

**CITY OF SAN BERNARDINO
CALIFORNIA**

Single Audit Report on Federal Awards

Year ended June 30, 2012

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CITY OF SAN BERNARDINO

Single Audit Report on Federal Awards Year Ended June 30, 2012

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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***

To the Mayor and City Council Members
City of San Bernardino, California

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, California (the City) as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 16, 2014. We did not audit the financial statements of the water and sewer funds, which are major funds and 96%, 99% and 73%, 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.

The report on the City's financial statements was qualified because City management has not adopted a methodology for reviewing the valuation of property held for resale in the major governmental funds and the Successor Agency to the City of San Bernardino Economic Development Agency (Successor Agency) fiduciary fund in order to determine the net realizable value of the property, and, accordingly, property held for resale is reported at acquisition cost plus improvement costs. Accounting principles generally accepted in the United States of America require that the carrying amount of property held for resale, or development and sale, should not exceed net realizable value. We were unable to obtain sufficient appropriate audit evidence about the valuation of property held for resale by other auditing procedures. The amount by which this departure would affect the assets, fund balances, and expenditures of the major governmental funds, and the assets, fiduciary net assets, and deductions of the Successor Agency is not reasonably determinable.

The report on the City's financial statements was also qualified because management has not adopted and implemented a methodology for reviewing the collectability of notes receivable in the major governmental funds and the Successor Agency fiduciary fund, and, accordingly, has not considered the need to provide an allowance for uncollectible amounts. Accounting principles generally accepted in the United States of America require that an adequate allowance be provided for uncollectible receivables. We were unable to obtain sufficient appropriate audit evidence about the valuation of notes receivable by other auditing procedures. The amount by which this departure would affect the assets, fund balances, and expenditures of the major governmental funds, and the assets, fiduciary net assets, and deductions of the Successor Agency is not reasonably determinable.

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.

The City's financial statements have been prepared assuming that the City of San Bernardino, California, will continue as a going concern. As discussed in Note 2 of the City's financial statements, on August 1, 2012, the City filed a case seeking bankruptcy protection and the adjustment of its liabilities under Chapter 9 of the United States Bankruptcy Code. These conditions raise substantial doubt about the City's ability to continue as a going concern. Management's plans regarding those matters also are described in Note 2. The accompanying financial statements do not include any adjustments that might result from the outcome of this uncertainty.

On December 29, 2011, the California Supreme Court upheld Assembly Bill X1 26 that provides for the dissolution of all redevelopment agencies in the State of California. Therefore, the City of San Bernardino Economic Development Agency (the City's redevelopment agency), a component unit of the City of San Bernardino, was dissolved on February 1, 2012. As discussed in Note 26 of the City's financial statements, the City Council adopted resolutions to serve as the Successor Agency to the former redevelopment agency (for non-housing functions), and the Successor Housing Agency to the former redevelopment agency (for housing functions). On February 1, 2012, housing assets and liabilities were transferred to the City and are reported in the Low and Moderate Income Housing Special Revenue Fund, and non-housing assets and liabilities were transferred to the Successor Agency to the Economic Development Agency of the City of San Bernardino and are reported in the fiduciary funds. Certain transactions undertaken by the City of San Bernardino Economic Development Agency prior to the date of dissolution are subject to an asset transfer review by the State of California and Due Diligence Reviews to be performed on behalf of the State. The State issued its asset transfer review report on March 6, 2013, and its final determination on the Low and Moderate Income Housing Fund Due Diligence Review on March 21, 2014. The Other Assets Due Diligence Review has not been completed. The effects of this review cannot be determined at this time, and the accompanying financial statements do not include any adjustments that might result from the outcome of this uncertainty.

As discussed in Note 23 of the City's financial statements, the City of San Bernardino, California, has expended certain federal grant funds in a manner that may have violated certain of the restrictive provisions of the related grants. The possible outcome of these matters, which is under review of the appropriate federal officials, is uncertain at this time. Accordingly, no provision for any liability resulting from the outcome of this uncertain matter has been made in the accompanying financial statements for possible federal claims for refunds of those grant monies.

As discussed in Note 23 of the City's financial statements, the City of San Bernardino, California, has expended certain gas tax revenues in a manner that may have violated State guidelines relating to gas tax expenditures. The possible outcome of this matter is uncertain at this time. Accordingly, no provision for any liability resulting from the outcome of this uncertain matter has been made in the accompanying financial statements for the possible return of gas tax monies from the General Fund to the Gas Tax Fund (a restricted fund).

As discussed in Note 23 of the City's financial statements, the City of San Bernardino, California, has been named as a defendant in various claims and legal actions. The City's position on these matters is not a position of settled law and there is considerable legal uncertainty regarding these matters. It is possible that legal determinations may be made at a later date by an appropriate judicial authority that would resolve this issue favorably or unfavorably to the City. The City has reported a contingent liability of \$20.9 million in the accompanying financial statements related to these matters. There are no reserves set aside for these contingencies.

Internal Control Over Financial Reporting

Management of the City is responsible for establishing and maintaining effective 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 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 and other deficiencies that we consider to be significant deficiencies.

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 2012-01, 2012-02, 2012-03, 2012-04, 2012-05, 2012-06, 2012-07, 2012-08, and 2012-09 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned cost as items 2012-10, 2012-11, and 2012-14.

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, City Council, others within the entity, 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.

A handwritten signature in black ink that reads "Rogers Anderson Maloney & Scott, LLP". The signature is written in a cursive style with a large, sweeping initial 'R'.

June 16, 2014
San Bernardino, California



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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**

To the Mayor and City Council Members
City of San Bernardino, California

Compliance

We have audited the City of San Bernardino, California's (the City) 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, 2012. 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.

Compliance (continued)

As described in items 2012-10, 2012-11, and 2012-14, in the accompanying schedule of findings and questioned costs, the City did not comply with requirements regarding Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Cash Management, and Subrecipient Monitoring that are applicable to its Community Development Block Grant, HOME Investment Partnership Grant, and Neighborhood Stabilization Program. 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 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, 2012. However, 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 2012-12 and 2012-13.

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.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance 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 discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2012-10, 2012-11, and 2012-14 to be material weaknesses.

Internal Control Over Compliance (continued)

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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2012-12 and 2012-13 to be significant deficiencies.

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 opinions on the responses.

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, 2012, and have issued our report thereon dated June 16, 2014, which contained qualified opinions on those financial statements. Our audit was performed for the purpose of forming opinions on the financial statements as a whole.

The report on the City's financial statements was qualified because management has not adopted a methodology for reviewing the valuation of property held for resale in the major governmental funds and the Successor Agency to the City of San Bernardino Economic Development Agency (Successor Agency) fiduciary fund in order to determine the net realizable value of the property, and, accordingly, property held for resale is reported at acquisition cost plus improvement costs. Accounting principles generally accepted in the United States of America require that the carrying amount of property held for resale, or development and sale, should not exceed net realizable value. We were unable to obtain sufficient appropriate audit evidence about the valuation of property held for resale by other auditing procedures. The amount by which this departure would affect the assets, fund balances, and expenditures of the major governmental funds, and the assets, fiduciary net assets, and deductions of the Successor Agency is not reasonably determinable.

The report on the City's financial statements was also qualified because management has not adopted and implemented a methodology for reviewing the collectability of notes receivable in the major governmental funds and the Successor Agency fiduciary fund, and, accordingly, has not considered the need to provide an allowance for uncollectible amounts. Accounting principles generally accepted in the United States of America require that an adequate allowance be provided for uncollectible receivables. We were unable to obtain sufficient appropriate audit evidence about the valuation of notes receivable by other auditing procedures. The amount by which this departure would affect the assets, fund balances, and expenditures of the major governmental funds, and the assets, fiduciary net assets, and deductions of the Successor Agency is not reasonably determinable.

Schedule of Expenditures of Federal Awards (continued)

The accompanying schedule of expenditures of federal awards is presented for 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 financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain 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 schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

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

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

June 16, 2014
San Bernardino, California

CITY OF SAN BERNARDINO

Schedule of Expenditures of Federal Awards Year ended June 30, 2012

Federal Grantor/ Pass-through Grantor/Program Title	Federal CFDA Number	Grant Agreement Identifying Number	Federal Expenditures
<u>U.S. Department of Housing and Urban Development</u>			
<i>Direct awards</i>			
Community Development Block Grant*	14.218	B-11-MC-06-0539	\$ 3,175,022
Total CFDA 14.218			<u>3,175,022</u>
Emergency Solutions Grant Program	14.231	E-11-MC-06-0539	46,078
Total CFDA 14.231			<u>46,078</u>
HOME Investment Partnership Program*	14.239	M-11-MC-06-0531	1,110,925
Total CFDA 14.239			<u>1,110,925</u>
<i>Pass-through from San Bernardino County</i>			
Economic Development Initiative	14.251	Unknown	68,972
Total CFDA 14.251			<u>68,972</u>
<i>Direct awards</i>			
Neighborhood Stabilization Program*	14.256	B-11-MN-06-0520	685,050
Total CFDA 14.256			<u>685,050</u>
Homelessness Prevention and Rapid Re-Housing-ARRA	14.257-ARRA	S-09-MC-06-0539	359,000
Total CFDA 14.257-ARRA			<u>359,000</u>
Total U.S. Department of Housing and Urban Development			<u>5,445,047</u>
<u>U.S. Department of Justice</u>			
<i>Direct awards</i>			
Bulletproof Vest Partnership Program	16.607	99003786	28,395
Total CFDA 16.607			<u>28,395</u>
Public Safety Partnership and Community Policing Grants*	16.710	2008-CK-WX-0268	40,000

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, 2012

Federal Grantor/ Pass-through Grantor/Program Title	Federal CFDA Number	Grant Agreement Identifying Number	Federal Expenditures
<u>U.S. Department of Justice (continued)</u>			
<i>Direct awards</i>			
Public Safety Partnership and Community Policing Grants-ARRA*	16.710-ARRA	2009-RJ-WX-0018	1,336,045
Public Safety Partnership and Community Policing Grants*	16.710	2009-CK-WX-0133	<u>68,241</u>
Total CFDA 16.710			<u>1,444,286</u>
Gang Resistance Education and Training	16.737	2009-D1-BX-0006	<u>208,669</u>
Total CFDA 16.737			<u>208,669</u>
<i>Pass-through from San Bernardino County</i>			
Edward Byrne Memorial Justice Assistance Grant Program*1	16.738	Unknown	<u>181,985</u>
Total CFDA 16.738			<u>181,985</u>
<i>Direct award</i>			
Congressionally Recommended Awards	16.753	2010-DD-BX-0404	<u>188,582</u>
Total CFDA 16.753			<u>188,582</u>
<i>Pass-through from San Bernardino County</i>			
Edward Byrne Memorial Justice Assistance Grant (JAG) Program / Grants to Units of Local Governments-ARRA*1	16.804-ARRA	2009-SB-B9-0640	298,734
<i>Pass-through from Los Angeles County</i>			
Edward Byrne Memorial Justice Assistance Grant (JAG) Program / Grants to Units of Local Governments-ARRA*1	16.804-ARRA	C117378	<u>102,023</u>
Total CFDA 16.804-ARRA			<u>400,757</u>
Total U.S. Department of Justice			<u>2,452,674</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, 2012

Federal Grantor/ Pass-through Grantor/Program Title	Federal CFDA Number	Grant Agreement Identifying Number	Federal Expenditures
<u>U.S. Department of Labor</u>			
<i>Pass-through from California Employment Development Department</i>			
Workforce Investment Act Adult Program* ²	17.258	K178684/K282497	1,286,967
Total CFDA 17.258			1,286,967
Workforce Investment Act Youth Activities* ²	17.259	K178684/K282497	1,340,999
Total CFDA 17.259			1,340,999
Workforce Investment Act Dislocated Workers / Rapid Response* ²	17.278	K178684/K282497	968,822
Total CFDA 17.278			968,822
Total U.S. Department of Labor			3,596,788
<u>U.S. Department of Transportation</u>			
<i>Pass-through from California Office of Traffic Safety</i>			
State and Community Highway Safety	20.600	PT1122	125,896
State and Community Highway Safety	20.600	OTS 20786	177,986
Total CFDA 20.600			303,882
<i>Pass-through from Berkeley County</i>			
Alcohol Impaired Driving Countermeasures Incentive Grants I	20.601	SC11360	9,750
Alcohol Impaired Driving Countermeasures Incentive Grants I	20.601	SC12360	38,790
Total CFDA 20.601			48,540
Total U.S. Department of Transportation			352,422
<u>U.S. Department of Energy</u>			
<i>Direct award</i>			
Energy Efficiency and Conservation Block Grant Program-ARRA*	81.128-ARRA	DE-SC0001924	1,171,313
Total U.S. Department of Energy			1,171,313

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, 2012

Federal Grantor/ Pass-through Grantor/Program Title	Federal CFDA Number	Grant Agreement Identifying Number	Federal Expenditures
<u>U.S. Department of Education</u>			
<i>Direct award</i>			
Adult Education - Basic Grants	84.002	PL-100	74,309
Total U.S. Department of Education			74,309
<u>U.S. Department of Health and Human Services</u>			
<i>Pass-through from San Bernardino County Department of Aging and Adult Services</i>			
Special Programs for the Aging-Title III, Part C-Nutrition Services	93.045	07-481	28,018
Total CFDA 93.045			28,018
<i>Pass-through from San Bernardino County Department of Aging and Adult Services</i>			
Nutrition Services Incentive Program	93.053	07-481	193,370
Total CFDA 93.053			193,370
Total U.S. Department of Health and Human Services			221,388
<u>U.S. Corporation for National and Community Service</u>			
<i>Direct awards</i>			
Retired and Senior Volunteer Program	94.002	10SRPCA001	42,036
Total CFDA 94.002			42,036
Senior Companion Program	94.016	09SCPCA005	278,738
Total CFDA 94.016			278,738
Total U.S. Corporation for National and Community Service			320,774
<u>U.S. Department of Homeland Security</u>			
<i>Pass-through from Riverside Regional</i>			
Non-Profit Security Program	97.008	065-62000	10,021
Total CFDA 97.008			10,021

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, 2012

Federal Grantor/ Pass-through Grantor/Program Title	Federal CFDA Number	Grant Agreement Identifying Number	Federal Expenditures
<u>U.S. Department of Homeland Security (continued)</u>			
<i>Pass-through from Riverside Regional</i>			
Homeland Security Grant Program	97.067	065-62000	234,569
<i>Pass-through from Riverside City Fire</i>			
Homeland Security Grant Program	97.067	Unknown	<u>44,891</u>
Total CFDA 97.067			<u>279,460</u>
<i>Pass-through from San Bernardino County Fire</i>			
Medical Response System	97.071	071-00000	<u>454,054</u>
Total CFDA 97.071			<u>454,054</u>
<i>Direct award</i>			
Staffing for Adequate Fire & Emergency Response Grant*	97.083	EMW-2009-FH-0082	<u>1,462,401</u>
Total CFDA 97.083			<u>1,462,401</u>
Total U.S. Department of Homeland Security			<u>2,205,936</u>
Total Expenditures of Federal Awards			<u><u>\$ 15,840,651</u></u>

* - Major Program

¹ - Major Program Cluster for Department of Justice Grants

² - Major Program Cluster for Department of Labor Grants

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, 2012

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 (City) 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, 2012 as follows:

Federal CFDA Number	Federal Program Name	Amount Passed Through to Subrecipients
14.218	Community Development Block Grant	\$ 356,425
14.231	Emergency Solutions Grant Program	17,086
14.256	Neighborhood Stabilization Program	630,041
14.257-ARRA	Homelessness Prevention and Rapid Re-Housing Program	359,000
17.258, 259, 278 (ARRA)	Workforce Investment Act Grants (ARRA)	<u>1,113,565</u>
		<u><u>\$ 2,476,117</u></u>

CITY OF SAN BERNARDINO

Notes to the Schedule of Expenditures of Federal Awards Year ended June 30, 2012

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 Workforce Investment Act monies spent for the year ended June 30, 2012.

<u>Federal CFDA Number</u>	<u>Federal Program Name</u>	<u>Amount Passed Through to Subrecipients</u>
14.218	Community Development Block Grant	\$ 365,000
14.257-ARRA	Homelessness Prevention and Rapid Re-Housing Program	891,933
17.258, 259, 278 (ARRA)	Workforce Investment Act Grants (ARRA)	519,753
81.128-ARRA	Energy Efficiency and Conservation Block Grant Program	<u>186,216</u>
		<u>\$ 1,962,902</u>

CITY OF SAN BERNARDINO

Schedule of Findings and Questioned Costs Year ended June 30, 2012

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: qualified

Internal control over financial reporting:

Material weakness identified?	<u> X </u>	Yes	<u> </u>	No
Significant deficiencies identified that are not considered to be material weaknesses?	<u> </u>	Yes	<u> X </u>	None reported
Noncompliance material to financial statements noted?	<u> </u>	Yes	<u> X </u>	No

Federal Awards

Internal control over major programs:

Material weakness identified?	<u> X </u>	Yes	<u> </u>	No
Significant deficiencies identified that are not considered to be material weaknesses?	<u> X </u>	Yes	<u> </u>	None reported

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 OMB Circular A-133?	<u> X </u>	Yes	<u> </u>	No
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CITY OF SAN BERNARDINO

Schedule of Findings and Questioned Costs Year ended June 30, 2012

I. SUMMARY OF AUDITOR'S RESULTS (continued)

Identification of major programs:

CFDA Number	Name of Federal Program
14.218	Community Development Block Grant
14.239	HOME Investment Partnership Program
14.256	Neighborhood Stabilization Program
16.710	Public Safety Partnership and Community Policing Grants
16.710-ARRA	Public Safety Partnership and Community Policing Grants-ARRA
16.738	Edward Byrne Memorial Justice Assistance Grant Program
16.804-ARRA	Edward Byrne Memorial Justice Assistance Grant Program / Grants to Units of Local Governments-ARRA
17.258	Workforce Investment Act Adult Program
17.259	Workforce Investment Act Youth Activities
17.278	Workforce Investment Act Dislocated Workers / Rapid Response
81.128-ARRA	Energy Efficiency and Conservation Block Grant Program-ARRA
97.083	Staffing for Adequate Fire & Emergency Response Grant

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

\$475,220

Auditee qualified as low-risk auditee? _____ Yes X No

CITY OF SAN BERNARDINO

Schedule of Findings and Questioned Costs Year ended June 30, 2012

II. FINANCIAL STATEMENT FINDINGS

MATERIAL WEAKNESSES

2012-01 Periodic and Year-end Closing Process

Condition

Our audit procedures revealed that no systematic method of ensuring that timely and complete periodic (i.e. monthly, quarterly) and year-end reconciliation and closing procedures were in operation.

Criteria

The periodic and year-end close processes are key internal controls for preparing year-end financial statements.

Cause

Numerous challenges in the finance department, including understaffing and staff attrition, contributed to the year-end closing process taking over a year.

Effect

Upon commencement of our audit fieldwork approximately one year after the end of the fiscal year under audit, the City had a growing backlog of journal entries that were not posted into the accounting system, and numerous essential account reconciliations had not been completed, or were incomplete. This accounting function disorganization will ultimately cause significant errors in the financial records and financial statements, as well as allow for possible irregularities including fraud to exist and continue without notice.

Recommendation

We recommend that the City establish and implement a systematic method of performing routine reconciliations and year-end closing procedures, including timely review and approval by management of account reconciliations and year-end schedules.

Management Response

The City is in agreement with the findings. The City continues to deal with insufficient staffing and high turnover. During fiscal year 2013-2014, the City hired additional staff to address workload issues, including hiring qualified and experienced staff and consultants to address administrative issues. The City is developing a written policy and procedure for this process, and will be putting together a comprehensive manual of written policy and procedures, and best practices going forward.

CITY OF SAN BERNARDINO

Schedule of Findings and Questioned Costs Year ended June 30, 2012

II. FINANCIAL STATEMENT FINDINGS (continued)

MATERIAL WEAKNESSES (continued)

2012-02 Cash Reconciliations

Condition

Cash and investments reconciliations were not completed monthly in a timely manner, and supervisory reviews of the reconciliations were not consistently performed.

Criteria

Monthly reconciliations play a key role in proving the accuracy and completeness of accounting data and information included in year-end financial statements. Timely monitoring is an essential component of internal control designed to ensure that identified variances are properly addressed.

Cause

Procedures in place to ensure the timely performance of monthly cash and investments reconciliations and supervisory monitoring of the reconciliations were not followed.

Effect

Nine (9) of the 12 monthly cash and investment reconciliations were completed between 3 to 7 months after month-end. The June reconciliation was completed 7 months after year-end. We were unable to identify evidence of supervisory reviews of the reconciliations on 10 of the 12 reconciliations, including the June reconciliation.

Recommendation

We recommend that the City strengthen the oversight and monitoring procedures to ensure complete, accurate, and timely accounting information is maintained throughout the year.

Management Response

The City is in agreement with the findings. The City continues to deal with insufficient staffing and high turnover. While bank reconciliations are performed monthly, timeliness has been a challenge. During fiscal year 2013-2014, the City hired additional staff to address workload issues, including hiring qualified and experienced staff and consultants to address administrative issues. The City is developing a written policy and procedure for this process, and will be putting together a comprehensive manual of written policy and procedures, and best practices going forward.

CITY OF SAN BERNARDINO

Schedule of Findings and Questioned Costs Year ended June 30, 2012

II. FINANCIAL STATEMENT FINDINGS (continued)

MATERIAL WEAKNESSES (continued)

2012-03 Notes Receivable

Condition

Notes receivable were not evaluated for uncollectible accounts or for impairment.

Criteria

Notes receivable should be reported at an estimated recoverable amount.

Cause

There is no formalized policy in place for evaluating the collectability of notes receivable or for assessing impairment.

Effect

The City's redevelopment agency established numerous notes receivable as part of its redevelopment activities. These notes appeared to have a wide variety of conditions for repayment based upon the underlying note agreements. Numerous notes appeared to have no activity for an extended period of time, and adjustments for accrued interest were missing. We were unable to observe a policy or procedure in place to provide ongoing servicing and monitoring of the notes.

Recommendation

We recommend that the City establish and implement a policy to ensure proper servicing and monitoring of notes receivable, to evaluate notes receivable for collectability and impairment, and to assess the adequacy of the allowance on a periodic basis.

Management Response

The City is in agreement with the findings. Prior to February 2012, the identified notes receivable were recorded in the Redevelopment Agency's (RDA) financial accounting system, not the City of San Bernardino's. After February 2012, those assets were transferred to the Successor Agency, and to City funds. The policies and procedures in the RDA were not extensive enough to address this issue. The City has taken proactive steps over the last 18 months to hire qualified and experienced staff and consultants to address all the issues identified in this Single Audit Report. The City is also putting together a written policy and procedure for administration of notes receivables within (i) the City's funds and (ii) within the Successor Agency fund.

CITY OF SAN BERNARDINO

Schedule of Findings and Questioned Costs Year ended June 30, 2012

II. FINANCIAL STATEMENT FINDINGS (continued)

MATERIAL WEAKNESSES (continued)

2012-04 Property Held for Resale

Condition

Accounting records for property held for resale were not adequately maintained, and properties were reported at cost instead of net realizable value.

Criteria

Internal controls should be in place to ensure the accuracy, valuation, and proper classification of property held for resale. Properties should be periodically evaluated for disposition, and reported at net realizable value.

Cause

There were no observable procedures in place to require management to evaluate property held for resale on a periodic basis, nor to make necessary adjustments to the carrying amount in order to report the properties at net realizable value.

Effect

Property held for resale was not stated at net realizable value. Material misstatements were also identified in property held for resale that required correction, including prior period adjustments.

Recommendation

We recommend that the City establish and implement procedures to track and maintain the status of properties held for resale, and develop and implement a method for estimating the net realizable value of such properties, in conformity with generally accepted accounting principles.

Management Response

The City is in agreement with the findings. Prior to February 2012, the identified real estate properties were recorded in the Redevelopment Agency's (RDA) financial accounting system, not the City of San Bernardino's. After February 2012, those assets were transferred to the Successor Agency, and to City funds. The policies and procedures in the RDA were not extensive enough to address this issue. The City has taken proactive steps over the last 18 months to hire qualified and experienced staff and consultants to address all the issues identified in this Single Audit Report. The City is also putting together a written policy and procedure for administration of real estate held for resale within (i) the City's funds and (ii) within the Successor Agency fund.

CITY OF SAN BERNARDINO

Schedule of Findings and Questioned Costs Year ended June 30, 2012

II. FINANCIAL STATEMENT FINDINGS (continued)

MATERIAL WEAKNESSES (continued)

2012-05 Grants Receivables and Deferred Revenue

Condition

The schedule of grants receivable and related deferred revenues included balances that have been inactive for many years, and balances that were unsupported by documented evidence (or the documentation could not be located and provided for examination).

Criteria

Grant receivables should be supported by appropriate documentation, such as grant agreements, drawdown requests, or other correspondence with the granting authorities. Deferred revenues related to grant receivables should be appropriately evaluated and reported in accordance with generally accepted accounting principles.

Cause

Grants are administered at various locations throughout the City, and the internal control procedures in place to ensure the completeness of information is provided to the finance department are deficient in design and implementation.

Effect

This deficiency in internal control could lead to grant receivable and deferred revenue balances being over/understated, potential collection issues with grant receivables, and/or matters of noncompliance with grant provisions.

Recommendation

We recommend that the City improve the design of the internal controls related to the oversight, monitoring, and accounting for grants.

Management Response

The City is in agreement with the findings. The City uses a non-centralized grants administering process. Prior to fiscal year 2013-2014, the City was not proactively obtaining, in one location, all relevant grants data. During fiscal year 2013-2014, steps were taken to move towards a more centralized management of grant reporting activity. The City has taken proactive steps over the last 18 months to hire qualified and experienced staff and consultants to address all the issues identified in this Single Audit Report. The City is also putting together a written policy and procedure for administration of grants, including recording of receivables and deferred revenues.

CITY OF SAN BERNARDINO

Schedule of Findings and Questioned Costs Year ended June 30, 2012

II. FINANCIAL STATEMENT FINDINGS (continued)

MATERIAL WEAKNESSES (continued)

2012-06 Journal Entries Supporting Documentation

Condition

Supporting documentation for journal entries was either missing or inadequate. Evidence of management's approval of journal entries was missing.

Criteria

Good documentation serves as an accounting record and facilitates future follow-up as well as additional insight for other users.

Cause

Internal control procedures in place to ensure proper documentation of journal entries were not followed.

Effect

Approximately half of the journal entries examined during our audit were either unsupported by documentation, or the documentation provided inadequately supported the journal entry. Numerous journal entries lacked evidence of management's approval.

Recommendation

We recommend that the City strengthen the oversight and monitoring process over journal entries to ensure adequate supporting documentation is present, and management authorizations and reviews are clearly evidenced.

Management Response

The City is in agreement with the findings. The City continues to deal with insufficient staffing and high turnover. While the procedure for including documentation is known by persons processing journal entries, the type and quantity of support for the posting is not consistent. The City hired additional staff to address workload issues, including hiring qualified and experienced staff and consultants to address administrative issues. The City is developing a written policy and procedure for this process, and will be putting together a comprehensive manual of written policy and procedures, and best practices going forward.

CITY OF SAN BERNARDINO

Schedule of Findings and Questioned Costs Year ended June 30, 2012

II. FINANCIAL STATEMENT FINDINGS (continued)

MATERIAL WEAKNESSES (continued)

2012-07 Contract Compliance

Condition

The City had contract compliance exceptions with its purchasing policy. For example, the City was unable to provide evidence of the notice of publication for the bidding on 2 of the contracts sampled; the City was unable to provide evidence of the resolution approving the contract or the purchase order amount on one of the contracts sampled; the City's expenditures on one contract sampled exceeded the amount approved by the resolution.

Criteria

Contract administration should be in compliance with the City's purchasing policy.

Cause

Internal control procedures in place to ensure compliance with the City's purchasing policy were not followed.

Effect

Based on a sample of contracts tested during our audit, approximately 25% of the contracts failed a compliance attribute in accordance with the City's purchasing policy.

Recommendation

We recommend that the City strengthen the oversight and monitoring process over contract administration to ensure compliance with its purchasing policy.

Management Response

The City is in agreement with the findings. The City continues to deal with insufficient staffing and high turnover. While there are procedures for administering contract solicitation and procurement, those procedures are not consistently adhered to. During this period of review, the City did not have a dedicated purchasing office. The City will be hiring a purchasing officer to administer all significant purchasing activities. In addition, the City is developing a written policy and procedure for this process, and will be putting together a comprehensive manual of written policy and procedures, and best practices going forward.

CITY OF SAN BERNARDINO

Schedule of Findings and Questioned Costs Year ended June 30, 2012

II. FINANCIAL STATEMENT FINDINGS (continued)

MATERIAL WEAKNESSES (continued)

2012-08 Interfund Transfers

Condition

The City recorded interfund transfers that were not supported by appropriate authorizations.

Criteria

Interfund transfers should be supported by authorizations, such as budgets, budget amendments, or resolutions.

Cause

Internal control procedures in place to ensure compliance with the City's policy were not followed.

Effect

Interfund transfers have a direct affect on the fund balance of City funds, which is an indicator of available financial resources for intended or restricted future use. Unauthorized interfund transfers may more appropriately need to be classified as interfund advances and settled at a future date.

Recommendation

We recommend that the City strengthen the oversight and monitoring process over interfund transfers to ensure all transfers are properly authorized in accordance with the City's policy.

Management Response

The City is in agreement with the findings. During fiscal year 2011-2012, the City was operating in a state of pre-bankruptcy. To facilitate the timeliness of its cash management activities, the management of the debt levels, and the proper treatment of specific transactions between funds, the City's management used an expedited transfer process, not always seeking Council approval. While there were procedures in place, they were not always adhered to. The City will be reviewing it procedures, and updating where necessary. The City will also be updating its written policy and procedure for this process, and will be putting together a comprehensive manual of written policy and procedures, and best practices going forward.

CITY OF SAN BERNARDINO

Schedule of Findings and Questioned Costs Year ended June 30, 2012

II. FINANCIAL STATEMENT FINDINGS (continued)

MATERIAL WEAKNESSES (continued)

2012-09 Preparation of the Schedule of Expenditures of Federal Awards (SEFA)

Condition

The City provided a SEFA that contained intermingled grant expenditures, incorrect CFDA numbers, and old grant agreement numbers that were no longer active.

Criteria

Proper internal controls over the preparation of the SEFA requires being able to reconcile it to the underlying accounting records, presenting appropriate CFDA numbers, and entity grant numbers.

Cause

The City does not have proper internal controls over the preparation of the SEFA and prior period information is rolled forward without verification.

Effect

Without proper review and documentation of its preparation, the City is unable to provide an accurate SEFA.

Recommendation

The City should develop procedures for ensuring that all grants are included in the SEFA and that the correct CFDA and entity grant numbers are used.

Management Response

The City is in agreement with the findings. The City continues to deal with insufficient staffing and high turnover. During fiscal year 2013-2014, the City hired additional staff to address workload issues, including hiring qualified and experienced staff and consultants to address administrative issues. The City is developing a written policy and procedure for this process, and will be putting together a comprehensive manual of written policy and procedures, and best practices going forward.

CITY OF SAN BERNARDINO

Schedule of Findings and Questioned Costs Year ended June 30, 2012

III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

COMPLIANCE FINDINGS

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
Community Development Block Grant – CFDA No. 14.218

2012-10 Grant No. B-11-MC-06-0539

Condition

During the year under audit, it was noted the City used Federal funds to pay for payroll related expenses for its Code Enforcement Department, but did not provide documentation containing the method used to allocate the Code Enforcement expenditures charged to the grant.

Questioned Costs

\$428,740

Criteria

The OMB Circular A-87, “Cost Principles for State, Local, and Indian Tribal Governments (2 CFR part 225 Appendix C, paragraph E.2) states that local governments must have a Allocated Central Services cost plan. The plan must include, among other requirements, a brief description of the service and the method used to distribute the cost of the service with a summary schedule showing the allocation for each service.

Cause

The City does not appear to have an adopted allocation plan containing the methodology used to determine which Code Enforcement activities are allowable and related to the Federal grant.

Effect

The City appears to be charging unrelated activities to the Federal grant in order to cover portions of the Code Enforcement Department’s payroll expenditures.

Recommendation

The City should take steps to develop and approve an allocation plan that contains the required criteria per 2 CFR part 225 Appendix C, paragraph E.2 in order to avoid charging unrelated expenditures to the Federal grant.

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, 2012

III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (continued)

COMPLIANCE FINDINGS (continued)

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
Community Development Block Grant – CFDA No. 14.218

2012-11 Grant No. B-11-MC-06-0539

Condition

During the year under audit, it was noted in certain instances, that the City requested reimbursement for costs that had not yet been paid for by the City.

Questioned Costs

None noted

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.

Cause

The City deliberately requested reimbursement of \$1,070,000 for payroll costs related to the payroll of its Code Enforcement; however, the reimbursement appeared to include requesting funds for future Code Enforcement payroll expenses.

Effect

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

Recommendation

The City should take steps to ensure that all costs are paid by the City 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, 2012

III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (continued)

COMPLIANCE FINDINGS (continued)

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
Community Development Block Grant – CFDA No. 14.218

2012-12 Grant No. B-11-MC-06-0539

Condition

The City was unable to provide source documentation regarding program income generated by the federal grant activities. Initially, the City advised that no program income was generated; however, the City's Consolidated Annual Performance Evaluation Report (CAPER) reported \$96,098 in program income for the year under audit.

Questioned Costs

None noted

Criteria

24 CFR §570.504(a) states that the receipt and expenditure of program income as defined in §570.500(a) shall be recorded as part of the financial transactions of the grant program and §570.56 states that each recipient shall establish and maintain sufficient records to determine whether the recipient has met the requirements of 24 CFR §570.

Cause

The City did not appear to have the appropriate procedures in place to accurately record program income or prepare sufficient documentation to support the program income.

Effect

The City's program income was not properly recorded in the year under audit.

Recommendation

The City should develop internal controls and procedures to ensure that program income is properly recorded and documented.

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, 2012

III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (continued)

COMPLIANCE FINDINGS (continued)

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Community Development Block Grant (CDBG) – CFDA No. 14.218

HOME Investment Partnership Grant (HOME) – CFDA No. 14.239

Neighborhood Stabilization Program (NSP3) – CFDA No. 14.256

DEPARTMENT OF ENERGY

Energy Efficiency and Conservation Block Grant-ARRA (EECBG) – CFDA No. 81.128-ARRA

2012-13 Grant No. B-11-MC-06-0539
Grant No. M-11-MC-06-0531
Grant No. B-11-MN-06-0520
Grant No. DE-SC0001924

Condition

The City was unable to provide a copy of the SF-425 reports for the CDBG and HOME grants. The City was late in submitting the SF-425 on the third and fourth quarters for the EECBG grant. Per an audit by the Office of the Inspector General, the City also failed to submit the Consolidated Annual Performance Evaluation Report (CAPER) by its required deadline of September 30, 2012. The City was unable to provide a copy of the Disaster Recovery Grant Reporting System (DRGR) report (OMB No. 2506-0165) for the NSP3 grant. The City was also unable to provide copies of the HUD 60002, Section 3 Summary Report Opportunity for Low- and Very Low-Income Persons (OMB No. 2529-0043) report for the HOME and NSP3 grants.

Questioned Costs

None noted

Criteria

OMB Circular A-133 requires recipients to submit the Federal Financial Report SF-425 (OMB No. 0348-0061) for the following grants:

- CDBG – CFDA 14.218
- HOME – CFDA 14.239
- EECBG – CFDA 81.128-ARRA

OMB Circular A-133 requires recipients to submit the Disaster Recovery Grant Reporting System (DRGR) report (OMB No. 2506-0165) for the following grant:

- NSP3 – CFDA 14.256.

CITY OF SAN BERNARDINO

Schedule of Findings and Questioned Costs Year ended June 30, 2012

III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (continued)

COMPLIANCE FINDINGS (continued)

2012-13 (continued)

Criteria (continued)

OMB Circular A-133 requires recipients to submit the HUD 60002, Section 3 Summary Report Opportunity for Low-and Very Low-Income Persons (OMB No. 2529-0043) report for the following grants:

- HOME – CFDA 14.239
- NSP3 – CFDA 14.256

Cause

The City did not have proper internal controls in place to ensure that reports were submitted and properly maintained in the City's records.

Effect

The City did not submit or cannot provide evidence, that it submitted the required reports for CDBG, HOME, and the NSP3 grants. Two reports for EECBG were submitted at least two months after their due date.

Recommendation

The City should implement procedures to ensure that the reports are submitted and maintained in the City's records.

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, 2012

III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (continued)

COMPLIANCE FINDINGS (continued)

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
Community Development Block Grant (CDBG) – CFDA No. 14.218
HOME Investment Partnership Grant (HOME) – CFDA No. 14.239
Neighborhood Stabilization Program (NSP3) – CFDA No. 14.256

2012-14 Grant No. B-11-MC-06-0539
Grant No. M-11-MC-06-0531
Grant No. B-11-MC-06-0520

Condition

The City was unable to provide evidence that it monitored whether a subrecipient met the \$500,000 threshold in Federal expenditures and had the required audit performed. CDBG, HOME, and NSP3 programs had Affordable Housing Solutions (AHS) as a major subrecipient, and the City was unable to provide support that it monitored the subrecipient's activities.

Questioned Costs

None noted

Criteria

OMB Circular A-133 requires pass-through entities ensure that their subrecipients that met the \$500,000 threshold, have the required audit performed.

Cause

The City did not have proper internal controls in place to ensure that it was monitoring subrecipients' activities and determining whether a subrecipient was required to have its own single audit.

Effect

The City did not monitor its subrecipients in the year under audit.

Recommendation

The City should implement procedures to ensure that the City is inquiring as to whether a subrecipient is required to have an audit and maintain those records.

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, 2012

III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (continued)

INTERNAL CONTROL FINDINGS

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
Community Development Block Grant – CFDA No. 14.218

2012-10 Grant No. B-11-MC-06-0539

Condition

The City was unable to provide an allocation plan to activities charged to the Federal program.

Questioned Costs

\$428,740

Criteria

Proper internal controls require adequate documentation. Documentation to support amounts requested for reimbursement from federal awarding agencies should include a method of allocating costs to Federal programs.

Cause

The City does not have proper internal controls in place over the activities that it was charging to the Federal program for Code Enforcement activities.

Effect

Without proper documentation, the City is unable to verify that they submitted expenses for reimbursement for allowable activities.

Recommendation

The City should take steps to develop internal controls to ensure that it develops an allocation plan that contains the required criteria per 2 CFR part 225 Appendix C, paragraph E.2 in order to avoid charging unrelated expenditures to the Federal grant.

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, 2012

III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (continued)

INTERNAL CONTROL FINDINGS (continued)

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
Community Development Block Grant – CFDA No. 14.218

2012-11 Grant No. B-11-MC-06-0539

Condition

The City had inadequate records to allow the auditor to easily trace expenses to when they were requested for reimbursement.

Questioned Costs

None noted

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.

Cause

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

Effect

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

Recommendation

The City 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, 2012

III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (continued)

INTERNAL CONTROL FINDINGS (continued)

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
Community Development Block Grant – CFDA No. 14.218

2012-12 Grant No. B-11-MC-06-0539

Condition

The City was unable to locate source documentation for program income.

Questioned Costs

None noted

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.

Cause

The City 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.

Effect

Without proper review and documentation, the City is unable to maintain accurate records of program income in the accounting records.

Recommendation

The City 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 City 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

Schedule of Findings and Questioned Costs Year ended June 30, 2012

III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (continued)

INTERNAL CONTROL FINDINGS (continued)

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
Community Development Block Grant (CDBG) – CFDA No. 14.218
HOME Investment Partnership Grant (HOME) – CFDA No. 14.239
Neighborhood Stabilization Program (NSP3) – CFDA No. 14.256

DEPARTMENT OF ENERGY
Energy Efficiency and Conservation Block Grant-ARRA (EECBG) – CFDA No. 81.128-ARRA

2012-13 Grant No. B-11-MC-06-0539
Grant No. M-11-MC-06-0531
Grant No. B-11-MN-06-0520
Grant No. DE-SC0001924

Condition

The City was unable to locate required reports, provide source documentation used for the reports, or did not submit reports by the required due date.

Questioned Costs

None noted

Criteria

Proper internal controls require adequate review and documentation. Reports should be supported by complete source documentation, and should be reviewed and approved by appropriate personnel.

Cause

The City does not have proper internal controls in place over the financial review process of required reports and does not maintain proper control over maintaining the reports and their accounting records.

Effect

Without proper review and documentation, the City is unable to maintain accurate records of the Federal programs' activities and will not be able to submit the required reports on their due date.

Recommendation

The City should develop procedures for ensuring that all reports are reviewed by the appropriate personnel and indication of this review is documented on source documentation and controls to monitor that reports are submitted on time. In addition, the City should develop procedures for maintaining reports 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

Schedule of Findings and Questioned Costs Year ended June 30, 2012

III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (continued)

INTERNAL CONTROL FINDINGS (continued)

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
Community Development Block Grant (CDBG) – CFDA No. 14.218
HOME Investment Partnership Grant (HOME) – CFDA No. 14.239
Neighborhood Stabilization Program (NSP3) – CFDA No. 14.256

2012-14 Grant No. B-11-MC-06-0539
Grant No. M-11-MC-06-0531
Grant No. B-11-MC-06-0520

Condition

The City was unable provide monitoring reports regarding its various subrecipients.

Questioned Costs

None noted

Criteria

Proper internal controls require adequate review and documentation. Subrecipient monitoring reports should be supported by complete source documentation, and should be reviewed and approved by appropriate personnel.

Cause

The City does not have proper internal controls in place over the monitoring of its subrecipients. The City did not maintain proper controls over maintaining the monitoring reports.

Effect

Without proper monitoring of its subrecipients, the City is unable to determine that its subrecipients are complying with the Federal programs' activities and may disburse Federal awards to subrecipients for unallowable activities.

Recommendation

The City should develop procedures for ensuring that all subrecipients are monitored and that the monitoring reports are reviewed by the appropriate personnel and indication of this review is documented. In addition, the City should develop procedures for maintaining reports 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, 2012

CURRENT STATUS OF PRIOR YEAR FINDINGS:

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Neighborhood Stabilization Program – CFDA No. 14.256

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

Condition: During the year under audit, it was noted in various instances that the City requested reimbursement for costs that had not yet been paid.

Current Status: The Federal grant was a major program in the current year and the auditor did not note any exceptions regarding requests for reimbursements.

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

Condition: The City did not inform its sole subrecipient of the *Catalog of Federal Domestic Assistance* (CFDA) number.

Current Status: The City was unable to provide evidence that it had notified the subrecipient of the CFDA number. At the time of the audit, the grant was no longer active and the personnel involved were no longer with the City. No further information was obtainable.

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

Condition: The City submitted Quarterly Performance Reports for the above grant which were found to be inaccurate.

Current Status: The auditor obtained copies of the reports filed in the year under audit. The reports continued to show inaccuracies; however, at the time of audit the grant was no longer active and the personnel responsible for the reports were no longer with the City. No further information was obtainable.

CITY OF SAN BERNARDINO

Summary Schedule of Prior Audit Findings Year ended June 30, 2012

CURRENT STATUS OF PRIOR YEAR 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

2011-6 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

Condition: The City had inadequate records to allow the auditor to easily trace expenses to when they were requested for reimbursement.

Current Status: The City improved from the prior period, however the City continues to lack controls that allow it to efficiently monitor requests for reimbursements.

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

Condition: The City 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.

Current Status: The finding appears to have been corrected. The City was able to provide source documentation for all randomly selected transactions.

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CORRECTIVE ACTION PLAN
June 16, 2014

Department of Housing and Urban Development

Community Development Block Grant – CFDA 14.218

Grant No. B-11-MC-06-0539

HOME Investment Partnership Grant – CFDA 14.239

Grant No. M-11-MC-06-0531

Neighborhood Stabilization Program – CFDA 14.256

Grant No. B-11-MC-06-0520

Department of Energy

Energy Efficiency and Conservation Block Grant-ARRA – CFDA 81.128-ARRA

Grant No. DE-SC0001924

The City of San Bernardino respectfully submits the following corrective action plan for the year ended June 30, 2012.

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, 2012

All FINDINGS (Compliance and Internal Control) – FEDERAL AWARD PROGRAM AUDIT

The City is in agreement with the compliance findings. Prior to July 2013 most Federal Programs had been managed by the Redevelopment Agency not the City of San Bernardino. Beginning in July 2013, those programs were moved over to the City. The City has taken proactive steps over the last 18 months to hire qualified and experienced staff and consultants to address all the issues identified in this Single Audit Report. One consultant firm that the City has under contract comes from a specific recommendation of Los Angeles HUD staff. The City has also put together written policies and procedure for the CDBG programs and will be putting together written policies and procedures for the remaining Federal Programs.

If the Department of Housing and Urban Development or the Department of Energy have questions regarding this plan, please call David Cain, Director of Administrative Services of the City of San Bernardino at 909-384-5242.

Sincerely yours,



Allen Parker
City Manager
City of San Bernardino



David Cain
Director of Administrative Services
City of San Bernardino