

CITY OF SAN DIEGO

Single Audit Reports

For the Fiscal Year Ended June 30, 2005

CITY OF SAN DIEGO
Single Audit Reports
For the Fiscal Year Ended June 30, 2005

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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, 2005, which collectively comprise the City's basic financial statements and have issued our report thereon dated October 26, 2007. Our report was modified to include a reference to other auditors. Our report also includes an explanatory paragraph indicating that the City adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposits and Investment Risk Disclosures, an amendment of GASB Statement No.3*. 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 2005-(a). Reportable conditions are also described in the summary schedule of prior year findings and questioned costs (findings related to financial statements) as items 2004-(a), 2004-(b), and 2003-1.

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 2005(a), 2004-(a), 2004-(b), and 2003-1 to be material weaknesses.

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 summary schedule of prior year findings and questioned costs (findings related to financial statements) as items 2003-2, 2003-3, and 2003-4. The conditions reported in items 2003-2, 2003-3, and 2003-4 also existed in the current year.

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 Fini & O'Connell LLP

Certified Public Accountants

Los Angeles, California
October 26, 2007



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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 AND THE SCHEDULES OF EXPENDITURES OF FEDERAL AWARDS
AND GOVERNOR'S OFFICE OF EMERGENCY SERVICES GRANT
IN ACCORDANCE WITH OMB CIRCULAR A-133**

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, 2005. 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 \$3,223,686 and \$144,600,327, 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, 2005. 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 items 2005-01, 2005-02, 2005-03 and 2005-04 in the accompanying schedule of findings and questioned costs, the City did not comply with the requirements regarding Procurement, Suspension & Debarment applicable to its Community Development Block Grants/Entitlement Grants, Community Development Block Grants Section 108 Loan Guarantees, Public Safety Partnership and Community Policing Grants, Highway Planning and Construction program, and Urban Areas Security Initiative program; Earmarking applicable to its Community Development Block Grants/Entitlement Grants; Subrecipient Monitoring applicable to its High Intensity Drug Trafficking Areas program; and Reporting applicable to its Highway Planning and Construction program and High Intensity Drug Trafficking Areas 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, 2005.

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 2005-01, 2005-02, 2005-03, and 2005-04.

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 2005-01, 2005-03, and 2005-04 to be material weaknesses.

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

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, 2005, which collectively comprise the City's basic financial statements and have issued our report thereon dated October 26, 2007. Our report was modified to include a reference to other auditors. Our report also includes an explanatory paragraph indicating that the City adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposits and Investment Risk Disclosures, an amendment of GASB Statement No.3*. 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) grant (the Schedules) are presented for purposes of additional analysis as required by OMB Circular A-133 and OES, respectively, and are not a required part of the basic financial statements. The Schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

Los Angeles, California
October 26, 2007

CITY OF SAN DIEGO
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2005

Federal Grantor/Grant Name	Federal CFDA No.	Federal Expenditures
Office of National Drug Control Policy		
<u>Direct Programs</u>		
High Intensity Drug Trafficking Area	07.PSCP575	\$ 9,015,145
Total Office of National Drug Control Policy		<u>9,015,145</u>
U.S. Department of Housing and Urban Development		
<u>Direct Programs</u>		
Community Development Block Grants/Entitlement Grants	14.218	25,179,737
Emergency Shelter Grants Program	14.231	1,030,255
Community Development Block Grants Section 108 Loan Guarantees	14.248	6,358,106
Lead-Based Paint Hazard Control In Privately-Owned Housing	14.900	232,204
Total U.S. Department of Housing and Urban Development		<u>32,800,302</u>
U.S. Department of Interior		
<u>Direct Programs</u>		
Water Reclamation and Reuse Program	15.504	4,748,461
Water Desalination Research and Development Program	15.506	113,935
Total U.S. Department of Interior		<u>4,862,396</u>
U.S. Department of Justice		
<u>Direct Programs</u>		
Part D - Research, Evaluation, Technical Assistance and Training	16.542	151,943
National Institute of Justice Research, Evaluation, and Development		
Project Grants	16.560	169,170
Crime Laboratory Improvement - Combined Offender DNA Index		
System Backlog Reduction	16.564	89,792
Edward Byrne Memorial State and Local Law Enforcement		
Assistance Discretionary Grants Program	16.580	367,336
Violence Against Women Formula Grants	16.588 *	397,744
Local Law Enforcement Block Grant Program	16.592	2,021,615
Bulletproof Vest Partnership Program	16.607	80,071
Community Prosecution and Project Safe Neighborhoods	16.609	72,985
Public Safety Partnership and Community Policing Grants	16.710	2,237,746
Police Corps	16.712	647,288
Subtotal Direct Programs		6,235,690
<u>Passed Through Governor's Office of Emergency Services</u>		
Violence Against Women Formula Grants	16.588 *	114,085
Subtotal Passed Through the Governor's Office of Emergency Services		114,085
<u>Passed Through the County of San Diego</u>		
Edward Byrne Memorial Formula Grant Program	16.579	121,344
Subtotal Passed Through County of San Diego		121,344
Total U.S. Department of Justice		<u>6,471,119</u>
* - Total CFDA 16.588 program expenditures are \$511,829.		
U.S. Department of Transportation		
<u>Direct Program</u>		
Airport Improvement Program	20.106	492,756
<u>Passed Through State Department of Transportation</u>		
Highway Planning and Construction	20.205	10,994,257

See accompanying notes to Schedules of Expenditures of Federal Awards and Governor's OES Grant.

CITY OF SAN DIEGO
Schedule of Expenditures of Federal Awards (Continued)
For the Fiscal Year Ended June 30, 2005

Federal Grantor/Grant Name	Federal CFDA No.	Federal Expenditures
U.S. Department of Transportation (Continued)		
<u>Passed Through California Office of Traffic Safety</u>		
State and Community Highway Safety	20.600	<u>1,116,627</u>
Total U.S. Department of Transportation		<u>12,603,640</u>
National Foundation on the Arts and the Humanities		
<u>Direct Program</u>		
Promotion of the Arts - Grants to Organizations and Individuals	45.024	<u>40,312</u>
Total National Foundation on the Arts and the Humanities		<u>40,312</u>
U.S. Department of Education		
<u>Direct Program</u>		
Twenty-First Century Community Learning Centers	84.287	12,532
<u>Passed Through State Department of Education</u>		
Twenty-First Century Community Learning Centers	84.287	631,157
<u>Passed Through San Diego School District</u>		
Twenty-First Century Community Learning Centers	84.287	<u>1,246,531</u>
Subtotal Twenty-First Century Community Learning Centers Programs		<u>1,890,220</u>
Total U.S. Department of Education		<u>1,890,220</u>
U.S. Department of Health and Human Services		
<u>Direct Program</u>		
Refugee and Entrant Assistance - Discretionary Grants	93.576	<u>129,103</u>
Total U.S. Department of Health and Human Services		<u>129,103</u>
U.S. Department of Homeland Security		
<u>Direct Program</u>		
National Urban Search and Rescue (US&R) Response System	97.025	1,451,867
Assistance to Firefighters Grants	97.044	<u>420,636</u>
Subtotal Direct Programs		1,872,503
<u>Passed Through the County of San Diego</u>		
State Domestic Preparedness Equipment Support Program	97.004	1,759,836
Urban Areas Security Initiative	97.008	<u>2,770,936</u>
Subtotal Passed Through the County of San Diego		<u>4,530,772</u>
Total U.S. Department of Homeland Security		<u>6,403,275</u>
 Total Expenditures of Federal Awards		 <u><u>\$ 74,215,512</u></u>

See accompanying notes to Schedules of Expenditures of Federal Awards and Governor's OES Grant.

City of San Diego
 Schedule of Expenditures of Governor's Office of Emergency Services (OES) Grant
 For the Fiscal Year Ended June 30, 2005

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		\$ 154,193	\$ 114,085	\$ 38,029	\$ 152,114	\$ 2,079
Total		<u>\$ 154,193</u>	<u>\$ 114,085</u>	<u>\$ 38,029</u>	<u>\$ 152,114</u>	<u>\$ 2,079</u>

Note: The non-match expenditures of \$114,085 for grant VV0406791 are reported as federal expenditures in the Schedule of Expenditures of Federal Awards under CFDA 16.588.

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

CITY OF SAN DIEGO

Notes to the Schedule of Expenditures of Federal Awards and Governor’s OES Grant
For the Fiscal Year Ended June 30, 2005

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, 2005, except as described in Note 4 below. The City’s reporting entity is defined in Note 1(a) to the City’s basic financial statements. All federal awards received directly from federal agencies, as well as federal awards passed through other government agencies, are included on the SEFA.

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

Note 2 – Basis of Accounting

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

Note 3 – Relationship to the Financial Statements

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

Note 4 – San Diego Redevelopment Agency (Blended Component Unit) and San Diego Housing Commission (Discrete Component Unit) Federal Expenditures

The San Diego Redevelopment Agency (RDA) federal expenditures of \$3,223,686 and the San Diego Housing Commission (SDHC) federal expenditures of \$144,600,327 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, 2005. 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>\$ 42,858,000</u>

CITY OF SAN DIEGO

Notes to the Schedule of Expenditures of Federal Awards and Governor’s OES Grant (Continued)
For the Fiscal Year Ended June 30, 2005

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	\$ 1,416,419
Community Development Block Grants/Entitlement Grants –passed through to SDHC	14.218	2,290,065
Community Development Block Grants/Entitlement Grants –passed through to the RDA	14.218	2,275,954
Emergency Shelter Grants Program	14.231	1,012,577
Community Development Block Grants Section 108 Loan Guarantees –passed through to the RDA	14.248	947,732
High Intensity Drug Trafficking Areas	07.PSCP575	9,015,145
Edward Bryne Memorial State and Local Law Enforcement	16.580	367,336
Twenty-First Century Community Learning Centers	84.287	643,689

CITY OF SAN DIEGO
 Schedule of Findings and Questioned Costs
 For the Fiscal Year Ended June 30, 2005

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?	No
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
16.710	Public Safety Partnership and Community Policing Grants
20.205	Highway Planning and Construction
97.008	Urban Areas Security Initiative
97.025	National Urban Search and Rescue (US&R) Response System

Dollar threshold used to distinguish between Type A and Type B programs:	\$2,035,722
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, 2005

Section II – Financial Statement Findings

Finding No. 2005-(a) Risk Management: Public Liability

Observation – The City’s internal controls over public liability reserves require the completion and authorization of a “Request for Action” form (RFA) documenting the rationale whenever an adjustment is required. 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.

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

Management Response: Management agrees. Risk Management has implemented procedures 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 \$50,000. Reserves exceeding \$50,000 will require the claims representatives to document the basis for the adjustment on an RFA. Once the RFA is completed, it 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.

CITY OF SAN DIEGO
Schedule of Findings and Questioned Costs (Continued)
For the Fiscal Year Ended June 30, 2005

Section III Federal Award Findings and Questioned Costs

Finding No. 2005-01 14.218 – Community Development Block Grants/Entitlement Grants; 14.248 – Community Development Block Grant Section 108 Loan Guarantees; 16.710 – Public Safety Partnership and Community Policing Grants; 20.205 – Highway Planning and Construction; 97.008 – Urban Areas Security Initiative; - Procurement, Suspension and Debarment.

Criteria:

In accordance with the OMB A-133 federal compliance requirements for procurement, suspension and debarment, non-Federal entities are prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred or whose principals are suspended or debarred. Covered transactions include procurement contracts for goods or services equal to or in excess of \$25,000 and all non-procurement transactions (e.g., subawards to subrecipients).

Condition:

We performed testwork on vendors and subrecipients that met the “covered transactions” criteria and noted the following;

Community Development Block Grants/Entitlement Grants:

Out of 4 contracts tested, there was no Suspension & Debarment certification in 1 of the files or any evidence that a review had been performed.

Community Development Block Grants Section 108 Loan Guarantees:

Out of 3 contracts tested, there was no Suspension & Debarment certification in 1 of the files or any evidence that a review had been performed.

Public Safety Partnership and Community Policing Grants:

Out of 3 contracts tested, there were no Suspension & Debarment certifications in 2 of the files or any evidence that a review had been performed.

Highway Planning and Construction:

Out of 9 contracts tested, there was no Suspension & Debarment certification in 1 of the files or any indication that a review had been performed.

Urban Areas Security Initiative:

Out of 2 contracts tested, there was no Suspension & Debarment certification in 1 of the files or any evidence that a review had been performed.

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.

CITY OF SAN DIEGO
Schedule of Findings and Questioned Costs (Continued)
For the Fiscal Year Ended June 30, 2005

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:

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."

**Finding No. 2005-02 14.218 – Community Development Block Grants/Entitlement Grants;
- Earmarking**

Criteria:

In accordance with 24 CFR 570.201 (e)(1) ,"*For entitlement grants under subpart D of this part, compliance is based on limiting the amount of CDBG funds obligated for public services activities in each program year to an amount no greater than 15% of the entitlement grant made for that program year plus 15% of the program income received during the grantee's immediately preceding program year.*"

Condition:

During the performance of our procedures over Earmarking, we noted that the total amount of Community Development Block Grant (CDBG) funds obligated for public service activities in the current year 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.

Questioned Costs:

\$47,328

Recommendation:

The City should implement procedures, such as timely reconciliation of the expenditure classification codes in the Integrated Disbursement and Information System (IDIS) with the City's general ledger, to monitor the obligation and expenditure of CDBG funds to ensure that expenditure limits in the different categories of expenditure are not exceeded.

Management Response:

Management agrees. The City is working on instituting procedures for timely reconciliation of the expenditure classification codes in IDIS with the City's general ledger to monitor the obligation and

CITY OF SAN DIEGO
Schedule of Findings and Questioned Costs (Continued)
For the Fiscal Year Ended June 30, 2005

expenditure of CDBG funds to ensure that expenditure limits are not exceeded. Additional staff is being added to the CDBG Administration section which will assist in this process.

Finding No. 2005-03 07.PSCP575 – High Intensity Drug Trafficking Areas (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 \$300,000 or more in federal awards during the subrecipient’s fiscal year have met the audit requirement of this part for that fiscal year.”

Condition:

During the performance of our procedures on subrecipient monitoring, 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 both the San Diego Police Department (Department) and the California Border Alliance Group (CBAG) on reimbursement packets submitted by subrecipients. There was no evidence of any other monitoring procedures performed, on-site or otherwise.

Questioned Costs:

\$9,382,481 – this represents the amount of subrecipient expenditures.

Recommendation:

The Department 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 (usually 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:

Management agrees. The San Diego Police Department (SDPD) is reorganizing the oversight of grant management and administration which will assist with direct risk assessment for all subrecipients. Additionally, SDPD has terminated its fiduciary operating responsibility agreement with CBAG due to the lack of department resources.

CITY OF SAN DIEGO
Schedule of Findings and Questioned Costs (Continued)
For the Fiscal Year Ended June 30, 2005

Finding No. 2005-04 07.PSCP575 – High Intensity Drug Trafficking Areas; 20.205 – Highway Planning and Construction (Reporting)

Criteria:

In accordance with 28 CFR 66.41 (b)(4), Financial Reporting, “*When reports are required on a quarterly or semiannual basis, they will be due 30 days after the reporting period.*” In addition, in accordance with 49 CFR 18.42(b) and (c); Retention and access requirements for records “*(b) length of retention period. (1) Except as otherwise provided, records must be maintained for three years from the starting date specified in paragraph (c) of this section. (c) Starting date of retention period – When grant support is continued or renewed at annual or other intervals, the retention period starts on the day the grantee submits to the awarding agency its single audit or last expenditure reports for that period.*”

Condition:

High Intensity Drug Trafficking Areas:

During the performance of our procedures on reporting, we noted that 9 out of 13 Financial Status Reports were submitted subsequent to the 30 day time frame.

Highway Planning and Construction:

During the performance of our procedures on reporting, we noted that all 13 reimbursement claims selected for testing were submitted subsequent to the 30 day time frame.

Questioned Costs:

Not applicable.

Recommendation:

The City should ensure that all required reports are submitted in a timely fashion.

Management Response:

Management agrees. The City is applying additional resources to meet future timing requirements for financial status reports.

CITY OF SAN DIEGO
Summary Schedule of Prior Audit Findings
For the Fiscal Year Ended June 30, 2005

Findings related to the financial statements

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: This finding was not corrected during the fiscal year ended June 30, 2005. However, prior to the issuance of this report the City implemented revised procedures to account for its accounts receivable balances in order to determine allowances for doubtful accounts.

Reference Number: 2004-(b)

Topic Accounting for Land-held-for-resale

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, 2005. However, prior to the issuance of this report, 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.

CITY OF SAN DIEGO
 Summary Schedule of Prior Audit Findings (Continued)
 For the Fiscal Year Ended June 30, 2005

Reference Number:	2003-1
Topic	Material Weakness in Internal Controls over the Financial Reporting Process
Audit Finding:	<p>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;</p> <ul style="list-style-type: none"> 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. <p>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.</p>
Status of Corrective Action:	<p>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.</p>

CITY OF SAN DIEGO
Summary Schedule of Prior Audit Findings (Continued)
For the Fiscal Year Ended June 30, 2005

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 Revenue Code of 1986, as amended ("IRC"). The City may not have complied with the IRC in the manner in which it funds and administers healthcare benefits for employees. Between 1982 and 2005, the SDCERS may have violated the qualification requirements of IRC Section 401(a) and IRC Section 401(h).
Status of Corrective Action:	In progress. In fiscal year 2004 the City ceased designating any portion of its Annual Required Contribution to a 401(h) account with SDCERS. 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. The City also intends to establish a new irrevocable trust with SDCERS devoted specifically to retiree healthcare benefits. The SDCERS and the City are currently engaged in a Voluntary Compliance Program with the Internal Revenue Service (IRS) to correct plan failures. This process has not yet concluded with a final determination letter from the IRS.
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, 2005. 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, 2005

Reference Number:	2003-4 (Continued)
	<p>In issuing the Order, the SEC made the following determinations:</p> <ul style="list-style-type: none">• The City failed to disclose the City’s unfunded liability to its pension plan was projected to dramatically increase.• The City failed to disclose that it had been intentionally underfunding its pension obligations so that it could increase pension benefits but defer the costs.• The City knew or was reckless in not knowing that its disclosures were materially misleading.• The City made these misleading statements through three different means:<ul style="list-style-type: none">• The City made misleading statements in the offering documents for five municipal offerings in 2002 and 2003 that raised over \$260 million from investors. The offering documents included offering statements.• The City made misleading statements to the agencies that gave the City its credit rating for its municipal bonds. <p>The City made misleading statements in its “continuing disclosure statements”, which described the City’s financial condition.</p>

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.

CITY OF SAN DIEGO
 Summary Schedule of Prior Audit Findings (Continued)
 For the Fiscal Year Ended June 30, 2005

Findings related to federal awards

Reference Number: 2004-01

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); (Allowable/Unallowable Costs)

Audit Finding: For CDBG, out of forty items tested, we noted that one item was for allowable costs of \$22,000 incurred in the prior year.
 For Section 108, out of forty items tested, we noted that three items were for allowable costs of \$193,111 incurred in the prior year.

Status of Corrective Action: Corrected.

Reference Number: 2004-02

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); (Required Certifications and HUD Approvals)

Audit Finding: For CDBG, out of three projects selected, we noted that for one project, the City did not have a Request for Release of Funds (RROF) or any documentation from HUD approving the RROF.
 For Section 108, out of four projects selected, for two projects, the City did not have a RROF or any documentation from HUD approving the RROF.

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 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, 2005. See current year finding 2005-01.

CITY OF SAN DIEGO
 Summary Schedule of Prior Audit Findings (Continued)
 For the Fiscal Year Ended June 30, 2005

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:	Not corrected during fiscal year ended June 30, 2005. See current year finding 2005-03.
Reference Number:	2004-05
Federal Catalog Number/ Program Name:	20.205 – Highway Planning and Construction (Davis-Bacon Act)
Audit Finding:	Five out of forty-four weekly certified labor payroll reports could not be located.
Status of Corrective Action:	Corrected.
Reference Number:	2004-06
Federal Catalog Number/ Program Name:	20.205 – Highway Planning and Construction (Reporting)
Audit Finding:	Out of eight Federal Status Reports (FSRs) selected for testing, supporting documentation for one of these reports could not be located.
Status of Corrective Action:	Corrected.
Reference Number:	2003-01
Federal Catalog Number/ Program Name:	14.248 – Community Development Block Grant Section 108 Loan Guarantees (Required Certifications and HUD approvals)
Audit Finding:	For two out of three projects selected, the City did not have a Request for Release of Funds (RROF) or any documentation from HUD approving the RROF.
Status of Corrective Action:	Corrected.

CITY OF SAN DIEGO
 Summary Schedule of Prior Audit Findings (Continued)
 For the Fiscal Year Ended June 30, 2005

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:	Not corrected during fiscal year ended June 30, 2005. See current year finding 2005-03.
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:	Not corrected during fiscal year ended June 30, 2005. See current year finding 2005-03.
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:	Not corrected during fiscal year ended June 30, 2005.
Reference Number:	2003-07
Federal Catalog Number/ Program Name:	20.205 – Highway Planning and Construction (Davis-Bacon Act)
Audit Finding:	Ten out of 55 weekly certified labor payroll reports could not be located.
Status of Corrective Action:	Corrected.