

**CITY OF SAN BERNARDINO,  
CALIFORNIA**

Single Audit Reports

For the Year Ended June 30, 2013



Certified  
Public  
Accountants

**CITY OF SAN BERNARDINO, CALIFORNIA**

Single Audit Reports

For the Year Ended June 30, 2013

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**Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards***

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

We have audited, in accordance with the 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 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, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated October 22, 2015. Our report includes a reference to other auditors who audited the financial statements of the Water Enterprise Fund and the Sewer Enterprise Fund (major funds), as described in our report on the City's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and 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 2013-001, 2013-002, 2013-003, 2013-005, 2013-006 and 2013-007 to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and questioned costs as items 2013-004 to be a significant deficiency.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City's financial statements are free from 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*.

## **City's Responses to Findings**

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Macias Gini É O'Connell LAP*

Los Angeles, California  
October 22, 2015



**Independent Auditor’s Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133**

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

**Report on Compliance for Each Major Federal Program**

We have audited the City of San Bernardino’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, 2013. 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.

***Management’s Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditor’s Responsibility***

Our responsibility is to express an opinion on compliance for each of the City’s major federal programs based on our audit of the types of compliance requirements referred to above. 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the City’s compliance.

***Basis for Qualified Opinion on CFDA No. 14.218 Community Development Block Grants – Entitlement Grants***

As described in the accompanying schedule of findings and questioned costs, the City did not comply with requirements regarding the following:

<b>Community Development Block Grants/Entitlement Grants CFDA No. 14.218</b>	
<b>Finding No.</b>	<b>Compliance Requirement</b>
2013-009	Reporting

Compliance with such requirements is necessary, in our opinion, for the City to comply with the requirements applicable to that program.

***Qualified Opinion on CFDA No. 14.218 Community Development Block Grants – Entitlement Grants***

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Community Development Block Grants – Entitlement Grants program for the year ended June 30, 2013.

***Basis for Qualified Opinions on CFDA No. 16.710 Public Safety Partnership and Community Policing Grants and CFDA Nos. 16.738 and 16.804 Justice Assistance Grant (JAG) Program Cluster***

As described in the accompanying schedule of findings and questioned costs, the City did not comply with requirements regarding the following:

<b>Public Safety Partnership and Community Policing Grants CFDA No. 16.710</b>	
<b>Finding No.</b>	<b>Compliance Requirement</b>
2013-012	Allowable Costs/Cost Principles
2013-013	Reporting

  

<b>Justice Assistance Grant (JAG) Program Cluster CFDA Nos. 16.738 and 16.804</b>	
<b>Finding No.</b>	<b>Compliance Requirement</b>
2013-014	Allowable Costs/Cost Principles

Compliance with such requirements is necessary, in our opinion, for the City to comply with the requirements applicable to that program.

***Qualified Opinions on CFDA No. 16.710 Public Safety Partnership and Community Policing Grants and CFDA Nos. 16.738 and 16.804 Justice Assistance Grant (JAG) Program Cluster***

In our opinion, except for the noncompliance described in the Basis for Qualified Opinions paragraph, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Public Safety Partnership and Community Policing Grants program and on the JAG Program Cluster for the year ended June 30, 2013.

***Basis for Qualified Opinion on CFDA No. 97.067 Homeland Security Grant Program***

As described in the accompanying schedule of findings and questioned costs, the City did not comply with requirements regarding the following:

<b>Homeland Security Grant Program CFDA No. 97.067</b>	
<b>Finding No.</b>	<b>Compliance Requirement</b>
2013-016	Reporting

Compliance with such requirements is necessary, in our opinion, for the City to comply with the requirements applicable to that program.

### ***Qualified Opinion on CFDA No. 97.067 Homeland Security Grant Program***

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Homeland Security Grant program for the year ended June 30, 2013.

### ***Unmodified Opinion on Each of the Other Major Federal Programs***

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended June 30, 2013.

### ***Other Matters***

The results of our auditing procedures disclosed other instances of noncompliance, 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 2013-008, 2013-010, 2013-011 and 2013-015. Our opinion on each major federal program is not modified with respect to these matters.

The City's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

### **Report on Internal Control over Compliance**

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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. *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.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant

deficiencies may exist that were not identified. We identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2013-009, 2013-012, 2013-013, 2013-014 and 2013-016, that we consider to be material weaknesses.

We consider the deficiencies in internal control over compliance

The City's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

### **Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133**

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, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated October 22, 2015, which contained qualified opinions on those financial statements. Our report on the City's financial statements was qualified because management has not adopted a methodology for reviewing the collectability of notes receivable in the governmental activities, major federal and state grant special revenue fund, major low and moderate income housing special revenue fund and the aggregate remaining fund information and, accordingly, has not considered the need to provide an allowance for uncollectible amounts. Our report on the City's financial statements was also qualified because management has not adopted a methodology for reviewing the valuation of property held for resale in the governmental activities, major federal and state grant special revenue fund, major low and moderate income housing special revenue fund and the aggregate remaining fund information 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. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements.

The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 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 basic 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 basic financial statements or to the basic 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 basic financial statements as a whole.

*Macias Gini & O'Connell LLP*

Los Angeles, California  
December 22, 2015

**CITY OF SAN BERNARDINO**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended June 30, 2013**

Federal Grantor/Pass-through Entity/Federal Grant Name	Grant/Pass-through Number	Federal CFDA No.	Federal Expenditures
<b>U.S. Department of Housing and Urban Development</b>			
<u>Direct Programs</u>			
CDBG-Entitlement Grants Cluster:			
Community Development Block Grants/Entitlement Grants	<i>B-12-MC-06-0539/B-08-MN-06-0520</i>	14.218	\$ 2,387,842
Neighborhood Stabilization Program	<i>B-11-MN-06-0520</i>	14.218	612,290
Total CDBG - Entitlement Grants Cluster			3,000,132
Emergency Solutions Grant Program	<i>E-12-MC-06-0539</i>	14.231	231,124
Home Investment Partnerships Program	<i>M-12-MC-06-0531</i>	14.239	242,596
<b>Total U.S. Department of Housing and Urban Development</b>			<b>3,473,852</b>
<b>U.S. Department of Justice</b>			
<u>Direct Programs</u>			
Bulletproof Vest Partnership Program	<i>Unknown</i>	16.607	8,100
Public Safety Partnership and Community Policing Grants	<i>2009CKWX0133</i>	16.710	78,043
ARRA - Public Safety Partnership and Community Policing Grants	<i>2009RJWX0018</i>	16.710	841,758
Total Public Safety Partnership and Community Policing Grants			919,801
Congressionally Recommended Awards	<i>2010-DDBX0404</i>	16.753	217,400
<u>Passed Through from San Bernardino County</u>			
Justice Assistance Grant (JAG) Program Cluster:			
Edward Byrne Memorial Justice Assistance Grant Program	<i>2012DJBW-1013</i>	16.738	136,168
ARRA - Edward Byrne Memorial Justice Assistance Grant (JAG) Program / Grants to Units of Local Government	<i>09-323</i>	16.804	327,372
Total - JAG Program Cluster			463,540
<b>Total U.S. Department of Justice</b>			<b>1,608,841</b>
<b>U.S. Department of Labor</b>			
<u>Passed Through from California Employment Development Department</u>			
Workforce Investment Act (WIA) Cluster:			
WIA Adult Program	<i>K282497/K386321</i>	17.258	1,350,948
WIA Youth Activities	<i>K282497/K386321</i>	17.259	909,446
WIA Dislocated Worker Formula Grants	<i>K282497/K386321</i>	17.278	993,890
Total - WIA Cluster			3,254,284
<b>Total U.S. Department of Labor</b>			<b>3,254,284</b>
<b>U.S. Department of Transportation</b>			
Highway Safety Cluster:			
<u>Passed Through from California Office of Traffic Safety</u>			
State and Community Highway Safety	<i>PT1122/OTS 20786</i>	20.600	169,854
<u>Passed Through from Berkeley County</u>			
Alcohol Impaired Driving Countermeasures Incentive Grants I	<i>SC 12360/SC 13360</i>	20.601	101,011
Total Highway Safety Cluster			270,865
<b>Total U.S. Department of Transportation</b>			<b>270,865</b>
<b>U.S. Department of Energy</b>			
<u>Direct Program</u>			
ARRA - Energy Efficient and Conservation Block Grant Program (EECBG)	<i>DE-SC0001924</i>	81.128	293,987
<b>Total U.S. Department of Energy</b>			<b>293,987</b>
<b>U.S. Department of Education</b>			
<u>Direct Program</u>			
Adult Education-Basic Grants to States	<i>V002A120005</i>	84.002	86,485
<b>Total U.S. Department of Education</b>			<b>86,485</b>

See Accompanying Notes to the Schedule of Expenditures of Federal Awards.

**CITY OF SAN BERNARDINO**  
Schedule of Expenditures of Federal Awards (Continued)  
For the Year Ended June 30, 2013

Federal Grantor/Pass-through Entity/Federal Grant Name	Grant/Pass-through Number	Federal CFDA No.	Federal Expenditures
<b>U.S. Department of Health and Human Resources</b>			
<u>Direct Programs</u>			
Aging Cluster:			
Nutrition Services Incentive Program	<i>10-318 A-4</i>	93.045	27,903
Special Programs for Aging_ Title III, Part C_Nutrition Services	<i>10-318 A-4</i>	93.053	222,750
Total Aging Cluster			<u>250,653</u>
<b>Total U.S. Department of Health and Human Resources</b>			<u><b>250,653</b></u>
<b>U.S. Department of National and Community Service</b>			
<u>Direct Programs</u>			
Retired and Senior Volunteer Program	<i>13SRPCA012</i>	94.002	47,338
Senior Companion Program	<i>12SCPCA003</i>	94.016	278,682
<b>Total U.S. Department of National and Community Service</b>			<u><b>326,020</b></u>
<b>U.S. Department of Homeland Security</b>			
<u>Direct Program</u>			
Staffing for Adequate Fire and Emergency Response (SAFER)	<i>EMW-11-FH-00494/EMW-2012-FH-00453</i>	97.083	2,006,371
<u>Passed Through from Riverside Regional</u>			
Homeland Security Grant Program	<i>065-62000</i>	97.067	453,050
<u>Passed Through from the City of Los Angeles</u>			
Homeland Security Grant Program	<i>C121485</i>	97.111	40,057
<b>Total U.S. Department of Homeland Security</b>			<u><b>2,499,478</b></u>
<b>Total Expenditures of Federal Awards</b>			<u><u><b>\$ 12,064,465</b></u></u>

See Accompanying Notes to the Schedule of Expenditures of Federal Awards.

**CITY OF SAN BERNARDINO, CALIFORNIA**  
Notes to Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2013

**1. GENERAL**

The accompanying Schedule of Expenditures of Federal Awards (Schedule) presents only the expenditures incurred by the City of San Bernardino (City) that are reimbursable under federal award programs. 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 Schedule. Program expenditures in excess of 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 Schedule. The City's reporting entity is reported in Note 1 to the City's basic financial statements. Expenditures funded by the American Recovery and Reinvestment Act of 2009 are denoted by the prefix "ARRA" in the federal program title.

**2. BASIS OF ACCOUNTING**

The accompanying Schedule is presented using 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.

**3. RELATIONSHIP TO BASIC FINANCIAL STATEMENTS**

Federal award expenditures agree or can be reconciled with the amounts reported in the City's basic financial statements.

**4. RELATIONSHIP TO FEDERAL FINANCIAL REPORTS**

Amounts reported in the accompanying Schedule are in agreement with the amounts reported in the related federal financial reports for the federal award programs.

**5. AMOUNTS PROVIDED TO SUB-RECIPIENTS**

For the year ended June 30, 2015, amounts provided to sub-recipients were \$949,039 for the Community Block Grant Grants Entitlement Grants program (CFDA No. 14.218), \$58,400 for the ARRA-Neighborhood Stabilization Program (CFDA No.14.218), \$231,124 for the Emergency Solutions Grant Program (CFDA No. 14.231), \$242,596 for the Home Investment Partnerships Program (CFDA No. 14.239) and \$264,270 for the Workforce Investment Act (WIA) Cluster consisting of the WIA Adult Program, WIA Youth Activities and the WIA Dislocated Worker Formula Grants (CFDA Nos. 17.258, 17.259 and 17.278).

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**CITY OF SAN BERNARDINO, CALIFORNIA**

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2013

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**Section I – Summary of Auditor’s Results**

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**FINANCIAL STATEMENTS**

Type of auditor’s report issued: Qualified

Internal control over financial reporting:

- Material weakness(es) identified? Yes
- Significant deficiency(ies) identified? Yes

Noncompliance material to the financial statements noted? No

**FEDERAL AWARDS**

Internal control over major programs:

- Material weakness(es) identified? Yes
- Significant deficiency(ies) identified? None reported

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

Community Development Block Grants – Entitlement Grants Cluster	Qualified
Public Safety Partnership and Community Policing Grants	Qualified
JAG Program Cluster	Qualified
WIA Cluster	Unmodified
Homeland Security Grant Program	Qualified
Staffing for Adequate Fire and Emergency Response Grant	Unmodified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? Yes

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
14.218	Community Development Block Grants - Entitlement Grants Cluster
16.710	Public Safety Partnership and Community Policing Grants
16.738/16.804	JAG Program Cluster
17.258/17.259/17.278	WIA Cluster
97.067	Homeland Security Grant Program
97.083	Staffing for Adequate Fire and Emergency Response Grant

**CITY OF SAN BERNARDINO, CALIFORNIA**  
Schedule of Findings and Questioned Costs (Continued)  
For the Year Ended June 30, 2013

Dollar threshold used to distinguish between Type A and Type B programs	\$361,934
Auditee qualified as a low risk auditee?	No

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**Section II – Financial Statement Findings**

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**MATERIAL WEAKNESSES**

**Reference Number:** 2013-001

**Finding:** System of Internal Control to Mitigate Risks to Reporting Objectives

*Criteria*

A sound framework of internal control is necessary to afford a reasonable basis for governments to assert that the financial information they disclose can be relied upon. Per the Government Accountability Office’s (GAO) Standards for Internal Control in the Federal Government (Green Book), an internal control is defined as “a process effected by an organization’s oversight body, management, and other personnel that provides reasonable assurance that the objectives of an organization will be achieved.” In the new Office of Management and Budget (OMB) Uniform Guidance for federal awards, OMB has established that the Green Book provides an appropriate internal control framework for local governments and permits the use of this framework in establishing a system of internal controls. The OMB Uniform Guidance also permits the use of the Committee of Sponsoring Organizations [of the Treadway Commission] (COSO) standards that organizations, including governments, can use as a guide in developing a comprehensive set of internal controls over financial reporting.

An organization uses a system of internal control to help it achieve its objectives, which begin with the control environment. The control environment sets the tone for the commitment to external financial reporting between management and those charged with governance.

An organization should have a system of internal controls based on identified risks, which are suitably designed to allow management to prepare external financial statements that are reliable and prepared in accordance with Generally Accepted Accounting Principles (GAAP).

Included in the framework for internal controls are the components for control activities and monitoring. The control activities establish the City’s actions to achieve its reporting objectives and respond to risks identified over external financial reporting through policies and procedures. This involves selecting, developing, and executing internal control processes to ensure the financial statements are reliable and in conformity with GAAP. Monitoring activities establish the City’s assessment of the quality of performance over time to identify control deficiencies.

*Condition, Cause and Effect*

**Control environment:** The foundation of an internal control system, which integrates and serves as the hub for the other internal control components, requires each internal control component to be present and functioning. The control environment enables the Mayor and Common Council to carry out its oversight responsibilities by having knowledgeable, skilled, capable people with both municipal accounting experience and institutional knowledge of the City. Due to the circumstances presented by the bankruptcy, the City has experienced difficulties in attracting, developing and retaining sufficient permanent individuals. The conditions we encountered included, but were not limited to:

**CITY OF SAN BERNARDINO, CALIFORNIA**  
Schedule of Findings and Questioned Costs (Continued)  
For the Year Ended June 30, 2013

- i) Nonexistent or undeployed policies and procedures over finance and accounting that hinder the efficient and effective performance of finance staff.
  - ii) Without policies and procedures, management is obstructed in evaluating processes and individual performance. Training and mentoring are made more difficult in the absence of written policies and procedures to guide personnel when they are new to the City, are delegated unfamiliar additional assignments, or are providing coverage to other missing members of the Finance team.
  - iii) Succession planning and preparation is impaired in an environment that is short of staff, experience, and institutional knowledge.
- 2) **Control activities:** Financial and accounting policies establish management and staff expectations for the performance of their duties. Related procedures put those policies into practice. Finance related policies and procedures are not deployed in support of the City's reporting objectives. Business process controls articulate policies and procedures to help ensure the timely, complete, and accurate recording of valid transactions. Valid transactions are authorized and approved, maintain security over resources, provide reconciliations to detect errors and frauds, and are conducted with appropriate supervisory controls. Control activities also include the segregation of incompatible duties among personnel or require the functioning implementation of other control mechanisms in place of segregation of duties. Either is difficult to do with inadequate staffing and the collective knowledge and skills of a seasoned finance staff. Collectively, control activities and the other internal control components form an integrated system to prevent, detect, and correct errors, omissions, and frauds before they are recorded and reported. The combination of turnover, staffing levels, and non-existent policies and procedures do not allow the Mayor, Common Council, management, or City staff to produce timely financial statements.
  - a) Policies and procedures ensure:
    - i) Control activities should be built into the City's business processes and employees' day-to-day activities through expectations established in policies. Policies and procedures over finance either did not exist or were not implemented.
    - ii) Effective and efficient control activities require performance by competent personnel, which means sufficient, experienced, trained, and skilled accounting and finance personnel. Significant turnover impairs the overall competence of the City's Finance function whether in permanent or temporary positions. Individuals with institutional experience are critical to onboarding, cross training, directing others to where information can be located, and can provide oral histories of unwritten policies and procedures and the conditions underlying their deployment.
  - b) Management is negatively impacted in its ability to select and develop efficient and effective control activities due to continuing staff turnover or understaffing, which prevents establishing appropriate segregation of duties and roles for the authorization and approval of transactions, recording transactions and performing reconciliation functions. This condition appeared to have created an environment of overburdened management and staff and role assignments for staff who may not have the requisite experience resulting in an environment that could lead to errors and omissions in the financial accounting and reporting process.
- 3) **Information and communication:** Policies and procedures facilitating the timely, complete, and accurate dissemination of information in the achievement of the City's reporting objectives are ineffective.

**CITY OF SAN BERNARDINO, CALIFORNIA**  
Schedule of Findings and Questioned Costs (Continued)  
For the Year Ended June 30, 2013

- a) Internal communications between and among the Finance Department and other City departments need improvement.
  - i) Internal communication protocols were inadequate and did not support the timely, complete, or accurate exchange of information necessary for financial reporting.
  - ii) The Municipal Water Department early implemented GASB 65 without coordination with the Finance Department.
  - iii) Written finance and accounting policies and procedures do not exist, and are unavailable to otherwise knowledgeable and skilled people to perform their jobs because the institutional knowledge of those same policies and procedures has been lost to recurring turnover.
  - iv) Separate anonymous and confidential communications lines are either not in place or are not communicated to staff, vendors, volunteers, citizens, or others for whistle blowing activities such as reporting abuse, waste, management override or neglect, and fraud. Separate lines of communication provide a fail-safe mechanism when normal communication channels are inoperative or ineffective.
- 4) **Monitoring:** Ongoing and/or separate evaluations to ascertain the above internal control components were either not present or not functioning during the period under evaluation.
  - a) Evaluators must be knowledgeable to understand what is being evaluated. Recurring cycles of turnover since 2011 in the general ledger accounting and finance organizational units, coupled with no written finance and accounting policies, did not allow the communication of institutional information of City monitoring processes over financial reporting.
  - b) Adjustments to scope or frequency of evaluations did not occur or were insufficient in scope or nature to prevent or detect and correct internal control component breakdowns.
  - c) Evidence of ongoing evaluations integration into business processes did not exist in the form of written policy and procedures, which in turn created barriers to efficient, effective, and economical accounting and reporting because the City relied on oral and haphazard communication of its finance policies and procedures.
  - d) A baseline understanding of the design and state of the internal control system has not been formally established to serve as a starting point for management to determine gaps in its system of internal control.

***Recommendation***

The City should design and implement a system of internal controls over financial reporting. The system of internal controls should include: 1) performance of a risk assessment over financial reporting; 2) design and implementation of controls over significant risk areas identified; 3) monitoring of stated controls; and 4) periodic re-evaluations of risks and controls.

**CITY OF SAN BERNARDINO, CALIFORNIA**  
Schedule of Findings and Questioned Costs (Continued)  
For the Year Ended June 30, 2013

***Management Response and Corrective Action***

The City agrees with the internal control weakness as it relates to the overall control environment and the need for written financial policies and procedures, training Finance and other City staff on these policies and procedures, and periodic follow-up on policies and procedures to make certain they are being followed, so that timely recording and reporting of financial information can be attained.

The following points provide clarification for the reader of the Fiscal Year 2012-13 Single Audit report and this internal control weakness.

1. The Single Audit Report, as well as the internal control weaknesses identified in this report, is for the period under audit, July 1, 2012 through June 30, 2013, not for the current fiscal year.
2. In reference to the City's inability to attract, develop and retain sufficient permanent individuals, the City has taken steps to remedy this situation. During the past year, the City has contracted with an external party to perform a compensation study and has negotiated new labor contracts to begin the process of bringing salaries and benefits more in line with the market. The City's commitment to attracting and retaining an excellent workforce will be strengthened during the upcoming year as the City emerges from bankruptcy and continues to evaluate employee compensation and benefits.
3. Additionally, the City Manager's Office has begun evaluating the processes within the Finance Department, including, but not limited to purchasing, accounts payable, contract administration, payroll, general ledger reconciliations, and journal entry preparation and documentation. The process of formalizing financial policies and procedures in writing has been initiated and, provided there are no further changes in current management, the formalization of policies and procedures will be completed by June 30, 2016.
4. In addition to formalizing financial policies and procedures, the City has conducted an organizational assessment of the core internal service functions, including the Finance Department with the intention of strengthening the level of governmental accounting experience and expertise. Until such time as the City is able to permanently retain such individuals, highly qualified, experienced consulting staff have been retained to expedite the financial audit preparation process.
5. Finally, current City management cannot comment on why internal controls, as well as written policies and procedures, were not implemented by former management. However, current City management is committed to stabilizing the financial functions of the City by continuing to monitor these same policies and procedures once formalized.

**CITY OF SAN BERNARDINO, CALIFORNIA**  
Schedule of Findings and Questioned Costs (Continued)  
For the Year Ended June 30, 2013

**Reference Number:** 2013-002  
**Finding:** Periodic and Year-end Closing Process

***Criteria***

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

***Condition***

As noted by the predecessor auditor during their audit over the FY 2011/12 financial statements and continuing to our audit over the FY 2012/13 financial statements, the City has no systematic method of ensuring that timely and complete periodic (i.e. monthly, quarterly) and year-end reconciliation and closing procedures were in operation.

***Cause***

Numerous operational challenges were faced by the finance department as a result of the bankruptcy, including limited staff resources and key staff attrition, which contributed to the year-end closing process extending over one 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 periodic and year-end closing procedures, including timely review and approval by management of account reconciliations and year-end schedules.

***Management Response and Corrective Action***

The City agrees with the internal control weakness. Although all journal entries were not completed when the auditors began fieldwork more than a year after June 30, 2013, certain account reconciliations were being performed in a timely manner during the current (Fiscal Year 2014-15) period of time. An example of this is the reconciliation of the City's most vulnerable asset, cash, which reconciliation between the City's records and the bank statement, is being completed on a monthly basis.

The City also agrees that a monthly closing of the City's records should be completed in a timely manner. The City is in the process of implementing this process within ten working days of the close of each month end. Additionally, the closing process will include all account reconciliations being completed within 30 days of the close of each month. Provided there is no change in current management within the City Manager's Office, this will be implemented during Fiscal Year 2015-16.

**CITY OF SAN BERNARDINO, CALIFORNIA**  
Schedule of Findings and Questioned Costs (Continued)  
For the Year Ended June 30, 2013

**Reference Number:** 2013-003  
**Finding:** Collectability of Notes Receivables

***Criteria***

Accounting principles generally accepted in the United States of America require that an adequate allowance be provided for uncollectible receivables.

***Condition***

As noted by the predecessor auditor during their audit of the FY 2011/12 financial statements and continuing in our audit of the FY 2012/13 financial statements, management has not adopted a methodology for reviewing the collectability of notes receivables in the governmental activities, major federal and state grant special revenue fund, major low and moderate income housing special revenue fund and the redevelopment obligation retirement fiduciary fund and, accordingly, has not considered the need to provide an allowance for uncollectible amounts.

***Cause***

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

***Effect***

The City's former redevelopment agency established numerous notes receivables as part of its redevelopment activities. These notes 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 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. Recording an appropriate allowance would decrease the assets and net position or fund balance and an increase the expenses or expenditures in the governmental activities, major federal and state grant special revenue fund, major low and moderate income housing special revenue fund and the redevelopment obligation retirement fiduciary fund. As a result of the significance of this condition, our opinions on the City's governmental activities and fund financial statements were qualified.

***Recommendation***

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

***Management Response and Corrective Action***

The City agrees with the internal control weakness. Although former management agreed to strengthen internal controls over notes receivable, this has yet to be accomplished. Provided there is no change in current management within the City Manager's Office, proper procedures will be implemented to service and monitor notes receivable, including an evaluation of collectability and impairment, if any. The written policies and procedures formalizing this process will be completed during Fiscal Year 2015-16.

**CITY OF SAN BERNARDINO, CALIFORNIA**  
Schedule of Findings and Questioned Costs (Continued)  
For the Year Ended June 30, 2013

**Reference Number:** 2013-004  
**Finding:** Self-Insurance Internal Service Fund Accounting

***Criteria***

Governmental Accounting Standards Board (GASB) Statement Number 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, provides that internal service funds may be used to report any activity that provides goods or services to other funds, departments or agencies of the government on a cost-reimbursement basis. Internal service funds use the full accrual basis of accounting; accordingly, charges to other funds for goods or services should be set to provide for the cost-reimbursement of the accrual-based expenses incurred by the activity. Internal service funds are voluntary under generally accepted accounting principles and are designed to recover the full cost of an activity from participating funds, departments or agencies.

***Condition, Cause and Effect***

The City has the following five internal service funds with fund deficits as of June 30, 2013: 1) Unemployment Insurance Fund with a fund deficit of \$306,942; 2) Workers’ Compensation Fund with a fund deficit of \$23,631,790; 3) Liability Insurance Fund with a fund deficit of \$4,711,871; 4) Utility Fund with a fund deficit of \$2,265,308 and 5) Central Services Fund with a fund deficit of \$130,656. By definition, an internal service fund is operated on a cost-reimbursement basis. For an internal service fund to operate on a cost-reimbursement basis, its charges to other funds should result in revenues and expenses that are approximately equal over time, even though it periodically may report annual increases or decreases in net position. Because the intent of internal service funds is to facilitate cost allocation, the accumulation of net position surpluses or deficits over time generally indicates that service is no longer being made on a cost-reimbursement basis.

***Recommendation***

We recommend the City either: (1) reassess the cost allocation methodology of its various internal service fund so that the user funds or departments are charged a sufficient amount to cover the cost of providing the respective services; or (2) reconsider reporting certain services in internal service funds for financial reporting purposes, particularly in situations where the City does not plan to set aside cash reserves to fund long-term liabilities (e.g., workers’ compensation and insurance.)

***Management Response and Corrective Action***

The City agrees with the internal control weakness. Former Finance Department management charged the various funds/departments of the City the *budgeted* amount for each internal service of the City, e.g. workers’ compensation, information technology, etc. With new management, the City began allocating the *actual* expenses incurred by each internal service fund to the other funds/departments of the City. However, the City has chosen not to fund the large negative ending balances in the Workers’ Compensation Fund and General Liability Fund because the City does not have sufficient cash flow in the General Fund to accommodate such payments. The change in methodology described above has been implemented. Additionally, current management has begun discussions with City Council to begin additional assignments for future claims for workers’ compensation and general liability.

**CITY OF SAN BERNARDINO, CALIFORNIA**  
Schedule of Findings and Questioned Costs (Continued)  
For the Year Ended June 30, 2013

**Reference Number:** 2013-005  
**Finding:** Valuation of Property Held for Resale

***Criteria***

Accounting principles generally accepted in the United States of America require that the carrying amount of the property held for resale should not exceed the estimated net realizable value of the asset.

***Condition***

As noted by the predecessor auditor during their audit of the FY 2011/12 financial statements and continuing in our audit of the FY 2012/13 financial statements, management has not adopted a methodology for reviewing the valuation of property held for resale in the governmental activities, major federal and state grant special revenue fund, major low and moderate income housing special revenue fund and the redevelopment obligation retirement 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.

***Cause***

There is no formalized policy in place for evaluating the valuation of property held for resale or for assessing impairment.

***Effect***

The carrying amount of the property held for resale should not exceed its estimated net realizable value. This often results in a decrease of the assets and net position or fund balance and an increase the expenses or expenditures in the governmental activities, major federal and state grant special revenue fund, major low and moderate income housing special revenue fund and the redevelopment obligation retirement fiduciary fund. As a result of the significance of this condition, our opinions on the City's governmental activities and fund financial statements were qualified.

***Recommendation***

We recommend that the City establish and implement procedures to monitor 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 and Corrective Action***

The City agrees with the internal control weakness. Although former management agreed to strengthen internal controls over valuation of property held for resale, this has yet to be accomplished. Provided there is no change in current management within the City Manager's Office, proper procedures will be implemented to track and maintain the status of properties held for resale, including a methodology for estimating net realizable value of such properties. The written policies and procedures formalizing this process will be completed during Fiscal Year 2015-16.

**CITY OF SAN BERNARDINO, CALIFORNIA**  
Schedule of Findings and Questioned Costs (Continued)  
For the Year Ended June 30, 2013

**Reference Number:** 2013-006  
**Finding:** Interfund Transfers

***Criteria***

Accounting principles generally accepted in the United States of America require that interfund transactions be supported by adequate documentation and that transfers made from restricted special revenue funds are consistent with the purposes and objectives of the special revenue funds making the transfers.

***Condition***

Interfund transfers made from certain City special revenue funds (which include restricted resources) to other City funds, including the City's general fund, could not be substantiated by management, requiring numerous material adjustments to the general ledger to reclassify these transactions.

***Cause***

There is no formalized City policy in place for monitoring and appropriately supporting the interfund transfers made from special revenue funds to demonstrate compliance with the restricted purposes and objectives of the special revenue funds making the transfers.

***Effect***

Interfund transfers have a direct effect on the fund balance of City funds, which is an indicator of available financial resources for unrestricted or restricted future use. Numerous adjustments were made to the general ledger at year-end to properly record interfund transactions among the various City funds. Use of restricted resources for other than specified purposes may result in reportable noncompliance and may expose the City to unexpected refunds and potential reductions in future funding.

***Recommendation***

We recommend that the City establish and implement procedures to ensure that interfund transfers are supported by appropriate documentation to demonstrate that transfers made from restricted special revenue funds are consistent with the purposes and objectives of the special revenue funds making the transfers.

***Management Response and Corrective Action***

The City agrees with the internal control weakness. The transfers from special revenue funds to the General Fund for reimbursement of expenditures spent in compliance with the use of said special revenue funds, e.g. Measure I Fund, Gas Tax Fund, etc. were reversed and the expenditures charged directly to those funds. These transfers have also been corrected for Fiscal Year 2013-14. For Fiscal Years 2014-15 and 2015-16, the budgeting of expenditures from these funds was correctly recorded.

**CITY OF SAN BERNARDINO, CALIFORNIA**  
Schedule of Findings and Questioned Costs (Continued)  
For the Year Ended June 30, 2013

**Reference Number:** 2013-007  
**Finding:** Information Technology (IT) Internal Controls

***Criteria***

IT controls are a critical mechanism for ensuring the integrity of information systems and the reporting of the City's financial information.

***Condition, Cause and Effect***

During our review of IT controls, we noted the following deficiencies:

***1. City lacks central governance of IT strategy and activities.***

The Committee of Sponsoring Organizations [of the Treadway Commission] (COSO) standards represent a generally accepted internal control framework that organizations, including governments, can use as a guide in developing a comprehensive set of internal controls over financial reporting. The COSO framework requires that the top level of governance establish policies and procedures for its entire organization. Additionally, the COSO framework standards encourage that continual monitoring of related controls exist to ensure that the documented controls are actually being adhered to by staff. Such governance is integral to providing direction and establishing an entity's control environment by issuing entity-wide policies and procedures and providing oversight over IT activities. The City does not have any formal IT governance structure, but rather relies on discussions tied to the annual budgeting process.

***Recommendation***

The City Manager, along with the Deputy City Manager, should charter a formal IT Governance Committee to facilitate IT strategic planning, prioritize IT initiatives, provide oversight of IT activities, and evolve the City's IT policies and procedures.

Recommended policy documents include:

- Technology use policy – draft created but not yet implemented.
- Account access, verification and termination policy
- Remote access policy
- System backup and recovery policy
- System change management policy
- System development and acquisition policy
- Personal device (e.g., smartphone) usage policy
- Privileged user management policy
- Network access management policy
- Information technology strategic plan – The City's current version is from 2012.

**CITY OF SAN BERNARDINO, CALIFORNIA**  
Schedule of Findings and Questioned Costs (Continued)  
For the Year Ended June 30, 2013

**2. *The City does not have formal policies and procedures for managing changes or development to its financial system.***

Change control is a formal process used to ensure that changes to a product or system are introduced in a controlled and coordinated manner. Today's computer applications and network infrastructure are extremely complex, and require careful control and testing of changes in order not to disrupt an organization's operations or financial data. What seems like an innocuous code change can have disastrous impacts on a downstream process or data integrity. The City, however, has no formal control documentation for managing changes to the financial system. Change control, including testing, is currently only based on the institutional knowledge of those involved.

***Recommendation***

The Deputy City Manager, along with key IT staff and key functional stakeholders, should formally document change control processes. This process should include roles, ownership, and responsibility for providing overall leadership, requirements, testing, and approvals within key user groups and within the IT organization.

**3. *The City does not have a comprehensive Disaster Recovery Plan.***

Computer operations controls require that an entity has developed, documented, and implemented a disaster recovery/business continuity plan to provide contingency for unforeseeable events and assure that system and financial data can be recovered in a timely manner. The City, however, does not have a current Disaster Recovery Plan. Without a detailed and tested Disaster Recovery Plan, the City is at increased risk for not being able to maintain operational continuity should an unforeseeable event occur.

***Recommendation***

Management should develop appropriate Disaster Recovery infrastructure and create and test a City Disaster Recovery Plan. The Plan should include:

1. Personnel and contact information
2. Vendor contacts
3. More specific identification of systems and information to be addressed
4. Step-by-step procedures with assigned responsibilities for system, application and data recovery.
5. Date last reviewed, date last tested.

**4. *The City's server room lacks adequate fire protection and environmental controls.***

The City's server room does not have an automatic non-water fire suppression system or back-up cooling system. The lack of such systems increases the risk of damage to IT assets and data loss.

***Recommendation***

City management should invest in server room upgrades including non-water fire suppression and an adequate back-up cooling system.

**CITY OF SAN BERNARDINO, CALIFORNIA**  
Schedule of Findings and Questioned Costs (Continued)  
For the Year Ended June 30, 2013

**5. *The City does not regularly review high-level user activity and user access privileges.***

General computer controls over the access to programs and data require that network and application security controls be implemented to assure administrative, master, and super user activities are proper and authorized and to safeguard access to information technology resources and data. During our review, we noted the following:

- 1) Procedures have not been established to monitor administrative, master, and super user activity in the financial systems and related databases. Monitoring high-level user activity mitigates the risk of possible unauthorized activity taking place within the financial systems and going undetected.
- 2) Policies and procedures have not been established to monitor employee user access privileges within the financial systems to ensure that user authorization roles are current and appropriate for the users' functions, and to ensure proper segregation of duties.
- 3) The City's Payroll system has a large number of "generic" logins, including for transaction approval, which are not tied to a specific individual. Use of generic logons makes it difficult or impossible to determine the actual person who performed a transaction and increases the risk of fraudulent activity by an "anonymous" user.

***Recommendation***

In order to minimize the risk of improper or unauthorized activities within the financial systems, we recommend that the City take the following actions:

- a) Develop policies and implement procedures requiring periodic (e.g. monthly) reviews of financial application administrative, master, and super user activities at the application and database levels. The review should be performed by a position outside of the chain of command of these users with high-level access and should be pursuant to guidelines and criteria that would aid in identifying the nature of this activity.
- b) Develop policies and implement procedures requiring periodic (at least annually) reviews of user access privileges to ensure that the access privileges are current and appropriate for their job functions and to ensure proper segregation of duties.
- c) Eliminate the use of generic Payroll logons, and transition the appropriate access to specific individual user accounts.

**6. *General and application password policies need to be strengthened.***

General computer controls require that access to the IT network and applications be properly controlled. While the City enforces strong passwords for New World (financial system) access, it has not formalized these requirements in policy. Without formal requirements, password configuration standards may change based on administrator preference, rather than adherence to formal policy. Additionally, if strong passwords are not used, the chance of someone hacking into a financial system increases considerably.

***Recommendation***

City management should create a formal policy (or include in provisions of an existing policy) defining minimum password configuration requirements for network access and all financial applications.

**CITY OF SAN BERNARDINO, CALIFORNIA**  
 Schedule of Findings and Questioned Costs (Continued)  
 For the Year Ended June 30, 2013

For example:

<b><u>Password Policy Setting</u></b>	<b><u>Recommended value range</u></b>
Enforce password history	12 to 24 passwords remembered
Maximum password age	30 to 90 days
Minimum password age	1 to 3 days
Minimum password length	8 characters
Password must meet complexity requirements	Enabled
Store password using reversible encryption	Disabled
Password complexity	Minimum of eight characters. Contains at least two numeric or special characters.

**7. *City safeguards for controlling network and financial system user access can be improved.***

General controls require that adequate safeguards are in place to prevent unauthorized access to or destruction of documents, records and assets. These controls include user acceptance of Terms and Conditions (Acceptable Use Agreement) for network access. While the City has drafted a *Network Access, Email Usage, and RAS (Remote Access Service) Policy* and a *Technology Use Policy*, it does not require users to sign or accept one of these policies (or an Acceptable Use Agreement referencing a policy). This lack of enforcement of the access policy puts the City at greatly increased risk of unauthorized use of the City network or financial system.

***Recommendation***

The Deputy City Manager and the City Manager should work together to formally implement the *Network Access, Email Usage, and RAS (Remote Access Service) Policy* and the *Technology Use Policy*, and have users review and sign the policy in order to be granted IT network access. This will improve the City's safeguards for network and financial system user access.

***Management Response and Corrective Action***

The City agrees with the internal control weakness. The City's bankruptcy consultant, Management Partners, is currently finalizing a study of the City's Information Technology function. The City believes that many of the same recommendations will result from this study. The City agrees that:

1. Formal Information Technology policies and procedures will be written and monitored for compliance by City staff;
2. Formal policies and procedures for managing changes or development of financial systems will be written and monitored for compliance by City staff;
3. The City will develop disaster recovery infrastructure and create and test this disaster recovery plan;
4. The City will invest in server room upgrades including dry fire suppression and adequate backup cooling (included in City's information technology capital purchase plan);
5. Formal policies and procedures will be written for periodic review of financial application administrative, master, and super user activities at the application and database levels;
6. Formal written policies and procedures will be implemented for requiring periodic reviews of user access privileges;
7. Generic payroll logons will be eliminated;
8. City management will create a formal policy defining minimum password configuration requirements for network access and access to all financial applications; and
9. The City will formalize a Technology Use Policy and have users review and sign the policy.

**CITY OF SAN BERNARDINO, CALIFORNIA**  
Schedule of Findings and Questioned Costs (Continued)  
For the Year Ended June 30, 2013

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**Section III – Federal Award Findings and Questioned Costs**

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**Reference Number:** 2013-008  
**Federal Program Title:** COMMUNITY DEVELOPMENT BLOCK  
GRANTS/ENTITLEMENT GRANTS (CDBG)  
**Federal Catalog Number:** 14.218  
**Federal Agency:** U.S. Department of Housing and Urban Development  
**Pass-Through Entity:** N/A  
**Federal Award Number and Year:** B-08-MN-06-0520 - 2009  
B-11-MN-06-0520 - 2011  
B-12-MC-06-0539 - 2012  
**Category of Finding:** Procurement and Suspension and Debarment

**Criteria:**

Per the OMB A-102 Common Rule, all recipients shall establish written procurement procedures. In addition, contract files shall be examined to:

- 1) Verify that the files document the significant history of the procurement, including the rationale for the method of procurement, selection of contract type, contractor selection or rejection and the basis of the contract price.
- 2) Verify that procurements provide full and open competition.
- 3) Support the rationale to limit competition in those cases where competition was limited and that the limitation was justified.
- 4) Verify that contract files exist and that appropriate cost or price analysis was performed in connection with procurement actions, including contract modification and that the analysis supported the procurement actions.
- 5) Verify that the Federal awarding agency approved procurements exceeding \$100,000 when such approval was required.
- 6) Verify compliance with other procurement requirements specific to an award.

**Condition:**

The City must retain all supporting documentation between the City and any contractor to ensure that procurement procedures were performed in accordance with all provisions and standards set forth in the grant agreement. The City has not provided the documentation necessary to perform a review.

**Cause:**

Lack of formal policies and procedures over the documentation and retention of procurement procedures.

**CITY OF SAN BERNARDINO, CALIFORNIA**  
Schedule of Findings and Questioned Costs (Continued)  
For the Year Ended June 30, 2013

**Effect:**

Failure to document and retain procurement documentation results in noncompliance with procurement requirements and may result in questioned costs for payments made to contractors.

**Questioned Costs:**

Questioned costs consists of all payments made during the year ended June 30, 2013 to two (2) contractors -- \$488,900 to Comerica Leasing Corporation and \$53,416 to Sun Trust Leasing Corporation totaling \$542,316.

**Context:**

The City could not provide the procurement files for two (2) selected contractors with payments of \$542,316 out of five (5) tested with a total amount of \$844,960.

**Recommendation:**

We recommend that the City enforce its policies and procedures over the maintenance of procurement documentation including documentation that the City has verified that the contractors are not subject to suspension/debarment for contractors used in CDBG funded projects to ensure procurement requirements are met.

**Management Response and Corrective Action:**

The City agrees with the finding, as standards require that the City retain all documentation relative to payments. Although the City did retain documentation to support the 2012-13 lease payments, the original request for proposal was not available for review by the auditors, as the City did not maintain the request for proposal records from 2003.

<b>Reference Number:</b>	<b>2013-009</b>
<b>Federal Program Title:</b>	<b>COMMUNITY DEVELOPMENT BLOCK GRANTS/ENTITLEMENT GRANTS (CDBG)</b>
<b>Federal Catalog Number:</b>	<b>14.218</b>
<b>Federal Agency:</b>	<b>U.S. Department of Housing and Urban Development</b>
<b>Pass-Through Entity:</b>	<b>Not applicable</b>
<b>Federal Award Number and Year:</b>	<b>B-08-MN-06-0520- 2008 B-11-MN-06-0520- 2011 B-12-MC-06-0539- 2012</b>
<b>Category of Finding:</b>	<b>Reporting</b>

**Criteria:**

Title 24 –COMMUNITY DEVELOPMENT GRANTS, Part 570 – COMMUNITY DEVELOPMENT BLOCK GRANTS, Subpart J – Grant Administration, Section 570.507 –Reports.

(a)(1) **Entitlement grant recipients and HUD-administered small cities recipients in Hawaii.**  
The annual performance and evaluation report shall be submitted in accordance with 24 CFR part 91.

**CITY OF SAN BERNARDINO, CALIFORNIA**  
Schedule of Findings and Questioned Costs (Continued)  
For the Year Ended June 30, 2013

(d) **Other reports.** Recipients may be required to submit such other reports and information as HUD determines are necessary to carry out its responsibilities under the Act or other applicable laws.

Per Federal Register Volume 73 No. 194 issued in 2008 Notice of Allocations, Application Procedures, Regulatory Waivers Granted to and Alternative Requirements for Emergency Assistance for Redevelopment of Abandoned and Foreclosed Homes Grantees Under the Housing and Economic Recovery Act, 2008, Subpart O – Reporting, “Each grantee must submit a quarterly performance report, as HUD prescribes, no later than 30 days following the end of each quarter, beginning 30 days after the completion of the first full calendar quarter after grant award and continuing until the end of the 15th month after initial receipt of grant funds”. Accordingly, the City is also required to submit a quarterly performance report for Neighborhood Stabilization Program (NSP) funds.

U.S. OFFICE OF MANAGEMENT AND BUDGET CIRCULAR A-133—AUDITS OF STATES, LOCAL GOVERNMENTS, AND NON-PROFIT ORGANIZATIONS (OMB Circular A-133), Subpart C— Auditees, Section .300—Auditee Responsibilities

(b) Maintain internal control over federal programs that provides reasonable assurance that the auditee is managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its federal programs.

**Condition:**

The City could not locate the following quarterly reports in order to determine that the City was in compliance with OMB Circular A-133 and grant requirements:

A. SF-425, Federal Financial Report (cash status only)

The City could not provide supporting documents to demonstrate what the current status of the project was or if the project was completed in the following report:

A. C04PR03 – Activity Summary Report (C04PR03)

The City could not provide supporting documents to substantiate the adjustments made to the totals reported by activity type in the following report:

A. C04PR26- CDBG Financial Summary

**Cause:**

Lack of internal controls over the preparation and submission of the required grant reports.

**Effect:**

The City’s failure to comply with stated rules and regulations over the required reports increases the risk that inaccurate or incomplete information will be reported to the grantor agency.

**CITY OF SAN BERNARDINO, CALIFORNIA**  
Schedule of Findings and Questioned Costs (Continued)  
For the Year Ended June 30, 2013

**Questioned Costs:**

No specific questioned costs were identified.

**Context:**

Of the four (4) required SF-425 quarterly reports, all four (4) could not be located. Of the two (2) annual reports, the C04PR03-Activity Summary Report and the C04PR26-CDBG Financial Summary Reports, the two (2) annual reports were not reconciled to supporting records as there was no written documents to substantiate or validate the amounts/information reported.

**Recommendation:**

The City should implement internal controls over the preparation and maintenance of reports to ensure the reports are based on applicable accounting or performance records and they are reviewed for accuracy and completeness prior to submission.

**Management Response and Corrective Action:**

The City agrees with the finding related to the preparation and maintenance of proper reporting and retention of said reports. The City took corrective action in Fiscal Year 2014-15 to designate a Finance Department employee to prepare required reports, submit said reports to HUD and maintain these reports within the Finance Department's records.

<b>Reference Number:</b>	<b>2013-010</b>
<b>Federal Program Title:</b>	<b>COMMUNITY DEVELOPMENT BLOCK GRANTS/ENTITLEMENT GRANTS (CDBG)</b>
<b>Federal Catalog Number:</b>	<b>14.218</b>
<b>Federal Agency:</b>	<b>U.S. Department of Housing and Urban Development</b>
<b>Pass-Through Entity:</b>	<b>N/A</b>
<b>Federal Award Number and Year:</b>	<b>B-08-MN-06-0520 - 2009 B-11-MN-06-0520 - 2011 B-12-MC-06-0539 - 2012</b>
<b>Category of Finding:</b>	<b>Allowable Costs/Cost Principles</b>

**Criteria:**

OMB CIRCULAR A-87, Cost Principles for State, Local, and Indian Tribal Governments, Attachment A, Part C. Basic Guidelines states, "to be allowable under Federal awards, costs must meet the following criteria: be necessary and reasonable for proper and efficient performance and administration of Federal awards, be consistent with policies, regulations and procedures that apply uniformly to both Federal awards and other activities of the governmental unit, be adequately documented."

U.S. OFFICE OF MANAGEMENT AND BUDGET CIRCULAR A-133—AUDITS OF STATES, LOCAL GOVERNMENTS, AND NON-PROFIT ORGANIZATIONS (OMB Circular A-133), Subpart C— Auditees, Section .300—Auditee Responsibilities

**CITY OF SAN BERNARDINO, CALIFORNIA**  
Schedule of Findings and Questioned Costs (Continued)  
For the Year Ended June 30, 2013

- (b) Maintain internal control over federal programs that provides reasonable assurance that the auditee is managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its federal programs.

**Condition:**

Timecards are required to be signed-off by the supervisor.

**Cause:**

The supervisor was unavailable to sign-off on the respective employee's timecard and this was not enforced in accordance with the City's policy.

**Effect:**

Non-compliance with OMB Circulars A-87 and A-133 results in questioned costs related to the program.

**Questioned Costs:**

Total questioned costs for timecards tested without a supervisor's signature is \$1,543.95.

**Context:**

Of the thirteen (13) timecards tested, we noted one (1) timecard where a supervisor's signature was not evident on the employee's timecard.

**Recommendation:**

We recommend the City enforce its policies and procedures over the approval process of timecards to ensure hours are properly recorded and its policies and procedures over the proper maintenance of City records.

**Management Response and Corrective Action:**

The City agrees with the finding related to enforcing the approval process related to timecard approval and proper maintenance of records related to timecards.

Beginning in Fiscal Year 2015-16, all positions funded by a grant will be managed in accordance with OMB's new Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance) and supervisors of employees will be required to verify and sign their respective timesheet each pay period.

**CITY OF SAN BERNARDINO, CALIFORNIA**  
Schedule of Findings and Questioned Costs (Continued)  
For the Year Ended June 30, 2013

**Reference Number:** 2013-011  
**Federal Program Title:** Staffing for Adequate Fire and Emergency Response (SAFER)  
**Federal Catalog Number:** 97.083  
**Federal Agency:** U.S. Department of Homeland Security, Federal Emergency Management Agency  
**Pass-Through Entity:** N/A  
**Federal Award Number and Year:** EMW-2011-FH-00494  
EMW-2012-FH-00453  
**Category of Finding:** Reporting

**Criteria:**

CODE OF FEDERAL REGULATIONS, Title 44 –EMERGENCY MANAGEMENT AND ASSISTANCE, Part 13 – UNIFORM ADMINISTRATIVE REQUIREMENTS FOR GRANTS AND COOPERATIVE AGREEMENTS TO STATE AND LOCAL GOVERNMENTS, Subpart C – Post-Award Requirements:

40(b)(1), Quarterly or semi-annual performance reports shall be due 30 days after the reporting period. In addition, the Program Performance Reporting Requirements of the 2013 SAFER Funding Opportunity Announcement states that the programmatic Performance Report is due within 30 days of the end of each of the grant’s quarters, with quarters based on the grant’s period of performance.

41(b)(4), When [financial] reports are required on a quarterly or semiannual basis, they will be due 30 days after the reporting period. The 2013 SAFER Funding Opportunity Announcement states that reports are due no later than July 30 for the period January 1-June 30 and no later than January 30 for the period July 1-December 31. In addition, Article VIII of Agreement EMW-2012-FH-0045 states the reporting period for the Federal Financial Report (FFR) are January 1 through June 30 (report due by July 31), and July 1 through December 31 (report due by January 30).

U.S. OFFICE OF MANAGEMENT AND BUDGET CIRCULAR A-133—AUDITS OF STATES, LOCAL GOVERNMENTS, AND NON-PROFIT ORGANIZATIONS (OMB Circular A-133), Subpart C— Auditees, Section .300—Auditee Responsibilities

(b) Maintain internal control over federal programs that provides reasonable assurance that the auditee is managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its federal programs.

**Condition:**

For the Staffing for Adequate Fire and Emergency Response (SAFER) program, the U.S. Department of Homeland Security identified quarterly performance reports and semi-annual financial reports as requirements for entities receiving federal funding assistance through its Funding Opportunity Announcement issued to the public and subsequent grant agreement awarded to the City.

**CITY OF SAN BERNARDINO, CALIFORNIA**  
 Schedule of Findings and Questioned Costs (Continued)  
 For the Year Ended June 30, 2013

For the following reports tested, the City did not submit the reports within the required deadline:

<b>Report Type</b>	<b>Award Number</b>	<b>Period</b>	<b>Submission Deadline</b>	<b>Date Submitted</b>
SF-425 Financial	EMW-2012-FH-00453	1/1/13-6/30/13	7/30/2013	8/12/2013
Performance	EMW-2012-FH-00453	3/9/13-6/8/13	7/8/2013	8/26/2013
Performance	EMW-2011-FH-00494	12/14/12-3/13/13	4/12/2013	4/16/2013

**Cause:**

The City experienced high turnover and understaffing during and subsequent to the year ended June 30, 2013 as a result of the City's bankruptcy.

**Effect:**

The City is not in compliance with laws and regulations related to financial and performance reporting.

**Questioned Costs:**

N/A

**Context:**

Two (2) performance reports were tested and both were submitted after the deadline without extension. One (1) of two (2) financial reports tested were submitted after the deadline without extension.

**Recommendation:**

We recommend that the City strengthen internal controls by implementing procedures to ensure the timely filing of financial and performance reports.

**Management Response and Corrective Action:**

The City agrees with the finding related to late submittal of required reports for the SAFER program. The City implemented a procedure to ensure that reports are submitted in a timely manner during Fiscal Year 2014-15.

**CITY OF SAN BERNARDINO, CALIFORNIA**  
Schedule of Findings and Questioned Costs (Continued)  
For the Year Ended June 30, 2013

**Reference Number:** 2013-012  
**Federal Program Title:** Public Safety Partnership and Community Policing Grants  
**Federal Catalog Number:** 16.710  
**Federal Agency:** U.S. Department of Justice  
**Pass-Through Entity:** N/A  
**Federal Award Number and Year:** 2009RJWX0018-2009 (ARRA)  
2009CKWX0133-2009  
**Category of Finding:** Allowable Costs/Cost Principles

**Criteria:**

OMB CIRCULAR A-87, Cost Principles for State, Local, and Indian Tribal Governments, Attachment A, Part C. Basic Guidelines states, “to be allowable under Federal awards, costs must meet the following criteria: be necessary and reasonable for proper and efficient performance and administration of Federal awards, be consistent with policies, regulations and procedures that apply uniformly to both Federal awards and other activities of the governmental unit, be adequately documented.”

U.S. OFFICE OF MANAGEMENT AND BUDGET CIRCULAR A-133—AUDITS OF STATES, LOCAL GOVERNMENTS, AND NON-PROFIT ORGANIZATIONS (OMB Circular A-133), Subpart C— Auditees, Section .300—Auditee Responsibilities

(b) Maintain internal control over federal programs that provides reasonable assurance that the auditee is managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its federal programs.

**Condition:**

Timecards are required to be signed-off by the employee. It was noted that ten (10) timecards were not approved by the employee (i.e., the timecard did not include an employee signature as they were unavailable to sign the timecard when it was submitted to payroll who then recorded the hours into the general ledger.) In addition, the City was unable to provide adequate documentation for the calculation of the benefits charged to the program.

**Cause:**

The employee was unavailable to sign-off on their timecard and this was not enforced in accordance with City policy.

**Effect:**

Noncompliance with OMB Circulars A-87 and A-133 resulted in questioned costs related to the program.

**Questioned Costs:**

For the ten (10) timecards tested: (1) total questioned costs of \$65,687 represented salary costs of the ten (10) employees who did not sign their timecards; and (2) total questioned costs of \$24,528 represented the related benefits charged to the program that could not be substantiated. All questioned costs were ARRA funded.

**CITY OF SAN BERNARDINO, CALIFORNIA**  
Schedule of Findings and Questioned Costs (Continued)  
For the Year Ended June 30, 2013

**Context:**

Of the ten (10) timecards tested, we noted ten (10) timecards where an employee signature was not evident. In addition, of the ten (10) timecards selected, the City was unable to provide support or the basis for the calculation of the benefits charged to the program.

**Recommendation:**

We recommend the City enforce its policies and procedures over the approval process of timecards to ensure hours are properly recorded and its policies and procedures over the proper maintenance of City records.

**Management Response and Corrective Action:**

The City agrees with the finding related to enforcing the approval process related to timecard approval and proper maintenance of records related to timecards.

In the past, the Police Department's policy was for division timekeepers and the departmental payroll coordinator to verify all payroll timesheets. However, in the future, all positions funded by a grant will be managed in accordance with OMB Uniform Guidance and employees will be required to verify and sign their respective timesheet each pay period.

<b>Reference Number:</b>	<b>2013-013</b>
<b>Federal Program Title:</b>	<b>Public Safety Partnership and Community Policing Grants</b>
<b>Federal Catalog Number:</b>	<b>16.710</b>
<b>Federal Agency:</b>	<b>U.S. Department of Justice</b>
<b>Pass-Through Entity:</b>	<b>Not applicable</b>
<b>Federal Award Number and Year:</b>	<b>2009RJWX0018-2009 (ARRA)</b> <b>2009CKWX0133-2009</b>
<b>Category of Finding:</b>	<b>Reporting</b>

**Criteria:**

Title 28 – JUDICIAL ADMINISTRATION, Part 66 – UNIFORM ADMINISTRATIVE REQUIREMENTS FOR GRANTS AND COOPERATIVE AGREEMENTS TO STATE AND LOCAL GOVERNMENTS, Subpart C – Post-Award Requirements:

40(b)(1) Grantees shall submit annual performance reports unless the awarding agency requires quarterly or semi-annual reports. Annual reports shall be due 90 days after the grant year, quarterly or semi-annual reports shall be due 30 days after the reporting period.

41(b)(4) When [financial] reports are required on a quarterly or semiannual basis, they will be due 30 days after the reporting period. When required on an annual basis, they will be due 90 days after the grant year. Final reports will be due 90 days after the expiration or termination of grant support.

42(a)(1) This section applies to all financial and programmatic records, supporting documents, statistical records, and other records of grantees or subgrantees which are required to be maintained by the terms of this part, program regulations or the grant agreement. Additionally, except as otherwise provided, records must be retained for three years from the starting date specified in paragraph (c) of this section (42(b)(1)).

**CITY OF SAN BERNARDINO, CALIFORNIA**  
 Schedule of Findings and Questioned Costs (Continued)  
 For the Year Ended June 30, 2013

U.S. OFFICE OF MANAGEMENT AND BUDGET CIRCULAR A-133—AUDITS OF STATES, LOCAL GOVERNMENTS, AND NON-PROFIT ORGANIZATIONS (OMB Circular A-133), Subpart C— Auditees, Section .300—Auditee Responsibilities

(b) Maintain internal control over federal programs that provides reasonable assurance that the auditee is managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its federal programs.

**Condition:**

The following items were noted:

1. The City was unable to provide evidence supporting the reported amounts for two (2) financial reports, one (1) performance report, and one (1) Section 1512 ARRA report.
2. The City was unable to provide one (1) financial report for review.
3. The City did not submit the following reports to the funding agency in a timely manner:

Report Type	Program	Award Number	Reporting Period	Submission Deadline	Date Submitted
SF-425 Financial	Hiring	2009RJWX0018	4/1/2013-6/30/2013	9/28/2013	11/18/2013
SF-425 Financial	Technology	2009CKWX0133	1/1/2013-3/31/2013	5/15/2013	N/A (Report unavailable)
Programmatic Progress	Hiring	2009RJWX0018	10/1/2012-12/31/2012	1/30/2013	2/1/2013

**Cause:**

The City experienced high turnover and understaffing during and subsequent to the year ended June 30, 2013 as a result of the City’s bankruptcy.

**Effect:**

The City is not in compliance with laws and regulations related to financial and performance reporting. The City’s failure to comply with stated rules and regulations over the required reports increases the risk that inaccurate or incomplete information will be reported to the grantor agency.

**Questioned Costs:**

No specific questioned costs were identified.

**Context:**

Of three (3) financial reports selected for testing, the City was unable to provide evidence supporting the reported amounts for two (2) reports; did not submit one (1) report to the funding agency in a timely manner; and was unable to provide one (1) report for review.

**CITY OF SAN BERNARDINO, CALIFORNIA**  
Schedule of Findings and Questioned Costs (Continued)  
For the Year Ended June 30, 2013

Of three (3) performance reports selected for testing, the City was unable to provide evidence supporting the reported data of one (1) report, and did not submit one (1) report to the funding agency in a timely manner.

Of one (1) Section 1512 ARRA report selected for testing, the City was unable to provide evidence supporting the reported amounts in the report.

**Recommendation:**

The City should strengthen its process over the preparation and maintenance of reports to ensure the reports are based on applicable accounting or performance records and they are reviewed for accuracy and completeness prior to the timely submission to the funding agency. Additionally, procedures should be implemented to ensure proper retention of accounting records.

**Management Response and Corrective Action:**

The City agrees with the finding related to late submittal of required reports for the Community Policing grants. Beginning in Fiscal Year 2013-14, copies of all progress and financial reports for grants issued to the Police Department have been maintained in the Police Financial Unit regardless of the employee responsible for managing the grant. Copies of all grant reports are maintained both electronically and in paper form in the Financial Unit until such time that disposal of the records is authorized.

<b>Reference Number:</b>	<b>2013-014</b>
<b>Federal Program Title:</b>	<b>JAG Program Cluster- Edward Byrne Memorial Justice Assistance Grant Program, Recovery Act- Edward Byrne Memorial Justice Assistance Grant (JAG) Program/ Grants to Units of Local Government</b>
<b>Federal Catalog Number:</b>	<b>16.738 and 16.804 (ARRA)</b>
<b>Federal Agency:</b>	<b>U.S. Department of Justice, Bureau of Justice Assistance</b>
<b>Pass-Through Entity:</b>	<b>San Bernardino County</b>
<b>Pass-Through Award Number and Year:</b>	<b>09-323</b> <b>2012DJBW-1013 - 2012</b>
<b>Category of Finding:</b>	<b>Allowable Costs/Cost Principles</b>

**Criteria:**

OMB CIRCULAR A-87 Revised, Cost Principles for State, Local, and Indian, Attachment A, Part C. Basic Guidelines, "to be allowable under Federal awards, costs must meet the following criteria: be necessary and reasonable for proper and efficient performance and administration of Federal awards, be consistent with policies, regulations and procedures that apply uniformly to both Federal awards and other activities of the governmental unit, be adequately documented."

U.S. OFFICE OF MANAGEMENT AND BUDGET CIRCULAR A-133—AUDITS OF STATES, LOCAL GOVERNMENTS, AND NON-PROFIT ORGANIZATIONS (OMB Circular A-133), Subpart C— Auditees, Section .300—Auditee Responsibilities

(b) Maintain internal control over federal programs that provides reasonable assurance that the auditee is managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its federal programs.

**CITY OF SAN BERNARDINO, CALIFORNIA**  
Schedule of Findings and Questioned Costs (Continued)  
For the Year Ended June 30, 2013

**Condition:**

Timecards are required to be signed-off by the employee. It was noted that ten (10) timecards were not approved by the employee (i.e., the timecard did not include an employee signature as they were unavailable to sign the timecard when the hours were submitted to payroll who then recorded the hours charged to the grant in the general ledger.) In addition, the City was unable to provide adequate documentation for the calculation of the benefits charged to the program.

**Cause:**

The employee was unavailable to sign-off on their timecard and this was not enforced in accordance with their policy.

**Effect:**

Non-compliance with OMB Circular A-133 resulted in questioned costs related to the program.

**Questioned Costs:**

For fourteen (14) out of twenty-five (25) timecards tested: (1) questioned costs of \$26,530, with \$4,465 of that amount being ARRA funded, represented salary costs of the fourteen (14) employees who did not sign their timecards; and (2) questioned costs of \$982, all of which is ARRA funded, represented the related benefits charged to the program that could not be substantiated.

**Context:**

Of the twenty-five (25) timecards tested, we noted fourteen (14) timecards where an employee signature was not evident. In addition, of the twenty-five (25) timecards selected, we noted fourteen (14) timecards where the City was unable to provide support or basis for calculation of the benefits charged to the program and reported in the SEFA.

**Recommendation:**

We recommend that the City enforce its policies and procedures over the approval process of timecards to ensure hours are properly recorded and enforce its policies and procedures over the proper maintenance of City records.

**Management Response and Corrective Action:**

The City agrees with the finding related to enforcing the approval process related to timecard approval and proper maintenance of records related to timecards.

In the past, the Police Department's policy was for division timekeepers and the departmental payroll coordinator to verify all payroll timesheets. However, beginning in Fiscal Year 2013-14, all positions funded by a grant are managed in accordance with OMB Circular A-87 and employees are required to verify and sign their respective timesheet each pay period.

**CITY OF SAN BERNARDINO, CALIFORNIA**  
Schedule of Findings and Questioned Costs (Continued)  
For the Year Ended June 30, 2013

**Reference Number:** 2013-015  
**Federal Program Title:** JAG Program Cluster- Edward Byrne Memorial Justice Assistance Grant Program, Recovery Act- Edward Byrne Memorial Justice Assistance Grant (JAG) Program/ Grants to Units of Local Government  
**Federal Catalog Number:** 16.738 and 16.804 (ARRA)  
**Federal Agency:** U.S. Department of Justice  
**Pass-Through Entity:** San Bernardino County  
**Pass-Through Award Number and Year:** 09-323  
2012DJBW-1013- 2012  
**Category of Finding:** Special Tests and Provisions

**Criteria:**

OMB Circular No. A-133, Subpart C—Auditee responsibilities states that, the auditee shall:

- (a) Comply with laws, regulations, and the provisions of contracts or grant agreements related to each of its federal programs.

Per the Inter-local agreement between the County of San Bernardino and towns and cities awarded federal funding, including the City of San Bernardino, section 2 stipulates for towns and cities “to deposit their JAG award fund into a separate trust account in accordance with the JAG guidelines.”

**Condition:**

Per review of the City’s bank reconciliations, the City did not establish a separate trust account for the purpose of depositing the JAG awards (including the ARRA grant.)

**Cause:**

Lack of review and oversight over of the JAG program requirements.

**Effect:**

Oversight over the JAG requirements resulted in noncompliance with the guidelines stated in the grant agreement between the County of San Bernardino and the City.

**Questioned Costs:**

N/A

**Context:**

The City did not establish a trust account to deposit their JAG award funds.

**Recommendation:**

We recommend that the City establish a separate trust account for the JAG funds and comply with the grant agreement requirements.

**CITY OF SAN BERNARDINO, CALIFORNIA**  
 Schedule of Findings and Questioned Costs (Continued)  
 For the Year Ended June 30, 2013

**Management Response and Corrective Action:**

The City agrees with the finding related to establishing a separate trust account for the JAG funds. Although beginning in Fiscal Year 2013-14, separate accounts/project numbers were established for each grant, the City realizes that a separate bank account is required. Beginning in Fiscal Year 2015-16, all JAG funds will be deposited into a separate trust/bank account.

**Reference Number:** 2013-016  
**Federal Program Title:** Homeland Security Grant Program  
**Federal Catalog Number:** 97.067  
**Federal Agency:** U.S. Department of Homeland Security  
 Federal Emergency Management Agency  
**Pass-Through Entity:** Riverside Regional Management  
**Pass-Through Award Number and Year:** 2010-065-62000065  
**Category of Finding:** Reporting

**Criteria:**

OMB Circular No. A-133, Subpart C—Auditee responsibilities states that, the auditee shall:

- (b) Comply with laws, regulations, and the provisions of contracts or grant agreements related to each of its federal programs.

Per the Riverside UASI Sub-Recipient Grant Guide between the City of Riverside Office of Emergency Management and the City of San Bernardino, Part 5 – Reporting Requirements, Procurement, and Reimbursements require projects managers “to submit a Monthly Project Status Report in order to improve grant management” and that reports “are due to the Riverside UASI Grant Administrator no later than the 15<sup>th</sup> of each month.”

**Condition:**

The following items were noted:

1. The City was unable to provide evidence supporting the reported amounts for one (1) Monthly Project Status Report.
2. The City did not submit the following reports to the funding agency in a timely manner:

Type of Report	Grant Name	Period Ended/Covered	Submission Deadline	Date Submitted
Monthly Project Status Report	FY10 UASI	July 2012	8/15/2012	8/21/2012
Monthly Project Status Report	FY10 UASI	October 2012	11/15/2012	1/3/2013

**CITY OF SAN BERNARDINO, CALIFORNIA**  
Schedule of Findings and Questioned Costs (Continued)  
For the Year Ended June 30, 2013

**Cause:**

The City experienced understaffing during and subsequent to the year ended June 30, 2013 as a result of the City's bankruptcy.

**Effect:**

The City is not in compliance with laws and regulations related to project reporting.

**Questioned Costs:**

No specific questioned costs were identified.

**Context:**

Of two (2) Monthly Project Status Reports selected for testing, the City was unable to provide evidence supporting the reported amounts for one (1) report. In addition, the City did not submit two (2) reports to the funding agency in a timely manner.

**Recommendation:**

The City should strengthen its process over the preparation and maintenance of reports to ensure the reports are based on accounting or performance records and they are reviewed for accuracy and completeness prior to submission to the funding agency. Additionally, procedures should be implemented to ensure reports are submitted timely.

**Management Response and Corrective Action:**

The City agrees with the finding related to accuracy and timely submittal of reports related to the Homeland Security Grant programs.

The City implemented a procedure to ensure that reports are accurate and submitted in a timely manner during Fiscal Year 2013-14.

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**CITY OF SAN BERNARDINO, CALIFORNIA**

Summary Schedule of Prior Audit Findings

For the Year Ended June 30, 2013

**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.

*Current Status:* This finding is repeated in the current year as 2013-002.

**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.

*Current Status:* This finding was corrected during the current year.

**2012-03** Notes Receivable

*Condition:* Notes receivable were not evaluated for uncollectible accounts or for impairment.

*Current Status:* This finding is repeated in the current year as 2013-003.

**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.

*Current Status:* This finding is repeated in the current year as 2013-005.

**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).

*Current Status:* This finding was corrected during the current year.

**2012-06** Contract Compliance

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

*Current Status:* This finding is repeated in the current year as 2013-001.

**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..

**CITY OF SAN BERNARDINO, CALIFORNIA**  
Summary Schedule of Prior Audit Findings (Continued)  
For the Year Ended June 30, 2013

*Current Status:* The City has yet to staff its purchasing office for increased control over Contract compliance, a material weakness from Fiscal Year 2011-12. The City's administrative functions are currently being evaluated for improved efficiency and effectiveness. Current management plans to implement a centralized purchasing function for increased internal control over this important area of finance. Additionally, if there is no change in current financial management within the City, this internal control will be further strengthened during Fiscal Year 2015-16 with formalized written financial policies and procedures concerning purchasing and contract administration/compliance.

**2012-08** Interfund Transfers

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

*Current Status:* This finding is repeated in the current year as 2013-006.

**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.

*Current Status:* The finding was corrected during the current year.

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.

*Current Status:* The Federal grant was a major program in the current year and the auditor did not note any exceptions regarding allocations of Code Enforcement expenditures.

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 has not yet been paid for by the City.

*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.

**CITY OF SAN BERNARDINO, CALIFORNIA**  
Summary Schedule of Prior Audit Findings (Continued)  
For the Year Ended June 30, 2013

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.

*Current Status:* This finding will be corrected by the City in Fiscal Year 2015-16.

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. 2506-0615) 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.

*Current Status:* This finding will be corrected by the City in Fiscal Year 2015-16.

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-MN-06-0520

**CITY OF SAN BERNARDINO, CALIFORNIA**  
Summary Schedule of Prior Audit Findings (Continued)  
For the Year Ended June 30, 2013

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

*Current Status:* Corrected during the current fiscal year.

**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.

*Current Status:* Corrected during current fiscal year.

**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.

*Current Status:* This finding will be corrected by the City in Fiscal Year 2015-16.

**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.

*Current Status:* This finding will be corrected by the City in Fiscal Year 2015-16.

**CITY OF SAN BERNARDINO, CALIFORNIA**  
Summary Schedule of Prior Audit Findings (Continued)  
For the Year Ended June 30, 2013

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 monitoring reports regarding its various subrecipients.

*Current Status:* The Federal grant was a major program in the current year and the auditor did not note any exceptions regarding monitoring of subrecipients.

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 the 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.