six (6) reports tested, one (1) report had a miscalculation in it.

CDBG:

For all three (3) quarterly Federal Cash Transactions Reports (SF-272) in FY09 selected for testing, the City did not submit the reports within 15 working days following the end of each respective quarter as required.

NUSRR:

One (1) out of six (6) Financial Status Reports and one (1) out of three (3) performance reports tested were not submitted within a required time period.

Status of Corrective Action Partially corrected. EAA and NUSRR have been corrected. Refer to current year finding 2010-1 for CDBG.

Reference Number: 2009-03

Federal Catalog Number/
Program Name 14.248 – Community Development Block Grants Section 108 Loan Guarantees (Section 108); 16.710 - Public Safety Partnership and Community Policing Grants (COPS); 20.106 – Airport Improvement Program (AIP) (Procurement, Suspension & Debarment)

Federal Agency Name Department of Housing and Urban Department; Department of Transportation; Department of Justice

Audit Finding

Section 108:

Out of three (3) vendors tested, the City was unable to provide supporting documentation for all three (3) vendors to show verification of suspension and debarment.

CITY OF SAN DIEGO
Summary Schedule of Prior Audit Findings
For the Fiscal Year Ended June 30, 2010

COPS:

Out of four (4) vendors tested, the City was unable to provide supporting documentation for all four (4) vendors to show verification of suspension and debarment.

AIP:

For the three (3) vendors tested, the City was unable to provide supporting documentation for all three (3) vendors to show verification of suspension and debarment.

We determined that none of the contractors/vendors above were listed as suspended or debarred parties on the federal government website.

Status of Corrective Action Partially corrected. Refer to current year finding 2010-02. The City implemented revised Suspension and Debarment Procedures in July 1, 2008.

Reference Number: 2009-04

Federal Catalog Number/
Program Name 14.218 – Community Development Block Grants/Entitlement Grants (CDBG) (Subrecipient Monitoring)

Federal Agency Name Department of Housing and Urban Development

Audit Finding Out of twenty-three (23) subrecipients tested, for five (5) subrecipients, the City could not provide documents to show they performed on-site monitoring. The City did not perform the on-site subrecipient monitoring and/or prepare any written documents to verify whether the subrecipient performed adequate procedures in compliance with laws, regulations and contract provisions.

Status of Corrective Action Corrected.