

City of San Bernardino
San Bernardino, California

Single Audit Report on Federal Awards

Year ended June 30, 2011

City of San Bernardino
Single Audit Report on Federal Awards
Year ended June 30, 2011

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The Honorable Mayor and City Council
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**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, each major fund, and the aggregate remaining fund information of the City of San Bernardino (the City) as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements and have issued our report thereon dated March 30, 2012. We did not audit the financial statements of the water and sewer funds, which are both major funds and 96%, 100% and 70%, respectively, of the assets, net assets, and revenues of the business-type activities. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the business-type activities and proprietary fund financial statements, is based on the report of the 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.

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.

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2011-1 and 2011-2 to be material weaknesses.

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 is described in the accompanying schedule of findings and questioned costs. We did not audit the City's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, Governing Board, 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.

Handwritten signature in cursive script: Rogers Anderson Malooly & Scott, LLP

March 30, 2012



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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL
EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH
OMB CIRCULAR A-133**

Compliance

We have audited the City of San Bernardino's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2011. 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.

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.

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In our opinion, the City complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. However, the results of our auditing procedures disclosed 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 2011-3, 2011-4, and 2011-5.

Internal Control Over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as items 2011-6 and 2011-7. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of and for the year ended June 30, 2011, and have issued our report thereon dated March 30, 2012, which contained unqualified opinions on those financial statements. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

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

This report is intended solely for the information and use of management, Governing Board, 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.

Rogers Anderson Maloney & Scott, LLP

March 30, 2012

City of San Bernardino
Schedule of Expenditures of Federal Awards
Year ended June 30, 2011

Federal Grantor/Pass-through Grantor	Federal CDFA Number	Pass-through Entity Identifying Number	Grant I.D. #	Total Awards Expended
Corporation for National and Community Services				
<i>Direct Assistance:</i>				
Retired Senior Volunteer Program	94.002	-	09SRPCA001	\$ 13,133
Retired Senior Volunteer Program	94.002	-	10SRPCA001	<u>43,238</u>
Subtotal CFDA #94.002				<u>56,371</u>
Senior Companion Program	94.016	-	09SCPCA005	<u>283,539</u>
Total Corporation for National and Community Services				<u>339,910</u>
US Department of Housing and Urban Development				
<i>Direct Assistance:</i>				
Community Development Block Grant/Entitlement Grants	14.218	-	B-09-MC-06-0539	4,766,661 *
ARRA – Community Development Block Grant/Entitlement Grants	14.253- ARRA	-	B-09-MY-06-0539	583,144 *
<i>Pass-through from San Bernardino County:</i>				
Community Development Block Grant/Entitlement Grants	14.218	-	-	<u>32,926</u> *
Total Entitlement Grants Cluster				<u>5,382,731</u>
<i>Direct Assistance:</i>				
Emergency Shelter Grant	14.231	-	S-09-MC-06-0539	<u>89,408</u>
HOME Investment Partnership Program	14.239	-	M-09-MC-06-0531	<u>366,186</u>
Neighborhood Stabilization Program	14.256	-	B-08-MN-06-0520	<u>2,875,321</u> *
ARRA – Homelessness Prevention and Rapid Re-Housing Program	14.257- ARRA	-	S-09-MY-06-0539	<u>891,933</u> *
Total US Department of Housing and Urban Development				<u>9,605,579</u>

See accompanying notes to the schedule of expenditures of federal awards.

City of San Bernardino
Schedule of Expenditures of Federal Awards
Year ended June 30, 2011

Federal Grantor/Pass-through Grantor	Federal CDFA Number	Pass-through Entity Identifying Number	Grant I.D. #	Total Awards Expended
US Department of Labor				
<i>Pass-through from State of California</i>				
<i>Employment Development Department:</i>				
Workforce Investment Act – New Start	17.258	K074165 / K178684	-	\$ 185,385 *
Workforce Investment Act – Adult	17.258	K178684 / K282497	-	446,457 *
ARRA - Adult Incentive	17.258-ARRA	/ K074165	-	2,138 *
ARRA - Adult Incentive	17.258-ARRA	K074165	-	2,401 *
ARRA – Workforce Investment Act – Adult	17.258-ARRA	R970561	-	486,558 *
Workforce Investment Act – Youth	17.259	K178684 / K282497	-	911,492 *
ARRA – Workforce Investment Act – Youth	17.259-ARRA	R970561	-	440,415 *
Workforce Investment Act –				
Dislocated Worker	17.260	K074165 / K178684	-	504,393 *
ARRA – Workforce Investment Act – Dislocated Worker	17.260-ARRA	/ K282497	-	729,696 *
Workforce Investment Act – Dislocated Worker: Rapid Response	17.260	R970561	-	154,330 *
ARRA – Workforce Investment Act – Dislocated Worker: Rapid Response	17.260-ARRA	K178684	-	375,654 *
		R970561 / K074165	-	<u>4,238,919</u>
Total WIA Cluster				<u>4,238,919</u>
Total US Department of Labor				<u>4,238,919</u>
US Department of Education				
<i>Pass-through from the California Department of Education:</i>				
Adult Basic Education	84.002	PL-100	-	<u>87,794</u>
Total US Department of Education				<u>87,794</u>

See accompanying notes to the schedule of expenditures of federal awards.

City of San Bernardino
Schedule of Expenditures of Federal Awards
Year ended June 30, 2011

Federal Grantor/Pass-through Grantor	Federal CDEA Number	Pass-through Entity Identifying Number	Grant I.D. #	Total Awards Expended
US Department of Health and Human Services				
<i>Pass-through from San Bernardino County Department of Human Services:</i>				
Senior Nutrition Program	93.045	07-481	-	\$ 203,061
NSIP	93.053	07-481	-	29,402
Total Aging Cluster				<u>232,463</u>
Total US Department of Health and Human Services				<u>232,463</u>
US Department of Homeland Security, Federal Emergency Management Agency				
<i>Direct Assistance:</i>				
ARRA – Assistance to Firefighters Grant	97.115-			
	ARRA	-	EMW-2008-FO-07316	<u>59,442</u>
SAFER Grant	97.083	-	EMW-2009-FH-0082	<u>1,307,201 *</u>
<i>Pass-through from San Bernardino County Fire:</i>				
2009 MMRS Grant	97.071	071-00000	-	146,898
2008 Metropolitan Medical Response System (EOC)	97.071	071-00000	-	115,630
Homeland Security	97.071	071-00000	-	<u>14,206</u>
Subtotal CFDA #97.071				<u>276,734</u>
<i>Pass-through from City of Riverside Office of Emergency Management:</i>				
Catastrophic Planning UASI Phase 2	97.067	065-62000	-	123,607
<i>Pass-through from Riverside County Fire:</i>				
2010 Urban Area Security Initiative	97.067	-	-	<u>1,388</u>
Subtotal CFDA #97.067				<u>124,995</u>

See accompanying notes to the schedule of expenditures of federal awards.

City of San Bernardino
Schedule of Expenditures of Federal Awards
Year ended June 30, 2011

Federal Grantor/Pass-through Grantor	Federal CDFA Number	Pass-through Entity Identifying Number	Grant I.D. #	Total Awards Expended
US Department of Homeland Security, Federal Emergency Management Agency (continued)				
<i>Pass-through from City of Riverside</i>				
<i>Office of Emergency Management:</i>				
Urban Area Security Initiative (Police)	97.008	065-62000	-	\$ 56,530
<i>Pass-through from County of Los Angeles:</i>				
Regional Catastrophic Preparedness Grant Program	97.111	C117378	-	98,818
Total US Department of Homeland Security				<u>1,923,720</u>
US Department of Transportation				
<i>Pass-through from the State of California Office of Traffic Safety:</i>				
Safety Belt Performance Grants	20.609	CT11360	-	6,975
Sobriety Checkpoint	20.601	SC11360	-	19,093
Sobriety Checkpoint	20.601	SC10360	-	16,757
<i>Direct Assistance:</i>				
Selective Traffic Enforcement Program Grant	20.600	-	PT1012	85,959
Selective Traffic Enforcement Program Grant	20.600	-	PT1122	146,216
Total Highway Safety Cluster				<u>275,000</u>
Total US Department of Transportation				<u>275,000</u>
US Department of Justice				
<i>Pass-through from San Bernardino County Probation Department:</i>				
ARRA – Justice Assistance Grant	16.804- ARRA	2009-SB-B9-0640	-	290,964
Justice Assistance Grant	16.738	2011-DJ-BX-2642	-	210,141
Subtotal JAG Program Cluster				<u>501,105</u>

See accompanying notes to the schedule of expenditures of federal awards.

City of San Bernardino
Schedule of Expenditures of Federal Awards
Year ended June 30, 2011

Federal Grantor/Pass-through Grantor	Federal CDFA Number	Pass-through Entity Identifying Number	Grant I.D. #	Total Awards Expended
US Department of Justice (continued)				
<i>Direct Assistance:</i>				
Gang Resistance Education and Training	16.737	-	2008-JL-FX-0208	\$ 94,794
Gang Resistance Education and Training – 2009 Earmark Grant	16.737	-	2009-D1-BX-0006	<u>162,006</u>
Subtotal CFDA #16.737				<u>256,800</u>
Operating Phoenix Earmark	16.753	-	2010-DD-BX-0404	<u>79,115</u>
<i>Pass-through from Office of Community Oriented Policing Services:</i>				
Public Safety Partnership and Community Policing Grants:				
COPS Tech – 2007	16.710	-	2008-CK-WX-0268	106,917 *
COPS Tech – 2008	16.710	-	2008-CX-WX-0266	186,814 *
COPS Tech – 2009	16.710	-	2009-CK-WX-0133	231,381 *
ARRA – COPS Rehiring Grant	16.710-ARRA	-	2009-RJ-WX-0018	<u>1,258,554 *</u>
Subtotal CFDA #16.710/16.710-ARRA				<u>1,783,666</u>
Total US Department of Justice				<u>2,620,686</u>
Department of Energy				
<i>Direct Assistance:</i>				
ARRA – Energy Efficiency and Conservation Block Grant Program	81.128-ARRA	-	DE-SC0001924	<u>203,745</u>
Total Department of Energy				<u>203,745</u>
Total Federal Awards				<u>\$ 19,527,816</u>

* = Major program

See accompanying notes to the schedule of expenditures of federal awards.

City of San Bernardino
Notes to the Schedule of Expenditures of Federal Awards
Year ended June 30, 2011

(1) Summary of Significant Accounting Policies Applicable to the Schedule of Expenditures of Federal Awards

(a) Scope of Presentation

The accompanying schedule presents only the expenditures incurred by the City of San Bernardino that are reimbursable under federal programs of federal awards. For the purposes of this schedule, federal awards include both federal awards received directly from a federal agency, as well as federal funds received indirectly by the City from a non-federal agency or other organization. Only the portion of program expenditures reimbursable with such federal funds are reported in the accompanying schedule. Program expenditures in excess of the maximum federal reimbursement authorized or the portion of the program expenditures that were funded with state, local or other non-federal funds are excluded from the accompanying schedule.

(b) Basis of Accounting

The expenditures included in the accompanying schedule were reported on the modified accrual basis of accounting. Under the modified accrual basis of accounting, expenditures are incurred when the City becomes obligated for payment as a result of the receipt of the related goods and services. Expenditures reported include any property or equipment acquisitions incurred under the federal program.

(c) Subrecipients

The City of San Bernardino passed-through federal funds to subrecipients in the fiscal year ended June 30, 2011 as follows:

Grant	Federal CFDA Number	Amount Passed- Through to Subrecipients
Community Development Block Grant/ Entitlement Grants	14.218	\$ 365,000
ARRA - Homelessness Prevention and Rapid Re-Housing Program	14.257-ARRA	891,933
Workforce Investment Act Grants (ARRA)	17.258 - 17.260 / (ARRA)	519,753
Energy Efficiency and Conservation Block Grant Program	81.128-ARRA	186,216
Total		<u>\$ 1,962,902</u>

City of San Bernardino
Notes to the Schedule of Expenditures of Federal Awards
Year ended June 30, 2011

(1) Summary of Significant Accounting Policies Applicable to the Schedule of Expenditures of Federal Awards (continued)

(d) Meal Income

The City of San Bernardino earned \$30,602 in meal income for the Senior Nutrition Program for the year ended June 30, 2011.

(2) Workforce Investment Act Grants

The City receives various funding under the Workforce Investment Act which is passed through from the State of California Employment Development Department. Below is a summary, by pass-through entity identifying number, of Investment Act monies spent for the year ended June 30, 2011.

<u>Pass-through #</u>	<u>CFDA #</u>	<u>Amount</u>
R970561	17.258-17.260 (ARRA)	\$ 1,870,885
K074165	17.258-17.260 (ARRA)	1,013,497
K178684	17.258-17.260	1,313,916
K282497	17.258-17.260	40,621
	Total	<u>\$ 4,238,919</u>

City of San Bernardino
 Schedule of Findings and Questioned Costs
 Year ended June 30, 2011

I. SUMMARY OF AUDIT RESULTS

Financial Statements

Type of auditor's report issued: unqualified

Internal control over financial reporting:

- Material weaknesses identified? X yes no
- Significant deficiencies identified that are not considered to be material weaknesses? yes X none reported
- Noncompliance material to financial statements noted? yes X no

Federal Awards

Internal control over major programs:

- Material weaknesses identified? yes X no
- Significant deficiencies identified that are not considered to be material weaknesses? X yes none reported

Type of auditor's report issued on compliance for major programs: unqualified

- Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? X yes no

City of San Bernardino
 Schedule of Findings and Questioned Costs
 Year ended June 30, 2011

I. SUMMARY OF AUDIT RESULTS (continued)

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
14.218	Community Development Block Grant/Entitlement Grants
14.253-ARRA	ARRA – Community Development Block Grant/Entitlement Grants
14.256	Neighborhood Stabilization Program
14.257-ARRA	ARRA - Homelessness Prevention and Rapid Re-Housing Program
	Public Safety Partnership and Community Policing Grants:
16.710	COPS 2007 Technology Grant
16.710	COPS 2008 Technology Grant
16.710	COPS 2009 Technology Grant
16.710-ARRA	ARRA – COPS Rehiring Grant
	Workforce Investment Act Grants:
17.258	New Start
17.258	WIA – Adult
17.258-ARRA	ARRA - Adult Incentive
17.258-ARRA	ARRA - Adult Incentive
17.258-ARRA	ARRA – WIA – Adult
17.259	WIA – Youth
17.259-ARRA	ARRA – WIA – Youth
17.260	WIA – Dislocated Worker
17.260-ARRA	ARRA – WIA – Dislocated Worker
17.260	WIA – Dislocated Worker: Rapid Response
17.260-ARRA	ARRA – WIA – Dislocated Worker: Rapid Response
97.083	SAFER Grant

Dollar threshold used to distinguish between type A and type B programs:

\$ 585,834

Auditee qualified as low-risk auditee? _____ yes X no

City of San Bernardino
Schedule of Findings and Questioned Costs
Year ended June 30, 2011

II. FINANCIAL STATEMENT FINDINGS

MATERIAL WEAKNESSES

2011-1 *Bank Reconciliations*

Observation

During the course of our fieldwork, we noted that bank reconciliations were not being performed timely at the beginning of the year.

Performing bank reconciliations in a timely manner allows for possible errors or fraud to be detected in a timely manner.

Recommendation

We understand that with an office with limited accounting personnel there is oftentimes no practical corrective action possible for this inherent weakness other than strong management oversight. However, we recommend that bank reconciliations be performed in a timelier manner to the extent possible.

Management's Response

The City concurs and bank reconciliations will be performed timely.

2011-2 *Financial Statement Close Process and Audit Preparation*

Observation

In the past year, the City implemented a new general ledger system. This contributed to a challenge in year-end closing of the books and preparation for the annual audit. We began our audit fieldwork on February 2, 2012. Subsequent to the commencement of audit fieldwork, we were provided numerous adjusting journal entries by the City, which in aggregate have a material effect on the financial statements as a whole. Most of these adjustments were corrections and adjustments that were recorded after the audit had begun. Certain account reconciliations and corresponding adjusting journal entries were provided upon auditor inquiry, but should have been part of the financial statement close process. The financial statement close process is a key internal control for preparing year-end financial statements. Timely preparation and review of all account reconciliations and significant financial statement accounts is a significant part of preparing for the annual audit. All of the above factors contributed to the significant delays in the ability to finalize the year-end financial statements.

City of San Bernardino
Schedule of Findings and Questioned Costs
Year ended June 30, 2011

II. FINANCIAL STATEMENT FINDINGS (continued)

MATERIAL WEAKNESSES (continued)

Recommendation

To improve the financial statement close process and audit preparation, we recommend that the City establish a more efficient and effective responsibilities matrix for its financial close process to provide timely and accurate completion of financial reporting as well as timely review and approval by management of all balance sheet reconciliations and account balances.

Management's Response

The City began implementing a new ERP integrated financial management system during the time we were closing our 06/30/10 fiscal year and went live during closing of the 06/30/11 fiscal year. Furthermore, during the implementation period, the Director of Finance retired, our Financial Analyst resigned, and two of our accountants went out on medical leave. The combination of the extra work caused by implementing the new ERP system and the turnover of staff contributed to the delay in completing work load assignments. Staff has been diligently working extra hours all during this period, but additional time was needed to complete the year end close. The City believes that with the implementation project completed, fiscal year end close processes will be on track to close our year in a more timely and orderly fashion.

City of San Bernardino
Schedule of Findings and Questioned Costs
Year ended June 30, 2011

III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

COMPLIANCE FINDINGS

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Neighborhood Stabilization Program – CFDA No. 14.256

2011-3 Grant No. B-08-MN-06-0520

Criteria: The OMB Circular A-133 Compliance Supplement requires that when awards are funded on a reimbursement basis, the costs for which reimbursements are requested must be paid prior to the date of the reimbursement request.

Condition: During the year under audit, it was noted in various instances that the City of San Bernardino Economic Development Agency (Agency), administering this grant on behalf of the City, requested reimbursement for costs that had not yet been paid by the Agency.

Questioned Cost: None noted.

Effect: The Agency might be reimbursed for costs that never end up being paid by the Agency, and thus would have to repay the federal awarding agency for these costs.

Cause: The Agency deliberately requested reimbursement for costs that had not yet been paid by the Agency because of cash flow concerns.

Auditor Recommendation: The Agency should take steps to ensure that all costs are paid by the Agency prior to requesting reimbursement from the federal awarding agency.

Grantee Response and Corrective Action Plan: The Grantee's response is reported in the "Corrective Action Plan" and considered as part of this report.

City of San Bernardino
Schedule of Findings and Questioned Costs
Year ended June 30, 2011

III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (continued)

COMPLIANCE FINDINGS (continued)

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

ARRA - Homelessness Prevention and Rapid Re-Housing Program – CFDA No. 14.257-ARRA

2011-4 Grant No. S-09-MY-06-0539

Criteria: 29 CFR Section 99.400(d)(1) requires pass-through entities to “identify Federal awards made by informing each subrecipient of CFDA title and number, award name and number, award year, if the award is R&D, and name of Federal agency.”

Condition: The City of San Bernardino Economic Development Agency (Agency), administering the Homelessness Prevention and Rapid Re-Housing Program on behalf of the City of San Bernardino, has not informed its sole subrecipient of the *Catalog of Federal Domestic Assistance* (CFDA) number.

Questioned Cost: None noted.

Effect: Without knowing the CFDA number, the subrecipient cannot properly report expenditures on its Schedule of Expenditures of Federal Awards and may not be able to determine whether an audit in accordance with OMB Circular A-133 is required. Also, without specific information as to the federal funds received, the subrecipient cannot establish that federal funds have not been used in violation of the restrictions and prohibitions of applicable statutes.

Cause: The Agency did not have procedures in place to inform its subrecipient of the CFDA numbers.

Auditor Recommendation: The Agency should take steps to ensure that subrecipients are timely informed of all required federal information, including CFDA numbers, associated with each program.

Grantee Response and Corrective Action Plan: The Grantee’s response is reported in the “Corrective Action Plan” and considered as part of this report.

City of San Bernardino
Schedule of Findings and Questioned Costs
Year ended June 30, 2011

III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (continued)

COMPLIANCE FINDINGS (continued)

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

ARRA - Homelessness Prevention and Rapid Re-Housing Program – CFDA No. 14.257-ARRA

2011-5 Grant No. S-09-MY-06-0539

Criteria: For performance reporting, underlying data should be accumulated and summarized in accordance with the required or stated criteria and methodology, and should be accurate and complete.

Condition: The City of San Bernardino Economic Development Agency (Agency), administering the Homelessness Prevention and Rapid Re-Housing Program on behalf of the City of San Bernardino, submitted Quarterly Performance Reports for the above grant which were found to be inaccurate.

Questioned Cost: None noted.

Effect: The results and progress of the grant's performance are not able to be properly assessed by the grantor agency.

Cause: The Agency did not have proper controls in place to review the reports such that inaccuracies were discovered in a timely manner.

Auditor Recommendation: The Agency should take steps to ensure that all Quarterly Performance Reports are reviewed, recalculated and reconciled to underlying data by appropriate personnel to guarantee accuracy.

Grantee Response and Corrective Action Plan: The Grantee's response is reported in the "Corrective Action Plan" and considered as part of this report.

City of San Bernardino
Schedule of Findings and Questioned Costs
Year ended June 30, 2011

III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (continued)

INTERNAL CONTROL FINDINGS

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Community Development Block Grant/Entitlement Grants – CFDA No. 14.218
ARRA – Community Development Block Grant/Entitlement Grants – CFDA No. 14.253-ARRA
Neighborhood Stabilization Program – CFDA No. 14.256
ARRA – Homelessness Prevention and Rapid Re-Housing Program – CFDA No. 14.257-ARRA

2011-6 Grant No. B-09-MC-06-0539
Grant No. B-09-MY-06-0539
Grant No. B-08-MN-06-0520
Grant No. S-09-MY-06-0539

Criteria: Proper internal controls require adequate documentation. Documentation to support amounts requested for reimbursement from federal awarding agencies should include a listing from the general ledger or a schedule detailing which checks/invoices comprise the amount being requested for reimbursement.

Condition: The City of San Bernardino Economic Development Agency (Agency), administering these grants on behalf of the City of San Bernardino, had inadequate records to allow the auditor to easily trace expenses to when they were requested for reimbursement.

Questioned Cost: None noted.

Effect: Without proper documentation, the Agency is unable to verify that they submitted expenses for reimbursement to the federal awarding agency after the expense was paid by the Agency.

Cause: The Agency does not have proper internal controls in place over cash management to properly document support of request for reimbursement amounts.

Auditor Recommendation: The Agency should develop procedures for properly documenting support of amounts requested for reimbursement from federal awarding agencies. This support should include a listing from the general ledger or a schedule detailing which checks/invoices comprise the amount being requested for reimbursement and the reimbursement claim number and date submitted for reimbursement.

Grantee Response and Corrective Action Plan: The Grantee's response is reported in the "Corrective Action Plan" and considered as part of this report.

City of San Bernardino
Schedule of Findings and Questioned Costs
Year ended June 30, 2011

III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (continued)

INTERNAL CONTROL FINDINGS (continued)

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Community Development Block Grant/Entitlement Grants – CFDA No. 14.218
ARRA – Community Development Block Grant/Entitlement Grants – CFDA No. 14.253-ARRA
Neighborhood Stabilization Program – CFDA No. 14.256
ARRA – Homelessness Prevention and Rapid Re-Housing Program – CFDA No. 14.257-ARRA

2011-7 Grant No. B-09-MC-06-0539
Grant No. B-09-MY-06-0539
Grant No. B-08-MN-06-0520
Grant No. S-09-MY-06-0539

Criteria: Proper internal controls require adequate review and documentation. Accounting records should be supported by complete source documentation, and transactions should be reviewed by appropriate finance personnel.

Condition: The City of San Bernardino Economic Development Agency (Agency), administering these grants on behalf of the City of San Bernardino, was unable to locate source documentation for three of the total 91 transactions selected for testing for the above grants. There was no indication of finance's review on 27 of 88 transactions tested.

Questioned Cost: None noted.

Effect: Without proper review and documentation, the Agency is unable to justify that costs are allowable and are recorded properly in the accounting records.

Cause: The Agency does not have proper internal controls in place over the financial review process of all transactions and does not maintain proper control over accounting records.

Auditor Recommendation: The Agency should develop procedures for ensuring that all transactions are reviewed by finance personnel and indication of this review is documented on source documentation. In addition, the Agency should develop procedures for maintaining accounting records such that they can be located.

Grantee Response and Corrective Action Plan: The Grantee's response is reported in the "Corrective Action Plan" and considered as part of this report.

City of San Bernardino
Summary Schedule of Prior Audit Findings
Year ended June 30, 2011

CURRENT STATUS OF PRIOR YEAR FINDINGS:

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Community Development Block Grant/Entitlement Grants – CFDA No. 14.218

Grant No. B-09-MC-06-0539

DEPARTMENT OF LABOR

(Pass-through from the State of California Employment Development Department)

Workforce Investment Act Cluster (ARRA) – CFDA Nos. 17.258 – 17.260 / ARRA

Pass-through ID Nos. K074165, K178684, R970561

2010-3 *Condition:* The City of San Bernardino Economic Development Agency (Agency), administering the Community Development Block Grant/ Entitlement Grants on behalf of the City of San Bernardino, and the San Bernardino Employment Training Agency (SBETA), administering the Workforce Investment Act grants on behalf of the City of San Bernardino, have not informed all subrecipients of the *Catalog of Federal Domestic Assistance* (CFDA) numbers.

Current Status: This finding has been corrected; the Agency and SBETA now inform their subrecipients of the CFDA numbers.

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Neighborhood Stabilization Program – CFDA No. 14.256

2010-4 Grant No. B-08-MN-06-0520

Condition: During the year under audit, it was noted in various instances that the City of San Bernardino Economic Development Agency (Agency), administering this grant on behalf of the City, requested reimbursement for costs that had not yet been paid by the Agency.

Current Status: This finding has not been corrected in the current year, and has been reported as current year finding 2011-3.

City of San Bernardino
Summary Schedule of Prior Audit Findings
Year ended June 30, 2011

CURRENT STATUS OF PRIOR YEAR FINDINGS (continued):

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Neighborhood Stabilization Program – CFDA No. 14.256

2010-5 Grant No. B-08-MN-06-0520

Condition: During the course of the audit, it was noted that the City of San Bernardino Economic Development Agency (Agency), administering this grant on behalf of the City, is not maintaining sufficient documentation to determine whether or not verification of suspension/debarment status was being checked for vendors/contractors prior to awards being made.

Current Status: This was not noted as a finding in the current year, as the Agency did not make any procurements in the current year under audit.

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Community Development Block Grant/Entitlement Grants – CFDA No. 14.218
ARRA – Community Development Block Grant/Entitlement Grants – CFDA No. 14.253-ARRA
Neighborhood Stabilization Program – CFDA No. 14.256

2010-6 Grant No. B-09-MC-06-0539
Grant No. B-09-MY-06-0539
Grant No. B-08-MN-06-0520

Condition: The City of San Bernardino Economic Development Agency (Agency), administering these grants on behalf of the City of San Bernardino, had inadequate records to allow auditor to easily trace expenses to when they were requested for reimbursement.

Current Status: This finding has not been corrected in the current year, and has been reported as current year finding 2011-6.



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CORRECTIVE ACTION PLAN
March 29, 2012

Department of Housing and Urban Development

The City of San Bernardino respectfully submits the following corrective action plan for the year ended June 30, 2011.

Name and address of independent public accounting firm:

Rogers, Anderson, Malody & Scott, LLP
735 E. Carnegie, Suite 100
San Bernardino, California 92408

Audit period: Year ended June 30, 2011

FINDINGS – FEDERAL AWARD PROGRAM AUDIT

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Neighborhood Stabilization Program – CFDA No. 14.256

2011-3 Grant No. B-08-MN-06-0520

Auditor Recommendation: The City of San Bernardino Economic Development Agency (Agency), administering this grant on behalf of the City of San Bernardino, should take steps to ensure that all costs are paid by the Agency prior to requesting reimbursement from the federal awarding agency.

Action Taken by Economic Development Agency:

All funds drawn from the federal line of credit are disbursed within 3 days of receipt in compliance with 24 CFR 85.41 (c) (3) to vendors. All future costs will be paid prior to funds drawn from the line of credit.

ARRA - Homelessness Prevention and Rapid Re-Housing Program – CFDA No. 14.257-ARRA

2011-4 Grant No. S-09-MY-06-0539

Auditor Recommendation: The City of San Bernardino Economic Development Agency (Agency), administering this grant on behalf of the City of San Bernardino, should take steps to ensure that subrecipients are timely informed of all required federal information, including CFDA numbers, associated with each program.

Action Taken by Economic Development Agency:

Current and future, subrecipients will be informed timely of required program information and CFDA number.

ARRA - Homelessness Prevention and Rapid Re-Housing Program – CFDA No. 14.257-ARRA

2011-5 Grant No. S-09-MY-06-0539

Auditor Recommendation: The City of San Bernardino Economic Development Agency (Agency), administering this grant on behalf of the City of San Bernardino, should take steps to ensure that all Quarterly Performance Reports are reviewed, recalculated and reconciled to underlying data by appropriate personnel to guarantee accuracy.

Action Taken by Economic Development Agency:

Actions are in place now to insure staff input data and supervisor verify and insure data are reconciled for accuracy.

Community Development Block Grant/Entitlement Grants – CFDA No. 14.218

ARRA – Community Development Block Grant/Entitlement Grants – CFDA No. 14.253-ARRA

Neighborhood Stabilization Program – CFDA No. 14.256

ARRA – Homelessness Prevention and Rapid Re-Housing Program – CFDA No. 14.257-ARRA

2011-6 Grant No. B-09-MC-06-0539
Grant No. B-09-MY-06-0539
Grant No. B-08-MN-06-0520
Grant No. S-09-MY-06-0539

Auditor Recommendation: The City of San Bernardino Economic Development Agency (Agency), administering this grant on behalf of the City of San Bernardino, should develop procedures for properly documenting support of amounts requested for reimbursement from federal awarding agencies. This support should include a listing from the general ledger or a schedule detailing which checks/invoices comprise the amount being requested for reimbursement and the reimbursement claim number and date submitted for reimbursement.

Action Taken by Economic Development Agency:

The following actions have been taken as a result of the audit findings. Invoices are collected, categorized by activity and placed on the NSP Expenditure Worksheet. The Worksheet serves as the cover for all invoices received for the payment period in question and signed by the Housing Director indicating the requested payments are valid and should be paid. This documentation is then forwarded to the Agency's Accounts Payable staff for further processing and payment (see corrective action #7 for further information on Accounts Payable processing). Upon obtaining confirmation from Accounts Payable that payment of all invoices through their assigned vendors has occurred, Agency Housing Staff will then request reimbursement from the HUD DRGR system. This generally equates

to a two-week lag between the time the payment request is made and the time housing staff requests reimbursement from HUD.

Community Development Block Grant/Entitlement Grants – CFDA No. 14.218
ARRA – Community Development Block Grant/Entitlement Grants – CFDA No. 14.253-ARRA
Neighborhood Stabilization Program – CFDA No. 14.256
ARRA – Homelessness Prevention and Rapid Re-Housing Program – CFDA No. 14.257-ARRA

2011-7 Grant No. B-09-MC-06-0539
Grant No. B-09-MY-06-0539
Grant No. B-08-MN-06-0520
Grant No. S-09-MY-06-0539

Auditor Recommendation: The City of San Bernardino Economic Development Agency (Agency), administering this grant on behalf of the City of San Bernardino, should develop procedures for ensuring that all transactions are reviewed by finance personnel and indication of this review is documented on source documentation. In addition, the Agency should develop procedures for maintaining accounting records such that they can be located.

Action Taken by Economic Development Agency:

The following actions have been taken as a result of the audit findings. NSP payment requests are processed weekly. Invoices are categorized by specific NSP activity which include: (1) Acquisition, Rehabilitation, Resale; (2) Acquisition, Rehabilitation, Rental; (3) Acquisition, Demolition; and (4) Administration. These expenditures are approved by Housing staff and summarized on the NSP Expenditure Worksheet. This packet is then forwarded to Accounts Payable for further processing.

Depending on the number of vendors identified in each payment request packet, there will be a corresponding number of NSP Expenditure Worksheets (the necessary copies will be made by Housing staff and forwarded in the packet to Accounts Payable). Upon receipt, Accounts Payable staff will process payment by matching each invoice with its associated vendor. Accounts Payable will then generate a payment authorization by vendor. A copy of: (1) the vendor payment authorization, (2) the associated invoice(s), (3) a copy of the check that was sent to the vendor and (4) the copy of the NSP Expenditure Worksheet linking the vendor to the NSP expense would be attached and filed away by Accounts Payable for a period of not less than 7 years after the end of NSP programmatic activities. In the event of any future audit, Accounts Payable could also retrieve this information electronically by cross referencing the specific NSP worksheet with the vendor payment history, thus obtaining the specific check that was originally processed.

If there are further questions regarding this plan, please call Carey Jenkins, Director of Housing and Community Development of the Economic Development Agency of the City of San Bernardino at 909-663-1044.

Sincerely yours,

A handwritten signature in black ink that reads "Jason P. Simpson". The signature is written in a cursive style with a long horizontal line extending to the right from the end of the name.

Jason Simpson
Director of Finance
City of San Bernardino