CITY OF SAN DIEGO

Single Audit Reports

For the Fiscal Year Ended June 30, 2004

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Single Audit Reports
For the Fiscal Year Ended June 30, 2004

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To the Honorable Mayor, City Council
and City Manager 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 remaining fund information of the City of San Diego, California, (the City), as of and for the fiscal year ended June 30, 2004, which collectively comprise the City's basic financial statements and have issued our report thereon dated May 11, 2007. Our report was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the San Diego Housing Commission and the San Diego City Employee's Retirement System, 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 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. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 2004-(a) and 2004-(b). A reportable condition is also described in the status of prior year findings and questioned costs (findings related to financial statements) as item 2003-1. This condition was reported in the prior year and also existed during the current year.

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

Certified Public Accountants

Los Angeles, California
May 11, 2007

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To the Honorable Mayor, City Council
and City Manager 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 GRANTS IN ACCORDANCE WITH OMB CIRCULAR A-133

Compliance

We have audited the compliance of the 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, 2004. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

The City's basic financial statements include the operations of the City of San Diego Redevelopment Agency (RDA) and the City of San Diego Housing Commission (SDHC), which expended $1,162,414 and $125,380,043, respectively, in federal awards, which are not included in the schedule of expenditures of federal awards for the fiscal year ended June 30, 2004. 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 2004-02, 2004-03, 2004-04, 2004-05 and 2004-06 in the accompanying schedule of findings and questioned costs, the City did not comply with the requirements regarding Special Tests & Provisions – Required Certifications and HUD Approvals applicable to Community Development Block Grant/Entitlement Grants and Community Development Block Grant Section 108 Loan Guarantees; Procurement, Suspension & Debarment applicable to its Community Development Block Grants/Entitlement Grants, Community Development Block Grant Section 108 Loan Guarantees, Public Safety Partnership and Community Policing Grants, Highway Planning and Construction program, and State Domestic Preparedness Equipment Support Program; Subrecipient Monitoring applicable to its High Intensity Drug Trafficking Areas program; Davis-Bacon Act applicable to its Highway Planning and Construction program; and Reporting applicable to its Highway Planning and Construction 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, 2004. The results of our auditing procedures also disclosed another instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2004-01.

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 2004-01, 2004-02, 2004-03, 2004-04, 2004-05 and 2004-06.

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 2004-01, 2004-02, 2004-03, 2004-04, 2004-05 and 2004-06 to be material weaknesses.

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

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and aggregate remaining fund information of the City of San Diego, California (the City), as of and for the fiscal year ended June 30, 2004, which collectively comprise the City's basic financial statements and have issued our reported thereon dated May 11, 2007. Our report was modified to include a reference to other auditors. Other auditors audited the financial statements of the San Diego Housing Commission and the San Diego City Employee's Retirement System, as described in our report on the City's basic financial statements.

The accompanying schedules of expenditures of federal awards and Governor's Office of Emergency Services (OES) grants (the Schedules) are presented for purposes of additional analysis as required by OMB Circular A-133 and OES, respectively, and are not a required part of the basic financial statements. The Schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the audit committee, management, City Council, 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 Gini & O'Connell LLP

Certified Public Accountants

Los Angeles, California
May 11, 2007

CITY OF SAN DIEGO

Schedule of Expenditures of Federal Awards

For the Fiscal Year Ended June 30, 2004

Federal Grantor/Grant Name	Federal CFDA No.	Federal Expenditures	
U.S. Department of Housing and Urban Development			
Direct Programs			
Community Development Block Grants/Entitlement Grants	14.218	$ 20,653,785	
Emergency Shelter Grants Program	14.231	378,694	
Community Development Block Grants Section 108 Loan Guarantees	14.248	25,628,268	
Total U.S. Department of Housing and Urban Development			**46,660,747**
U.S. Department of Interior			
Direct Programs			
Small Reclamation Projects	15.503	502,959	
Water Reclamation and Reuse Program	15.504	2,162,091	
Water Desalination Research and Development Program	15.506	429,507	
Total U.S. Department of Interior			**3,094,557**
U.S. Department of Justice			
Direct Programs			
Urban Areas Security Initiative	16.011	318,595	
Part D - Research, Evaluation, Technical Assistance and Training	16.542	330,277	
Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants program	16.580	24,262	
Violence Against Women Formula Grant	16.588 *	198,818	
Local Law Enforcement Block Grants Program	16.592	1,710,641	
Bulletproof Vest Partnership Program	16.607	52,090	
Community Prosecution and Project Safe Neighborhoods	16.609	52,363	
Public Safety Partnership and Community Policing Grants	16.710	2,911,929	
Police Corps	16.712	133,157	
High Intensity Drug Trafficking Assistance	16.PSCP575	9,640,250	
Miscellaneous Federal Agreements	16.UNKNOWN	744,960	
Subtotal Direct Programs			16,117,342
Passed Through Governor's Office of Emergency Services			
Violence Against Women Formula Grant	16.588 *	25,787	
Subtotal Passed Through Governor's Office of Emergency Services			25,787
Passed Through the County of San Diego			
Edward Byrne Formula Grant Program	16.579	133,082	
Subtotal Passed Through County of San Diego			133,082
Total U.S. Department of Justice			**16,276,211**

* - Total CFDA 16.588 program expenditures are $224,605.

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

CITY OF SAN DIEGO

Schedule of Expenditures of Federal Awards (Continued)

For the Fiscal Year Ended June 30, 2004

Federal Grantor/Grant Name	Federal CFDA No.	Federal Expenditures	
U.S. Department of Transportation			
Direct Program			
Airport Improvement Program	20.106	828,394	
Passed Through State Department of Transportation			
Highway Planning and Construction	20.205	8,925,388	
Passed Through State Business, Transportation, and Housing Agency			
State and Community Highway Safety	20.600	485,407	
Total U.S. Department of Transportation			**10,239,189**
National Foundation on the Arts and the Humanities			
Passed Through California State Library			
Promotion of the Arts - Grants to Organizations & Individuals	45.024	62,250	
Total National Foundation on the Arts and the Humanities			**62,250**
U.S. Environmental Protection Agency			
Passed Through California State Library			
Surveys, Studies, Investigations and Special Purpose Grants	66.606	897,969	
Total U.S. Environmental Protection Agency			**897,969**
U.S. Department of Education			
Passed Through California State Library			
Twenty-First Century Community Learning Centers	84.287	1,385,638	
Total U.S. Department of Education			**1,385,638**
U.S. Department of Health and Human Services			
Passed Through State Department of Health Services			
Refugee and Entrant Assistance Discretionary Grants	93.576	105,084	
Total U.S. Department of Health and Human Services			**105,084**
U.S. Department of Homeland Security			
Direct Programs			
State Domestic Preparedness Equipment Support Program	97.004	113,574	
Passed Through the State Office of Emergency Services			
State Domestic Preparedness Equipment Support Program	97.004	657,532	
Subtotal State Domestic Preparedness Equipment Support Program			771,106
National Urban Search and Rescue Response System	97.025	647,608	
Disaster Grants -Public Assistance	97.036	2,863,444	
Assistance to Firefighters Grants	97.044	322,541	
Subtotal Passed Through State Office of Emergency Services			4,491,125
Total U.S. Department of Homeland Security			**4,604,699**
Total Expenditures of Federal Awards			**$ 83,326,344**

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

City of San Diego

Schedule of Expenditures of the Governor's Office of Emergency Services (OES) Grants

For the Fiscal Year Ended June 30, 2004

Program Title and Expenditure Category	Grant Award Number	Budget	Actual Non-match	Actual Match	Actual Total	Budget to Actual Variance
Elder Abuse & Same Sex Domestic/ Violence Program	VV02047919*					
Personal services		$ 185,083	$ 25,787	$ 8,595	$ 34,382	$ 150,701
Total		$ 185,083	$ 25,787	$ 8,595	$ 34,382	$ 150,701

(Note: The non-match expenditures of $25,787 for the grant VV02047919 is reported as federal expenditures in the Schedule under CFDA 16.588)

* - Grant expenditures in the amount of $34,382 represent costs incurred during fiscal year ended June 30, 2003. These expenditures were not reported in the prior year and are therefore reported in the current year.

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, 2004, except as described in Note 4 below. The City's reporting entity is defined in Note 1(a) to the City's basic financial statements. All federal awards received directly from federal agencies, as well as federal awards passed through other government agencies, are included on the SEFA.

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

Note 2 – Basis of Accounting

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

Note 3 – Relationship to the Financial Statements

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

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

The San Diego Redevelopment Agency (RDA) federal expenditures of $1,162,414 and the San Diego Housing Commission (SDHC) federal expenditures of $125,380,043 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, 2004. Loans made during the year are included in the federal expenditures presented in the schedule.

Program Title	Federal Catalog Number	Amount Outstanding
Community Development Block Grants Section 108 Loan Guarantees	14.248	$ 47,032,000
		$ 47,032,000

Note 6 – Amount Provided to Subrecipients

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

Federal Program	Federal Catalog Number	Amount
Community Development Block Grants/Entitlement Grants	14.218	$ 9,268,810
Community Development Block Grants/Entitlement Grants – passed through to SDHC	14.218	2,662,740
Community Development Block Grants/Entitlement Grants – passed through to the RDA	14.218	1,157,394
Emergency Shelter Grants Program	14.231	378,694
Community Development Block Grant Section 108 Loan Guarantees – passed through to the RDA	14.248	5,020
High Intensity Drug Trafficking Areas	16.PSCP575	7,032,871
21st Century Community Learning Centers	84.287	1,380,421

CITY OF SAN DIEGO
Schedule of Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2004

Section I – Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
• Material weaknesses identified?	Yes
• Reportable conditions identified that are not considered to be material weaknesses?	Yes
Noncompliance material to financial statements noted?	Yes

Federal Awards:

Internal control over major programs:	
• Material weaknesses identified?	Yes
• Reportable conditions identified that are not considered to be material weaknesses?	No
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
15.504	Water Reclamation and Reuse Program
16.PSCP575	High Intensity Drug Trafficking Areas
16.710	Public Safety Partnership and Community Policing Grants
20.205	Highway Planning and Construction
97.004	State Domestic Preparedness Equipment Support Program
97.036	Public Assistance Grants

Dollar threshold used to distinguish between Type A and Type B programs:	$1,730,942
Auditee qualified as low-risk auditee?	No

Section II – Financial Statement Findings

Finding No. 2004-(a) Key Estimates and Assumptions Development Process

Observation – 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. An adjustment was however proposed during the audit to reduce various receivable balances to their estimated net recoverable value.

Recommendation – We recommend that the City re-evaluate its methodology, including relevant assumptions for calculating allowances for doubtful accounts for accounts receivable.

Management Response:

We agree. Management has also implemented revised procedures to evaluate allowances for doubtful accounts and estimate accruals based on prior year's experience this policy was implemented after the discovery of weaknesses in the process for establishing allowances for doubtful accounts balances.

Finding No. 2004-(b) Accounting for Land-held-for-resale

Observation – 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). Although the management companies usually properly record land-held-for-resale transactions as they occur in their internal records, they did not communicate information relating to sales of land or transfers of land to capital assets to the RDA in a timely fashion. This resulted in significant reconciling items between the records of the management companies and the RDA. The RDA had to reduce the reported land-held-for-resale balance by $22 million for errors related to the existence of land-held-for-resale on its books and $11 million related to unrecorded net realizable value adjustments to the beginning balance in its 2003 statements, which also affected the beginning balance in the 2004 statements.

Recommendation – We recommend that the RDA develop a process whereby all transactions entered into by the management companies on the RDA's behalf are communicated timely to the RDA to enable the RDA properly report its assets.

Management Response:

We agree. Management has implemented revised policies to ensure land held for resale account balances are properly stated in the City's Comprehensive Annual Financial Report. These policies include confirming account balances and inventories annually, and revising operational procedures to ensure the City Auditor and Comptroller's office is notified timely of changes in the status of various land assets, purchases and sales.

Section III Federal Award Findings and Questioned Costs

Finding No. 2004-01 14.218 - Community Development Block Grants/Entitlement Grants; 14.248 – Community Development Block Grant (CDBG) Section 108 Loan Guarantees – Allowable/Unallowable Costs

In accordance with Office of Management Budget (OMB) Circular A-87, to be allowable under federal awards, costs must "*be determined in accordance with generally accepted accounting principles, except as otherwise provided in A-87*."

During the performance of our testwork over allowable activities/allowable costs, we noted the following exceptions:

Community Development Block Grant/Entitlement Grants:

Out of forty items tested, we noted that one item was for allowable costs of $22,000 incurred in the prior year.

Community Development Block Grant Section 108 Loan Guarantees:

Out of forty items tested, we noted that three items were for allowable costs of $193,111 incurred in the prior year.

Questioned Costs:

$215,111 representing prior year costs reported in the current year.

Recommendation:
We recommend that the City implement procedures to report federal program costs in the year in which they occurred.

Management Response:
The City (CDBG Administration) will remind subrecipients annually to submit claims for reimbursements within thirty days after the end of the fiscal year. For subrecipient claims not received within this time period, the City will develop procedures to accurately estimate these expenditures. The City will also process the request for payments separately for expenditures incurred in the prior fiscal year from expenses incurred in the new fiscal year for better distinction of when expenditures were incurred. Also, the City will prepare actual written procedures that would be part of the year-end process to remind accountants of careful review of back-up documentation to all requests for payments and to accurately record expenditures in the year they were incurred.

Finding No. 2004-02 14.218 - Community Development Block Grants/Entitlement Grants; 14.248 – Community Development Block Grant Section 108 Loan Guarantees; – Special Tests and Provisions (Required Certifications and HUD Approvals)

In accordance with the *OMB Compliance Supplement*, "*Community Development Block Grant (CDBG) funds (and local funds to be repaid with CDBG funds) cannot be obligated or expended before receipt of HUD's approval of a Request for Release of Funds (RROF) and environmental certification*".

During the performance of our procedures related to "Required Certifications and HUD Approvals", for the one out of three projects tested in the CDBG program and for two out of four projects tested in the Community Development Block Grant Section 108 Loan Guarantees program, the City did not maintain documentation of HUD's approval of the RROF.

Questioned Costs:
$1,825,673.

Recommendation:
The City should improve its documentation procedures to ensure that all documentation is maintained in accordance with HUD retention requirements.

Management Response:
We agree. Management implemented new procedures during the fiscal year ended June 30, 2006 to ensure compliance with HUD documentation requirements. These revised procedures include controls to ensure that the City does not draw down loan funds until an environmental review has been completed and properly documented and provided to Grant management staff prior to draw down of funds.

Finding No. 2004-03 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; 97.004 – State Domestic Preparedness Equipment Support Program- Procurement, Suspension, Debarment

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.)

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

<u>Community Development Block Grants/Entitlement Grants:</u>
Out of four contracts tested, there were no Suspension & Debarment certifications in two files.

<u>Community Development Block Grant Section 108 Loan Guarantees:</u>
Out of four contracts tested, there were no Suspension & Debarment certifications in one file.

<u>Public Safety Partnership and Community Policing Grants:</u>
Out of six contracts tested, there were no Suspension & Debarment certifications in five files.

State Domestic Preparedness Equipment Support Program:
Out of thirteen contracts tested, there were no Suspension & Debarment certifications in three files.

Highway Planning and Construction:
Out of eight contracts tested there were no Suspension & Debarment certifications in two files.

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.

Questioned Costs:
N/A.

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 be 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 General Service Administration's (GSA) "List of Parties Excluded From Federal Procurement or Non-Procurement Programs."

Management Response:
We agree. Management has revised standard contract language to include suspension and debarment terms. Management is also instituting revised procedures to determine if vendors and sub-recipients are on the GSA "List of Parties excluded from Federal Procurement or Non-Procurement Programs."

Finding No. 2004-04 16.PSCP575 – High Intensity Drug Trafficking Areas (Subrecipient Monitoring)

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.*"

During the performance of our procedures on subrecipient monitoring, we noted that for all four sample items we selected for testing; (a) There were no reviews performed of the subrecipients single audits reports. (b) In addition, the only evidence of subrecipient monitoring was the desk review performed by both the San Diego Police Department (Department) and 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:

$7,032,871 – 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 taken place if an audit finding exists.

Management Response:

We agree. Management is currently in the process of terminating its fiduciary responsibilities with regard to this grant program and will become a subrecipient from other governmental entities within the County of San Diego. As part of this, management is reviewing existing processes and determining necessary control activities to be implemented in order to ensure proper administration of funds received as a subrecipient in the future.

Finding No. 2004-05 20.205 – Highway Planning and Construction (Davis-Bacon Act)

In accordance with 29CFR5.5(a)(3) "*Payrolls and basic records. (i) Payrolls and basic records relating thereto shall be maintained by the contractor [[Page 117]] during the course of the work and preserved for a period of three years thereafter for all laborers and mechanics working at the site of the work (or under the United States Housing Act of 1937, or under the Housing Act of 1949, in the construction or development of the project). Such records shall contain the name, address, and social security number of each such worker, his or her correct classification, hourly rates of wages paid (including rates of contributions or costs anticipated for bona fide fringe benefits or cash equivalents thereof of the types described in section 1(b)(2)(B) of the Davis-Bacon Act), daily and weekly number of hours worked, deductions made and actual wages paid.*"

During the performance of our procedures over the Davis-Bacon Act we noted that 5 out of 44 weekly certified labor payroll reports selected for testing were not available. The City was unable to provide either certified labor payroll report or non-performance payroll reports for these 5 weeks.

Questioned Costs:

Undeterminable.

Recommendation:

The City should improve its document maintenance system to ensure that records on all certified payroll reports and non-performance payrolls are safely stored within two weeks after the end of a payroll period.

Management Response:

We agree. Management is currently reviewing record retention policies and controls over the acquisition of certified payroll reports.

Finding No. 2004-06 20.205 – Highway Planning and Construction (Reporting)

In accordance with 49CFR18.42(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 or last expenditure report for that period.*"

During the performance of our procedures over reporting, we selected a sample of 8 Federal Status Reports and noted that supporting documentation for one of these reports could not be located.

Questioned Costs:

$211,875 representing the amount of the supporting documentation.

Recommendation:

The Field Engineering Department (Department) should improve its record retention system to ensure that documentation is retained in a safe place and can be retrieved when requested to support its program activities.

Management Response:

We agree. Management is currently reviewing its record retention policies and procedures in order to determine necessary revisions to ensure compliance with grant program requirements. This review will include identification of training opportunities and the implementation of new document management procedures.

CITY OF SAN DIEGO
Summary Schedule of Prior Year Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2004

Findings related to the financial statements

Reference Number:	**2003-1**
Topic	Material Weakness in Internal Controls over the Financial Reporting Process
Audit Finding:	There were inadequate policies, procedures, internal controls and personnel to ensure the preparation of an accurate and reliable CAFR on a timely basis. Specifically, deficiencies were noted in the following areas; CAFR Preparation Pension Accounting Capital Asset Accounting Metropolitan Wastewater Utility Risk Management City Treasurer's Cash and Investment Pool Procurement Accounts Payable and Accrued Expense Human Resources Accounts Receivable Information Technology. As a result of this, numerous material corrections to the CAFR for the year ended June 30, 2003 in the amount of $1 billion were proposed and booked.
Status of Corrective Action:	Not corrected during the fiscal year ended June 30, 2004.
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 the current year 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 set up an irrevocable trust with SDCERS devoted specifically to retiree healthcare benefits.

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, 2004. Settlement was reached with plaintiff during fiscal year ended June 30, 2007.

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 was projected to dramatically increase.
	• The City failed to disclose that it had been intentionally under-funding its pension obligations so that it could increase pension benefits but defer the costs.
	• The City knew or was reckless in not knowing that its disclosures were materially misleading.
	• The City made these misleading statements through three different means;
	  • The City made misleading statements in the offering documents for five municipal offerings in 2002 and 2003 that raised over $260 million from investors. The offering documents included offering statements.
	  • The City made misleading statements to the agencies that gave the City its credit rating for its municipal bonds.
	  • The City made misleading statements in its "continuing disclosure statements", which described the City's financial condition.

Status of Corrective Action:	In progress. The City consented to the SEC order and as part of the applicable remediation, the City has retained an independent monitor to oversee the City's compliance with and remediation of the issues identified in the Order.

Findings related to federal awards

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:	Not corrected during fiscal year ended June 30, 2004. See current year finding 2004-02.
Reference Number:	**2003-02**
Federal Catalog Number/ Program Name:	16.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 subrecipient single audit 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, 2004. See current year finding 2004-04.
Reference Number:	**2003-03**
Federal Catalog Number/ Program Name:	16.PSCP575 – High Intensity Drug Trafficking Areas (Reporting)
Audit Finding:	Out of 15 Federal Status Reports (FSRs) selected for testing, two FSRs could not be located.
Status of Corrective Action:	Corrected.
Reference Number:	**2003-04**
Federal Catalog Number/ Program Name:	14.248 – Community Development Block Grant Section 108 Loan Guarantees (Procurement, Suspension and Debarment)
Audit Finding:	For two out of the three vendors selected for testing, the contract did not contain a clause regarding suspension and debarment. In addition, there did not appear to be a system to determine whether a vendor was suspended and/or debarred.
Status of Corrective Action:	Not corrected during fiscal year ended June 30, 2004. See current year finding 2004-03.

Reference Number:	**2003-05**
Federal Catalog Number/ Program Name:	16.592 – Local Law Enforcement Block Grants Program (Procurement, Suspension and Debarment)
Audit Finding:	For one out of five vendors tested, the City entered into a sole-source agreement but did not have any documentation supporting this non-competitive bid process.
Status of Corrective Action:	Corrected.

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, 2004.

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:	Not corrected during fiscal year ended June 30, 2004. See current year finding 2004-05.