CITY OF SAN DIEGO

Single Audit Reports

For the Fiscal Year Ended June 30, 2007

CITY OF SAN DIEGO
Single Audit Reports
For the Fiscal Year Ended June 30, 2007

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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, 2007, which collectively comprise the City's basic financial statements and have issued our report thereon dated October 17, 2008. Our report was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the San Diego Housing Commission, as described in our report on the City's basic financial statements. This report does not include the results of the other auditors testing of internal control over financial reporting or compliance and other matters that are reported separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

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

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than

inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in 2007-(a) and 2007-(b) in the accompanying schedule of Current Year Findings to be significant deficiencies in internal control over financial reporting.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The City's responses to the findings identified in our audit are described in the accompanying schedules of Current Year Findings and Prior Year Findings. We did not audit the City's response and, accordingly, we express no opinion on it.

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

Macias Gini & O'Connell LLP

Certified Public Accountants

Los Angeles, California
October 17, 2008

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

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

Compliance

We have audited the compliance of the City of San Diego (the City) with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the fiscal year ended June 30, 2007. 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 $3,672,128 and $146,570,437, 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, 2007. Our audit, described below, did not include the operations of the RDA and SDHC because we audited and reported on the RDA in accordance with OMB Circular A-133 as a separate engagement and the SDHC engaged other auditors to perform its audit in accordance with OMB Circular A-133 as a separate engagement.

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

As described in item 2007-01 in the accompanying schedule of findings and questioned costs, the City did not comply with requirements regarding subrecipient monitoring that is applicable to its Community Development Block Grant and 21st Century Community Learning Centers programs. Compliance with such requirements is necessary, in our opinion, for the City to comply with the requirements applicable to those programs.

In our opinion, except for the noncompliance described in the preceding paragraph, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the fiscal year ended June 30, 2007. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2007-02, 2007-03, 2007-04 and 2007-05.

Internal Control Over Compliance

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

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

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2007-01, 2007-02, 2007-03 and 2007-04 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the City's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs, we consider items 2007-01 and 2007-04 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 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, 2007, which collectively comprise the City's basic financial statements and have issued our report thereon dated October 17, 2008. Our report was modified to include a reference to other auditors. Other auditors audited the financial statements of the San Diego Housing commission, as described in our report on the City's basic financial statements.

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

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City's response and, accordingly, we express no opinion on it.

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

San Diego, California
December 19, 2008, except for the paragraphs on the Schedules of Expenditures of Federal Awards and Governor's Office of Emergency Services Grant as to which date is October 17, 2008.

CITY OF SAN DIEGO
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2007

Federal Grantor/Grant Name	Pass-through Number	Federal CFDA No.	Federal Expenditures	
Office of National Drug Control Policy				
Direct Programs				
High Intensity Drug Trafficking Areas	*N/A*	07.PSCP575	$ 1,514,463	
Total Office of National Drug Control Policy				**1,514,463**
U.S. Department of Housing and Urban Development				
Direct Programs				
Community Development Block Grants/Entitlement Grants	*N/A*	14.218	14,751,166	
Emergency Shelter Grants Program	*N/A*	14.231	649,658	
Community Development Block Grants_Section 108 Loan Guarantees	*N/A*	14.248	544,568	
Total U.S. Department of Housing and Urban Development				**15,945,392**
U.S. Department of Interior				
Direct Programs				
Water Reclamation and Reuse Program	*N/A*	15.504	39,021	
Total U.S. Department of Interior				**39,021**
U.S. Department of Justice				
Direct Programs				
Missing Children's Assistance Project Grants	*N/A*	16.543	131,957	
Byrne Formula Grant Program	*N/A*	16.579	92,865	
Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	*N/A*	16.580	401,166	
Violence Against Women Formula Grant	*N/A*	16.588	27,710	
Bulletproof Vest Program	*N/A*	16.607	114,469	
Community Prosecution and Project Safe Neighborhoods	*N/A*	16.609	6,282	
Public Safety Partnership and Community Policing Grants	*N/A*	16.710	3,938,075	
Police Corps	*N/A*	16.712	62,250	
Edward Byrne Memorial Justice Assistance Grant Program	*N/A*	16.738	412,754	
DNA capacity Enhancement Program	*N/A*	16.741	202,538	
Forensic Casework DNA Backlog Reduction Program	*N/A*	16.743	62,230	
Subtotal Direct Programs				5,452,296
Passed Through Governor's Office of Emergency Services				
Coverdell Forensic Science Improvements	*CQ05047919*	16.742	74,471	
Subtotal Passed Through County of San Diego				74,471
Total U.S. Department of Justice				**5,526,767**
U.S. Department of Transportation				
Direct Program				
Airport Improvement Program	*N/A*	20.106	712,391	
Passed Through State Department of Transportation				
Highway Planning and Construction	*Various*	20.205	2,477,124	
Total U.S. Department of Transportation				**3,189,515**

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

CITY OF SAN DIEGO
Schedule of Expenditures of Federal Awards (Continued)
For the Fiscal Year Ended June 30, 2007

Federal Grantor/Grant Name	Pass-through Number	Federal CFDA No.	Federal Expenditures	
National Foundation on the Arts and the Humanities				
Passed Through California State Library				
Promotion of the Arts_Grants to Organizations and Individuals	*04-5500-1036*	45.024	13,597	
Total National Foundation on the Arts and the Humanities				**13,597**
U.S. Environmental Protection Agency				
Passed Through California State Library				
Surveys, Studies, Investigations, Demonstrations, and Training Grants and Cooperative Agreements	*X7-83167301-0*	66.436	27,411	
Special Purpose Grant	*XP-98923801-1*	66.606	46,304	
Total U.S. Environmental Protection Agency				**73,715**
U.S. Department of Education				
Passed Through California State Library				
Twenty-First Century Community Learning Centers	*37-2002-CCLC-003; VV99027919*	84.287	2,589,896	
Total U.S. Department of Education				**2,589,896**
U.S. Department of Homeland Security				
Direct Programs				
National Urban Search and Rescue (US&R) Response System	*N/A*	97.025	545,917	
Disaster Grants - Public Assistance (Presidentially Declared Disasters	*N/A*	97.036	55,645	
Metropolitan Medical Response System	*N/A*	97.071	5,582	
Passed Through the Governor's Office of Emergency Services				
State Domestic Preparedness Equipment Support Program	*2004-45*	97.004	1,537,265	
Urban Areas Security Initiative	*Various*	97.008	19,707,879	
Passed Through the County of San Diego				
Emergency Management Performance Grants (EMPG)	*None*	97.042	139,464	
Homeland Security Grant Program	*None*	97.067	104,160	
State Homeland Security Program (SHSP)	*None*	97.073	1,001,953	
Law Enforcement Terrorism Prevention Program (LETPP)	*None*	97.074	113,395	
Buffer Zone Protection Program (BZPP)	*None*	97.078	268,692	
Total U.S. Department of Homeland Security				**23,479,952**
Total Expenditures of Federal Awards				$ 52,372,318

See accompanying Notes to the 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, 2007

Program Title and Expenditure Category	Grant Award Number	Budget	Actual Non-match	Actual Match	Actual Total	Budget to Actual Variance
Coverdell Forensic Science Improvement Program	CQ05047919*					
Personal Services		$ 21,904	$ 21,904	$ -	$ 21,904	$ -
Operating Expenses		74,241	52,567	-	52,567	21,674
Total		$ 96,145	$ 74,471	$ -	$ 74,471	$ 21,674

Note: * The non-match expenditures of $74,471 for grant CQ05047919 are reported as federal expenditures in the Schedule of Expenditures of Federal Awards under CFDA 16.742.

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

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, 2007, 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 $3,672,128 and the San Diego Housing Commission (SDHC) federal expenditures of $146,570,437 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 loan programs and the table below represents the loan balances outstanding at June 30, 2007. This loan program does not have continuing compliance requirements.

Program Title	Federal Catalog Number	Amount Outstanding
Community Development Block Grants Section 108 Loan Guarantees	14.248	$ 39,431,000

Note 6 – Amount Provided to Subrecipients

Of the federal expenditures presented in the SEFA, the City provided federal awards to sub-recipients as follows:

Program Title	Federal Catalog Number	Amount
Community Development Block Grants/Entitlement Grants	14.218	$4,727,463
Community Development Block Grants/Entitlement Grants – passed through to San Diego Housing Commission	14.218	2,247,338
Community Development Block Grants/Entitlement Grants – passed through to the Redevelopment Agency	14.218	133,777
Community Development Block Grants/Entitlement Grants – Emergency Shelter Grants Program	14.231	630,813
Community Development Block Grants Section 108 Loan Guarantees – passed through to the Redevelopment Agency	14.248	544,568
High Intensity Drug Trafficking Areas	07.PSCP575	1,514,463
21st Century Community Learning Centers	84.287	1,353,085
Urban Areas Security Initiative	97.008	9,996,474

Section I – Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
• Material weaknesses identified?	No
• Significant deficiencies identified that are not considered to be material weaknesses?	Yes
Noncompliance material to financial statements noted?	No

Federal Awards:

Internal control over major programs:	
• Material weaknesses identified?	Yes
• Significant deficiencies identified that are not considered to be material weaknesses?	Yes
Type of auditor's report issued on compliance for major programs:	Qualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	Yes

Identification of major programs:

CFDA	Program Name
07.PSCP575	High Intensity Drug Trafficking Areas
14.218	Community Development Block Grants
16.710	Public Safety Partnership and Community Policing Grants
20.205	Highway Planning and Construction
84.287	21st Century Community Learning Centers
97.004	State Domestic Preparedness
97.008	Urban Areas Security Initiative

Dollar threshold used to distinguish between Type A and Type B programs:	$1,571,170
Auditee qualified as low-risk auditee?	No

Section II – Financial Statement Findings

Finding No. 2007-(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 seven RFAs we tested indicated the rationale for the reserve adjustment, nor was there any indication that management had reviewed or authorized any of these RFAs.

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

Management Response - Management agrees with this finding and is taking steps to correct the finding. Planned corrections include the implementation of a new claims management system and quarterly review procedures performed by employees on a sample basis.

Finding No. 2007-(b) Journal Entry – Access Controls

Observation – We noted that access controls for on-line journal entries do not prevent employees within the City with a greater than "view only" access from deleting any post-close on-line journal entry after the entry has been posted. This lack of access controls increases the risk of potential management override and/or errors. Currently, there are no compensating controls in place to mitigate this risk.

Recommendation – Management should implement additional controls that prohibit limited users, such as approvers and above, the access to delete journal entries.

Management Response: - Corrected during fiscal year 2008. Prior to the issuance of this report, the City already put controls in place to prevent on-line journal entries from being deleted. The staff of the Comptroller's Office were provided training on revised journal entry procedures in May 2008. Additionally, as of June 30, 2008, the Operations section of the Comptroller's Office revised procedures and confirmed to management that journal vouchers for the accounting period had been properly approved. Follow up training will occur annually.

Section III Federal Award Findings and Questioned Costs

Finding No. 2007-01 **14.218 – Community Development Block Grants/Entitlement Grants; 84.287 – 21st Century Community Learning Center; 97.008 – Urban Areas Security Initiative; (Subrecipient monitoring)**

Criteria:

In accordance with OMB A-133; Subpart D—Federal Agencies and Pass-through Entities; §__.400 "*A pass-through entity is responsible for: […] (i) advising subrecipients of requirements imposed on them by federal laws, regulations, and the provisions of contracts or grant agreements as well as any supplemental requirements imposed by the pass-through entity; (ii) monitoring the activities of subrecipients as necessary to ensure that federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and the performance goals are achieved; (iii) ensuring that subrecipients expending $500,000 or more in federal awards during the subrecipient's fiscal year have met the audit requirement of this part for that fiscal year.*"

Also, for the Community Development Block Grants/Entitlement Grants (CDBG), in accordance with the Federal Code of Regulations, Title 24 CFR §570.503 (a) & (b) **..***Agreements with subrecipients. (a) Before disbursing any CDBG funds to a subrecipient, the recipient shall sign a written agreement with the subrecipient. The agreement shall remain in effect during any period that the subrecipient has control over CDBG funds, including program income. (b) At a minimum, the written agreement shall include provisions concerning the following items: (1) Statement of work….(2) Records and reports..(3) Program income…(4) Uniform administrative requirements..(5) Other program requirements..(6) Suspension and termination..(7) Reversion of assets.*

Condition:

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

Community Development Block Grants/Entitlement Grants:
Out of twenty-four subrecipients selected for testwork;

- The City did not perform during the award (on-site) monitoring for sixteen subrecipients to ascertain whether subrecipients used federal awards for authorized purposes, complied with laws, regulations and the provisions of contracts and grant agreements, and achieved performance goals.
- For one of these subrecipients, there was no documentation that the City followed up on any deficiencies noted during the award year, if any, nor whether the City responded appropriately in the case the subrecipient was unwilling or unable to have the required audit. In addition, there was no documentation that the subrecipient submitted their programmatic reports in a timely manner.
- For three of these subrecipients (interdepartmental), the City did not have written agreements governing the use of the CDBG funds as required in the regulation.

21st Century Community Learning Center:
Out of eight sampled subrecipients selected for testwork;

- The City did not perform during the award (on-site) monitoring for any of the sampled subrecipients to ascertain whether subrecipients used federal awards for authorized purposes, complied with laws, regulations and the provisions of contracts and grant agreements, and achieved performance goals.
- The City did not document whether a copy of subrecipients single audit reports (for those requiring a single audit) was reviewed, if any management decisions were issued on any audit findings within 6 months of receipt of the subrecipient's audit report and whether subrecipients took appropriate and timely corrective action on all audit findings for any of the sampled subrecipients.
- The City did not monitor the activities for subrecipients not subject to OMB Circular A-133.
- The City did not appear to have any documentation of its verification of non-suspension and debarment for any of its subrecipients. We however did verify that none of the subrecipients tested were on the Excluded Parties List System at www.epls.gov.

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

Questioned Costs:
Community Development Block Grants/Entitlement Grants $2,296,776
21st Century Community Learning Centers $1,353,085
Urban Areas Security Initiative $9,996,474

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

Recommendation:

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

Management Response:

21st Century Community Learning:
Management agrees with this finding. However, as of January 1, 2007, the program administration was transferred back to the grantee (San Diego Unified School District) with the exception of the 'faith-based' contracts which the City maintained until the grant funding ended December 31, 2007. The City will ensure that onsite monitoring for the remaining contract is performed.

Urban Areas Security Initiative:
Management agrees with this finding. The Office of Homeland Security (OHS) has procedures in place for monitoring subrecipients. OHS staff has been trained on these new procedures and have incorporated them in the monitoring process.

Community Development Block Grants/Entitlement Grants:
Management agrees with this finding. CDBG staff will change its practice of monitoring on a rotational basis and due so yearly. The City will be reforming the program which includes adding a 'monitoring plan'.

Finding No. 2007-02 **14.218 – Community Development Block Grants/Entitlement Grants (Allowable Costs)**

Criteria:

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

Condition:

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

Questioned Costs:
$236,889

Recommendation:

The respective grant coordinating departments should endeavor to ensure that expenditures for the federal programs are reported in the correct year to ensure proper accounting and reporting of period expenditures.

Management Response:
Management agrees with the finding. The Comptroller's policy is to accrue items greater than $100k. The administering departments have notified the sub-recipients to submit all invoices promptly at the close of the fiscal year.

Finding No. 2007-03 **16.710 – Public Safety Partnership and Community Policing Grants; 20.205 – Highway Planning and Construction (Procurement, suspension & debarment)**

Criteria:

In accordance with Title 28 CFR 66.35 and Title 49 CFR 18.35, "*Grantees and subgrantees must not make any award or permit any award (subgrant or contract) at any tier to any party which is debarred or suspended or is otherwise excluded from or ineligible for participation in Federal assistance programs under Executive Order 12549, 'Debarment and Suspension.'*"

Condition:

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

Public Safety Partnership and Community Policing Grants:
Out of ten samples selected for testing, the City was unable to provide supporting documentation showing that they performed a verification check of suspension and debarment for any of these samples. In each instance noted, there were no Suspension & Debarment certifications in the City's files and there was no evidence that a determination of the contractors' suspension/debarment status was made. We did however determine that none of the contractors were listed as suspended or debarred parties on the federal government website.

Highway Planning and Construction:
Out of ten samples selected for testing, the City was unable to provide supporting documentation showing that they performed a verification check of suspension and debarment for seven of these samples. In each instance noted above, there were no Suspension & Debarment certifications in the City's files and there was no evidence that a determination of the contractors' suspension/debarment status was made. We did however determine that none of the contractors were listed as suspended or debarred parties on the federal government website.

Questioned Costs:
Not applicable.

Recommendation:

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

Management Response:

Public Safety Partnership and Community Policing Grants & Highway Planning and Construction: Management concurs with the finding. On a go forward basis, the Purchasing and Contracting Department will document their verification of suspension and debarment for all covered transactions by including in the contract file a copy of the results from the EPLS (http://epls.gov/) search. In addition, contract documents will include a requirement for all contractors submitting a bid to complete and submit with their bids a certification suspension and debarment status which in turn will be made part of the contract file.

Finding No. 2007-04 **20.205 – Highway Planning and Construction; 84.287 – 21st Century Community Learning Center (Document retention)**

Criteria:

For Highway Planning and Construction, in accordance with the Federal Code of Regulations, Title 49 CFR §18.42 (b) *Length of retention period. (1) Except as otherwise provided, records must be retained for three years from the starting date specified in paragraph (c) of this section*" and (c) states about the starting date of retention period that "*1) General. When grant support is continued or renewed at annual or other intervals, the retention period for the records of each funding period starts on the day the grantee or subgrantee submits to the awarding agency its single or last expenditure report for that period. However, if grant support is continued or renewed quarterly, the retention period for each year's records starts on the day the grantee submits its expenditure report for the last quarter of the Federal fiscal year. In all other cases, the retention period starts on the day the grantee submits its final expenditure report. If an expenditure report has been waived, the retention period starts on the day the report would have been due.*"

For 21st Century Community Learning center, in accordance with Federal Code of Regulations, Title 34 CFR §100.6 (b), Compliance Reports, "*Each recipient shall keep such records and submit to the responsible Department official or his designee timely, complete and accurate compliance reports at such times, and in such form and containing such information, as the responsible Department official or his designee may determine to be necessary to enable him to ascertain whether the recipient has complied or is complying with this part.*"

Condition:

During the performance of our testwork we noted the following:

Highway Planning and Construction:
Out of ten samples selected for testwork, the City was unable to produce the supporting documentation for one of the samples requested for our testwork over procurement, suspension and debarment. Although the City's database shows the existence of such documentation, we were unable to verify and complete our review.

21st Century Community Learning Center:
Out of five samples selected for testing, the City was unable to produce the supporting documentation for two of the samples.

Questioned Costs:
Highway Planning and Construction $87,716
21st Century Community Learning Center $74,061

Recommendation:

The City should develop and implement procedures to monitor and file all required compliance reports and supporting documents to ensure that the City is in compliance with the reporting requirements of the Code of Federal Regulations. This will ensure all records are properly maintained and can be substantiated upon request for review.

Management Response:

Highway Planning and Construction and 21st Century Learning Center:
Management agrees with this finding. Beginning July 1, 2007 all support documentation is scanned and available for review in ALVA.

Finding No. 2007-05 **84.287 – 21st Century Community Learning Centers; 07.PSCP575 – High Intensity Drug Trafficking Areas; 20.205 – Highway Planning and Construction (Reporting)**

Criteria:

For 21st Century Community Learning Centers, per Federal Code of Regulations Title 34 CFR §100.6 (b), Compliance Reports, "*Each recipient shall keep such records and submit to the responsible Department official or his designee timely, complete and accurate compliance reports at such times, and in such form and containing such information, as the responsible Department official or his designee may determine to be necessary to enable him to ascertain whether the recipient has complied or is complying with this part.*"

For High Intensity Drug Trafficking Areas, per Federal Code of Regulations, Title 43 34 CFR §12.81, "*Grantees will use Standard Form 269 or 269A, Financial Status Report, to report the status of funds… When reports are required on a quarterly or semiannual basis, they will be due 30 days after the reporting period.*"

For Highway Planning and Construction, per Federal Code of Regulations, Title 49 CFR § 18.41 (3), "*Frequency. The Federal agency may prescribe the frequency of the report for each project or program. However, the report will not be required more frequently than quarterly. If the Federal agency does not specify the frequency of the report, it will be submitted annually. A final report will be required upon expiration or termination of grant support*".

Condition:

During the performance of our testwork over reporting requirements, we noted the following:

21st Century Community Learning Center:
Out of eight samples selected for testwork, three of the samples did not submit their reports in a timely manner and for two samples there was no evidence of when they were submitted.

High Intensity Drug Trafficking Areas:
Out of nine samples selected for testwork, seven Financial Status reports were found to have been submitted more than 30 days after the reporting period.

Highway Planning and Construction
Out of five samples selected for testwork, the reimbursement claims were not submitted on a timely manner.

Questioned Costs:
Not applicable.

Recommendation:

The City should develop and implement procedures to monitor and file required reports and supporting documents to ensure that the City is in compliance with the reporting requirements.

Management Response:

Management agrees with finding. All efforts will be made to ensure that all reports and invoices are submitted timely.

Findings related to the financial statements

Reference Number:	**2006-(a)**
Topic	City of San Diego Redevelopment Agency (RDA) - Properties Held for Longer than 5 Yrs
Audit Finding:	In accordance with CA Health & Safety Code §33334.16, the RDA is required to initiate activities to develop properties purchased with Housing Fund money within five years from the date of acquisition. If development activities have not begun within this period, the legislative body may adopt a resolution extending the period for one time, not to exceed five years. During our review of RDA's year ended June 30, 2006 property listing, we noted that out of a sample of 25 properties selected for testing, 1 property acquired with Housing Fund money did not initiate activities within the five year period nor did they attempt to obtain an extension by resolution.
Status of Corrective Action:	In progress. Management has established monitoring controls to identify land held for resale purchased with low and moderate income housing funds that could exceed the 5 year limit established by CA Health & Safety Code §33334.16. For properties identified, management will ensure appropriate action is taken to either obtain an extension by resolution or to reimburse the housing fund for acquisition costs associated with land purchases before the 5 year limit is exceeded.

Reference Number:	**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:	Corrected.

Reference Number:	**2003-1**
Topic	Material Weakness in Internal Controls over the Financial Reporting Process
Audit Finding:	There were inadequate policies, procedures, internal controls and personnel to ensure the preparation of an accurate and reliable CAFR on a timely basis. Specifically, deficiencies were noted in the following areas; CAFR Preparation; Pension Accounting; Capital Asset Accounting; Metropolitan Wastewater Utility; Risk Management; City Treasurer's Cash and Investment Pool; Procurement; Accounts Payable and Accrued Expense; Human Resources; Accounts Receivable; Information Technology. As a result of this, numerous material corrections to the CAFR for the year ended June 30, 2003 in the amount of $1 billion were proposed and booked.
Status of Corrective Action:	In progress. However, prior to the issuance of this report several modifications to the City's financial reporting process and control environment have been made. These modifications include the hiring of new management to oversee financial reporting and internal controls, and the implementation of revised policies, procedures and training for employees. Additionally, the implementation of OneSD will dramatically change (and improve) the year-end process; however, the preparation of the Fiscal Year 2008 Comprehensive Annual Financial Report will be completed using the City's current accounting systems. Also improving controls for 2008 is a new year-end processing flowchart that has been developed. It identifies tasks necessary to complete the CAFR by responsible staff member; identified items contingent on information from other sections within the Comptroller's Office and other departments within the City. Use of the flowchart along with the year-end closing calendar already in use will allow management to more effectively monitor progress toward completion of the CAFR and ensure critical components are not omitted. Notwithstanding the improvements made prior to the issuance of this report, management agrees further improvement is necessary and remains committed to continuing to strengthen its internal controls and procedures over financial reporting.

Reference Number:	**2003-3**
Topic	Violations of Law: Wastewater
Audit Finding:	The Clean Water Act requires municipalities to structure their rates in a proportionate manner to ensure that each user pays his fair share. Because the City's rate structure for the ten-year period from 1995 to 2004 did not fairly allocate the significantly higher cost of treating water discharged by certain industrial users, resulting in residential users subsidizing the rates of industrial ones by millions of dollars per year, the City's rates were not proportionate and thus may have violated the Clean Water Act's proportionality requirements.
Status of Corrective Action:	Not corrected during the fiscal year ended June 30, 2007. Settlement was reached with plaintiff during the current year and the City has taken several actions in order to correct flaws in its rate structure during the fiscal year ended June 30, 2008.

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.

Reference Number:	**2003-4 (Continued)**
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 part of the underlying cause of this finding. The City's response to this finding has been a combination of staffing changes, modified policies and procedures along with systems initiatives to correct the internal control weaknesses that created the materially misleading disclosures. Furthermore, the City has established an audit committee and a Disclosure Practices Working Group (DPWG). The DPWG is responsible for reviewing the City's annual financial statements to ensure that all material items are appropriately disclosed and reported in the City's CAFR. The independent monitor required by the SEC order has reported on the City's progress with respect to several remediation issues from the SEC order. The latest report is dated March 25, 2008 and is available for review.

Findings related to federal awards

Reference Number:	**2006-01**
Federal Catalog Number/ Program Name:	84.287 – 21st Century Community Learning Center – Sub-recipient monitoring
Audit Finding:	During the performance of our testwork over subrecipient monitoring, we noted that out of a sample of 5 subrecipients selected for testwork, there was no evidence of during-the-award monitoring on any of these subrecipients. In addition, the City had not obtained copies of the single audit reports for those subrecipients required to have a single audit in accordance with OMB A-133.
Status of Corrective Action:	Not corrected during fiscal year ended June 30, 2007. See current year finding 2007-01.
Reference Number:	**2006-02**
Federal Catalog Number/ Program Name:	16.710 – Public Safety Partnership and Community Policing Grants; 97.008 – Urban Areas Security Initiative; – Allowable costs
Audit Finding:	During the performance of our testwork over allowable costs we noted the following; Public Safety Partnership and Community Policing Grants: Out of a sample of 14 invoices selected for testing, the City was unable to provide supporting documentation for 1 of the invoiced expenditure items.

Audit Finding (cont.):	Urban Areas Security Initiative: Out of 18 samples selected for testing, even though all samples were adequately supported, 5 samples were for costs incurred in the prior year.
Status of Corrective Action:	Corrected in fiscal year ended June 30, 2007.
Reference Number:	**2006-03**
Federal Catalog Number/ Program Name:	16.710 – Public Safety Partnership and Community Policing Grants; 97.008 – Urban Areas Security Initiative; – Procurement, suspension & debarment
Audit Finding:	During the performance of our procedures over procurement, suspension & debarment, we noted the following; Public Safety Partnership and Community Policing Grants: Out of 7 samples selected for testing, for 4 samples, the City was unable to provide supporting documentation that shows that they performed a verification check of suspension and debarment. Urban Areas Security Initiative: Out of a sample of 7 items selected for testing, the City was unable to provide supporting documentation that shows they performed a verification check of suspension and debarment. In each instance noted above, there were no Suspension & Debarment certifications in the files and there was no evidence that a determination of the contractors' suspension/debarment status was made. Alternatively, we determined that none of the contractors were listed as suspended or debarred parties on the federal government website and therefore we have not reported any questioned costs.
Status of Corrective Action:	Partially corrected in fiscal year ended June 30, 2007. The finding for Urban Areas Security Initiative was corrected; however, this has not been corrected for Public Safety Partnership and Community Policing Grants. See current year finding 2007-03.
Reference Number:	**2005-01**
Federal Catalog Number/ Program Name:	14.218 – Community Development Block Grants/Entitlement Grants (CDBG); 14.248 – Community Development Block Grants Section 108 Loan Guarantees (Section 108); 16.710 – Public Safety Partnership and Community Policing Grants (COPS); 20.205 – Highway Planning and Construction (HPC); 97.008 – Urban Areas Security Initiative (UASI); (Procurement, Suspension and Debarment)

Audit Finding:	For CDBG, 1 out of four contracts tested had no evidence of Suspension & Debarment certification review. For Section 108, 1 out of three contracts tested had no evidence of Suspension & Debarment certification review. For COPS, 2 out of three contracts tested had no evidence of Suspension & Debarment certification review. For HPC, 1 out of nine contracts tested had no evidence of Suspension & Debarment certification review. For UASI, 1 out of two contracts tested had no evidence of Suspension & Debarment certification review.
Status of Corrective Action:	Partially corrected during fiscal year ended June 30, 2007. See current year finding 2007-03.
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:	Partially corrected during fiscal year ended June 30, 2007. See current year finding 2007-03.
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:	Corrected. The City's 2004 Local Law Enforcement Block Grants award file was closed out by the Department of Justice on August 2, 2005, with evidence of both a final 269 and programmatic report being received.