

CITY OF SAN DIEGO

Single Audit Reports
(OMB Circular A-133)

For the Year Ended June 30, 2015



Certified
Public
Accountants

CITY OF SAN DIEGO
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(OMB Circular A-133)
For the Year Ended June 30, 2015

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of San Diego, California (City), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City’s basic financial statements and have issued our report thereon dated December 8, 2015. Our report includes an emphasis of a matter related to the City’s adoption of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*. Our report also includes a reference to other auditors who audited the financial statements of the San Diego Housing Commission, a discretely presented component unit, 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.

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. *A significant deficiency* is a deficiency, or 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

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 result 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 & O'Connell LLP

San Diego, California
December 8, 2015



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

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

Report on Compliance for Each Major Federal Program

We have audited the City of San Diego, California’s (City) compliance with the types of compliance requirements described in the *OMB 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, 2015. 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.

The City’s basic financial statements include the operations of the San Diego Housing Commission (SDHC), which expended \$170,236,241 in federal awards which is not included in the schedule of expenditures of federal awards for the year ended June 30, 2015. Our audit, described below, did not include the operations of SDHC, because SDHC engaged other auditors to perform an audit in accordance with OMB Circular A-133.

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.

Opinion on Each Major Federal Program

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 major federal programs for the year ended June 30, 2015.

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 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 of this section 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 did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2015-001 and 2015-002 that we consider to be significant deficiencies.

The City's responses to the internal control over compliance 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 compliance and, accordingly, we express no opinion on the responses.

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, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated December 8, 2015, which contained unmodified opinions on those financial statements. 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

San Diego, California
March 28, 2016

CITY OF SAN DIEGO
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2015

Federal Grantor/Pass-through Entity/Federal Program Name	Grant/Pass-through Number	Federal CFDA No.	Federal Expenditures	Pass-through Awards to Subrecipients
U.S. Department of Commerce				
<u>Direct Programs</u>				
Economic Adjustment Assistance: San Diego Regional Revolving Loan Fund	07-79-05269 07-39-03351 & 07-49-02681.76	11.307	\$ 1,140,885	\$ -
Small Business Micro Revolving Loan Fund		11.307	819,924	-
Total Economic Adjustment Assistance			1,960,809	-
Total U.S. Department of Commerce			\$ 1,960,809	-
U.S. Department of Housing and Urban Development				
<u>Direct Programs</u>				
Community Development Block Grants/Entitlement Grants	*	14.218	10,094,825	7,257,664
Emergency Solutions Grant Program	*	14.231	1,423,319	1,404,497
Home Investment Partnerships Program	*	14.239	3,187,710	3,147,675
Lead-Based Paint Hazard Control in Privately-Owned Housing	CALHB0572-14	14.900	128,077	-
Total U.S. Department of Housing and Urban Development			14,833,931	11,809,836
U.S. Department of the Interior				
<u>Direct Program</u>				
Title XVI Water Reclamation and Reuse Program	R07AC35217	15.504	113,905	-
Subtotal Direct Program			113,905	-
<u>Passed Through County of San Diego</u>				
National Wildlife Refuge Fund		15.659	1,094	-
Subtotal Passed Through County of San Diego			1,094	-
<u>Passed Through State Department of Parks and Recreation</u>				
Outdoor Recreation - Acquisition, Development and Planning	06-01661	15.916	(1,430)	-
Subtotal Passed Through State Department of Parks and Recreation			(1,430)	-
Total U.S. Department of the Interior			113,569	-
U.S. Department of Justice				
<u>Direct Programs</u>				
Law Enforcement Assistance_FBI Crime Laboratory Support	15-0200-0-1-751	16.301	4,802	-
Public Safety Partnership and Community Policing Grants	*	16.710	14,570	-
Edward Byrne Memorial Justice Assistance Grant Program	*	16.738	706,674	112,969
DNA Backlog Reduction Program	*	16.741	333,597	-
Recovery Act - Internet Crimes Against Children Task Force Program (ICAC)	2012-MC-FX-K005	16.800	354,094	-
Equitable Sharing Program	CA0371100	16.922	1,272,223	-
Subtotal Direct Programs			2,685,960	112,969
<u>Passed Through California Governor's Office of Emergency Services</u>				
Paul Coverdell Forensic Sciences Improvement Grant Program	*	16.742	27,161	-
Subtotal Passed Through California Governor's Office of Emergency Services			27,161	-
Total U.S. Department of Justice			2,713,121	112,969
U.S. Department of Transportation				
<u>Direct Program</u>				
Airport Improvement Program	*	20.106	700,145	-
Subtotal Direct Program			700,145	-
<u>Passed Through San Diego Association of Governments</u>				
Highway Research and Development Program	DTFH61-06-H-00038/ 5001509	20.200	2,432	-
Subtotal Passed Through San Diego Association of Governments			2,432	-
<u>Passed Through State Department of Transportation</u>				
Highway Planning and Construction	*	20.205	3,983,148	315,002
Subtotal Passed Through State Department of Transportation			3,983,148	315,002
<u>Passed Through California Office of Traffic Safety</u>				
State and Community Highway Safety	PT1418, PT15105	20.600	397,957	-
Subtotal Passed Through California Office of Traffic Safety			397,957	-
<u>Passed Through the County of San Diego</u>				
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	AL1432	20.608	6,039	-
<u>Passed Through the University of California Berkeley School of Public Health</u>				
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	SC14365	20.608	132,137	-
<u>Passed Through California Office of Traffic Safety</u>				
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	PT1418, PT15105	20.608	647,952	-
Subtotal Minimum Penalties for Repeat Offenders for Driving While Intoxicated			786,128	-
<u>Passed Through California Office of Traffic Safety</u>				
National Priority Safety Programs	DI1518	20.616	144,174	-
<u>Passed Through State Department of Alcoholic Beverage Control</u>				
National Priority Safety Programs	14-MPG17	20.616	11,293	-
Subtotal National Priority Safety Programs			155,467	-
Total U.S. Department of Transportation			6,025,277	315,002

* Refer to pages 8-9 of the SEFA for the listing of direct grant or pass-through numbers.

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

CITY OF SAN DIEGO
Schedule of Expenditures of Federal Awards (Continued)
For the Year Ended June 30, 2015

Federal Grantor/Pass-through Entity/Federal Program Name	Grant/Pass-through Number	Federal CFDA No.	Federal Expenditures	Pass-through Awards to Subrecipients
Institute of Museum and Library Services				
<u>Passed through California State Library</u>				
Grants to States	LS-00-13-0005-13/40-8256	45.310	\$ 975	\$ -
Total Institute of Museum and Library Services			\$ 975	-
U.S. Environmental Protection Agency				
<u>Direct Programs</u>				
Congressionally Mandated Projects	XP-97991601	66.202	233,505	-
Brownfields Assessment and Cleanup Cooperative Agreements	00T52401	66.818	52,920	-
Subtotal Direct Programs			286,425	-
<u>Passed Through California State Water Resources Control Board</u>				
Capitalization Grants for Clean Water State Revolving Funds	*	66.458	3,701,090	-
Capitalization Grants for Drinking Water State Revolving Funds	SRF12CX103	66.468	221,377	-
Subtotal Passed Through California State Water Resources Control Board			3,922,467	-
Total U.S. Environmental Protection Agency			4,208,892	-
U.S. Department of Energy				
<u>Direct Program</u>				
ARRA - Energy Efficiency and Conservation Block Grant Program (EECBG)	DE-EE0000877	81.128	881,435	-
Total U.S. Department of Energy			881,435	-
Executive Office of the President				
<u>Passed Through the County of San Diego</u>				
High Intensity Drug Trafficking Areas Program	*	95.001	193,945	-
Total Executive Office of the President			193,945	-
U.S. Department of Homeland Security				
<u>Direct Programs</u>				
National Urban Search and Rescue (US&R) Response System	*	97.025	1,276,359	-
Assistance to Firefighters Grant	EMW-2008-FO-07344	97.044	9	-
Subtotal Direct Programs			1,276,368	-
<u>Passed Through the County of San Diego</u>				
Emergency Management Performance Grants	2014-0070/073-00000	97.042	166,674	-
Subtotal Passed Through County of San Diego			166,674	-
<u>Passed Through California Governor's Office of Emergency Services</u>				
Fire Management Assistance Grant	*	97.046	44,073	-
Border Interoperability Demonstration Project	073-95020-2010-0011	97.120	959,396	-
Subtotal Passed Through California Governor's Office of Emergency Services			1,003,469	-
<u>Passed Through the County of San Diego</u>				
Homeland Security Grant Program	*	97.067	224,547	26,775
<u>Passed Through California Governor's Office of Emergency Services</u>				
Homeland Security Grant Program	*	97.067	18,374,786	11,239,122
Subtotal Homeland Security Grant Program			18,599,333	11,265,897
Total U.S. Department of Homeland Security			21,045,844	11,265,897
			\$ 51,977,798	\$ 23,503,704

* Refer to pages 8-9 of the SEFA for the listing of direct grant or pass-through numbers.

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

CITY OF SAN DIEGO
Schedule of Expenditures of Federal Awards (Continued)
For the Year Ended June 30, 2015

CFDA Number/Federal Program Name/Grant Number	Federal Expenditures
CFDA No. 14.218 - Community Development Block Grants/Entitlement Grants Direct Program Grant Numbers	
B-09-MC-060542	\$ 100,000
B-11-MC-060542	63,390
B-13-MC-060542	4,976,753
B-14-MC-060542	4,954,682
Subtotal Community Development Block Grants/Entitlement Grants	<u>\$ 10,094,825</u>
CFDA No. 14.231 - Emergency Solutions Grant Program Direct Program Grant Numbers	
S-10-MC-06-0542	\$ 88,369
E11-MC-06-0542	12,453
E12-MC-06-0542	238,299
E-13-MC-06-0542	327,313
E-14-MC-06-0542	756,885
Subtotal Emergency Solutions Grant Program	<u>\$ 1,423,319</u>
CFDA No. 14.239 - Home Investment Partnerships Program Direct Program Grant Numbers	
M-11-MC-06-0533	\$ 2,496,789
M-12-MC-06-0533	329,006
M-13-MC-06-0533	321,881
M-14-MC-06-0533	40,034
Subtotal Home Investment Partnerships Program	<u>\$ 3,187,710</u>
CFDA No. 16.710 - Public Safety Partnership and Community Policing Grants Direct Program Grant Numbers	
2010CKWX0097	\$ (163)
2010CSWX0021	14,733
Subtotal Public Safety Partnership and Community Policing Grants	<u>\$ 14,570</u>
CFDA No. 16.738 - Edward Byrne Memorial Justice Assistance Grant Program Direct Program Grant Numbers	
2011-DJ-BX-2878	\$ 75,799
2012-DJ-BX-0470	197,122
2013-DJ-BX-0752	260,608
2014-DJ-BX-0301	173,145
Subtotal Edward Byrne Memorial Justice Assistance Grant Program	<u>\$ 706,674</u>
CFDA No. 16.741 - DNA Backlog Reduction Program Direct Program Grant	
2012-DN-BX-0023	\$ (1,605)
2013-DN-BX-0078	188,424
2014-DN-BX-0017	146,778
Subtotal DNA Backlog Reduction Program	<u>\$ 333,597</u>
CFDA No. 16.742 - Paul Coverdell Forensic Sciences Improvement Grant Program Direct Program Numbers	
CQ-13-09-7919	\$ 11,683
CQ-14-10-7919	15,478
Subtotal Paul Coverdell Forensic Sciences Improvement Grant Program	<u>\$ 27,161</u>
CFDA No. 20.106 - Airport Improvement Program Direct Program Grant Numbers	
3-06-0211-012-2008	\$ (2,300)
3-06-0211-014-2011	3,782
3-06-0211-015-2012	470,452
3-06-0211-016-2014	87,950
3-06-0213-016-2012	140,261
Subtotal Airport Improvement Program	<u>\$ 700,145</u>

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

CITY OF SAN DIEGO
Schedule of Expenditures of Federal Awards (Continued)
For the Year Ended June 30, 2015

CFDA Number/Federal Program Name/Grant Number	Federal Expenditures
CFDA No. 20.205 - Highway Planning and Construction Pass-Through Grant Numbers	
BHLO-5004(068)	\$ 103,193
BHLS-5004(049)	1,087,712
BPMPPL-5004(188)	7,743
BPMPPL-5004(189)	7,458
BPMPPL-5004(195)	7,393
BRLO-5004(009)	84,376
BRLS-5004(193)	52,448
CML-5004(131)	140,031
DEM115L-5004(149)	27,559
DEM117L-5004(166)	323,127
ER-4213(019)	476,416
HPLU-5004(168)	321,448
HPLU-5004(177)	13,094
HPLUL-5004(187)	368,917
HSIPL-5004(186)	554,559
HSIPL-5004(194)	58,407
RPSTPLE-5004(161)	(32,058)
SRTSLNI-5004(190)	189,163
SRTSLNI-5004(191)	156,962
STPLZ-5004(040)	35,200
Subtotal Highway Planning and Construction	<u>\$ 3,983,148</u>
CFDA No. 66.458 - Capitalization Grants for Clean Water State Revolving Funds Pass-Through Grant Numbers	
11-832-550-0	\$ 2,906,070
12-800-550-0	795,020
Subtotal Capitalization Grants for Clean Water State Revolving Funds	<u>\$ 3,701,090</u>
CFDA No. 95.001 - High Intensity Drug Trafficking Areas Program Pass-Through Program Grant Numbers	
G14SC0001A	\$ 84,270
G15SC0001A	109,675
Subtotal High Intensity Drug Trafficking Areas Program	<u>\$ 193,945</u>
CFDA No. 97.025 - National Urban Search and Rescue (US&R) Response System Direct Program Grant Numbers	
EMW-2013-CA-K00054	\$ 445,280
EMW-2013-CA-USR-0009	140,552
EMW-2014-CA-K00042	690,527
Subtotal National Urban Search and Rescue (US&R) Response System	<u>\$ 1,276,359</u>
CFDA No. 97.046 - Fire Management Assistance Grant Pass-Through Grant Numbers	
CA-CBD-47384	\$ 31,665
FEMA-5055-FM-CA/Cal OES ID: 073-22804	12,408
Subtotal Fire Management Assistance Grant	<u>\$ 44,073</u>
CFDA No. 97.067 - Homeland Security Grant Program Pass-Through Grant Numbers	
2011-SS-0077/073-00000	\$ 26,775
2013-00110/073-00000	113,124
2013-1110/073-91015	61,881
2014-0093/073-91015	22,767
Subtotal County of San Diego	<u>224,547</u>
2011-0077/073-66000	\$ 18,666
2011-SS-0077/073-66000	2,582,561
2013-00110/073-66000	14,547,882
2014-00093/073-66000	1,225,677
Subtotal California Governor's Office of Emergency Services	<u>18,374,786</u>
Subtotal Homeland Security Grant Program	<u>\$ 18,599,333</u>

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

CITY OF SAN DIEGO
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2015

Note 1 – General

The accompanying Schedule of Expenditures of Federal Awards (SEFA) presents the activity of all federal award programs of the City of San Diego, California (the City). The SEFA excludes the federal award programs of the San Diego Housing Commission (refer to Note 5). Federal awards received directly from federal agencies as well as federal awards passed through other nonfederal agencies, primarily the State of California, are reported in the SEFA. The City's reporting entity is defined in Note 1(a) in the notes 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.

The negative amount reported in the SEFA for the Outdoor Recreation – Acquisition, Development and Planning program (CFDA No. 15.916) represents expenditures previously claimed for reimbursement and reported as expenditures in the SEFA of a prior year, but were ultimately disallowed and not reimbursed by the funding agency. The negative amount reported for the Public Safety Partnership and Community Policing Grants program (CFDA No. 16.710) represents a vendor refund of an expenditure reported in the SEFA of a prior year. The amount of the vendor refund exceeded the fiscal year 2014-15 expenditures, therefore causing a negative balance. The negative amounts reported in the SEFA for the DNA Backlog Reduction Program (CFDA No. 16.741) and the Airport Improvement Program (CFDA No. 20.106) represent grant programs closed out and could not receive reimbursement for expenditures previously reported in the SEFA. The negative amount reported for the Highway Planning and Construction program (CFDA No. 20.205) represents expenditures incurred and reported in the SEFA of a prior year, originally planned to be funded by the grant, but subsequently funded from another funding source.

Note 2 – Basis of Accounting

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

Note 3 – Catalog of Federal Domestic Assistance (CFDA) Numbers

The CFDA numbers included in the accompanying SEFA were determined based on the program name, review of grant contract information, and the Office of Management and Budget's Catalog of Federal Domestic Assistance.

Note 4 – Relationship to the Financial Statements

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

Note 5 – San Diego Housing Commission (Discrete Component Unit) Federal Expenditures

The San Diego Housing Commission (SDHC) federal expenditures of \$170,236,241 are excluded from the City's SEFA because the SDHC federal expenditures are audited by other auditors and reported in a separate single audit report.

CITY OF SAN DIEGO

Notes to the Schedule of Expenditures of Federal Awards (Continued)
For the Year Ended June 30, 2015

Note 6 – Economic Adjustment Assistance Revolving Loan Fund Grant Program (CFDA No. 11.307)

In accordance with guidance provided by the U.S. Department of Commerce contained in the *OMB Circular A-133 Compliance Supplement*, the City has reported federal award expenditures of \$1,960,809 in the SEFA for the Economic Adjustment Assistance Revolving Loan Fund (RLF) Grant program. Expenditures reported in the SEFA were calculated as follows:

Revolving Loan Fund (RLF) Program Name	San Diego Regional RLF	Small Business Micro RLF
Grant Award Number	07-79-05269	07-39-03351 and 07-49-02681.76
Revolving Loan Funds (RLF) Outstanding as of June 30, 2015	\$ 1,300,000	\$ 379,437
Cash and investment balance in the RLF as of June 30, 2015	893,176	721,215
Administrative expenses paid out of RLF income during the year ended June 30, 2015	88,594	38,131
Unpaid principal of loans written off during the ended June 30, 2015	-	-
Subtotal	2,281,770	1,138,783
Calculated grant rate (rounded)	50%	72%
Economic Adjustment Assistance Revolving Loan Fund Grant federal award expenditures for the year ended June 30, 2015	\$ 1,140,885	\$ 819,924

CITY OF SAN DIEGO

Notes to the Schedule of Expenditures of Federal Awards (Continued)
For the Year Ended June 30, 2015

Note 7 – California Office of Emergency Services (CalOES) Grants

The following represents expenditures using the modified accrual basis of accounting for the CalOES programs for the year ended June 30, 2015. The amount reported in the SEFA is determined by calculating the federal portion of the current year expenditures.

Federal Program Title, CFDA, and Expenditure Category	Grant Award Number	Budget	Actual Non-match	Actual Total	Variance
Federal Grant:					
Paul Coverdell Forensic Sciences Improvement Grant - CFDA No. 16.742	CQ-13-09-7919				
Operating expenses		\$ 13,481	\$ 11,683	\$ 11,683	\$ 1,798
Paul Coverdell Forensic Sciences Improvement Grant - CFDA No. 16.742	CQ-14-10-7919				
Operating expenses		\$ 32,307	\$ 15,478	\$ 15,478	\$ 16,829
State Grant:					
Internet Crimes Against Children	IC-13-05-7919				
Operating expenses		\$ 17,987	\$ 16,691	\$ 16,691	\$ 1,296
Equipment		1,074	-	-	1,074
Total		\$ 19,061	\$ 16,691	\$ 16,691	\$ 2,370
Internet Crimes Against Children	IC-14-06-7919				
Personal services		\$ 12,000	\$ 4,444	\$ 4,444	\$ 7,556
Operating expenses		88,000	66,197	66,197	21,803
Total		\$ 100,000	\$ 70,641	\$ 70,641	\$ 29,359

CITY OF SAN DIEGO
 Schedule of Findings and Questioned Costs
 For the Year Ended June 30, 2015

Section I – Summary of Auditor’s Results

Financial Statements:

Type of auditor’s report issued:	Unmodified
Internal control over financial reporting:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified?	None reported
Noncompliance material to financial statements noted?	No

Federal Awards:

Internal control over major federal programs:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified?	Yes
Type of auditor’s report issued on compliance for major federal programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?	No

Identification of major federal programs:

CFDA Number	Federal Program Name
14.218	Community Development Block Grants/Entitlement Grants
14.239	Home Investment Partnerships Program
97.025	National Urban Search and Rescue (US&R) Response System
97.067	Homeland Security Grant Program

Dollar threshold used to distinguish between Type A and Type B programs:	\$1,559,334
Auditee qualified as low-risk auditee?	No

CITY OF SAN DIEGO
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2015

Section II – Financial Statement Findings

No matters reported.

Section III – Federal Award Findings and Questioned Costs

Reference Number:	2015-001
Federal Program Title:	National Urban Search and Rescue (US&R) Response System
Federal Catalog Numbers:	97.025
Federal Agency:	U.S. Department of Homeland Security
Federal Award Number and Year:	2013 – EMW-2013-CA-K00054 2013 – EMW-2013-CA-USR-0009 2014 – EMW-2014-CA-K00042
Category of Finding:	Activities Allowed or Unallowed/Allowable Costs

Criteria:

The A-102 Common Rule and OMB Circular A-110 (2 CFR part 215) requires that non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, Subpart C—Auditees, §.300 Auditees Responsibilities

The auditee shall:

- (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 and grant agreements that could have a material effect on each of its federal programs.

The control objective related to the activities allowed or unallowed and allowable costs/cost principles compliance requirements is to provide reasonable assurance that Federal awards are expended only for allowable activities and that the costs of goods and services charged to Federal awards are allowable and in accordance with applicable cost principles.

Condition:

During our testing of controls over compliance with the activities allowed or unallowed and allowable costs/cost principles compliance requirement, we noted deviations from the established internal controls. Per inquiry with the San Diego Fire-Rescue Department (Department), invoices for direct costs related to equipment, training or contracts are received by the Program Manager for review and approval and then sent to the Fiscal Division of the Department for review and approval for payment.

1. In 4 out of 25 instances tested, there was no evidence that review and approval of invoices was actually performed by the Program Manager or the Fiscal Division of the Department.
2. In 9 out of 25 instances tested, for expenditures incurred and paid using the City's P-Cards there was no evidence that the transactions were reviewed by the Program Manager or the Fiscal Division of the Department.
3. In 14 out of 25 instances tested, there was no evidence that review and approval of invoices was actually performed by the Fiscal Division of the Department.

CITY OF SAN DIEGO
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2015

Although there was a lack of evidence to support that the proper review and approvals actually occurred, there was no noncompliance noted from the testing performed.

Cause:

Internal controls over compliance as designed by the Department, have not been implemented.

1. The control that requires review and approval of expenditures by the Program Manager for allowability does not appear to be operating as designed, as there was no evidence to support that the review and approval by the Program Manager actually occurred.
2. There is no process in place for the Program Manager and/or the Fiscal Division of the Department to review expenditures made using the City's P-Cards assigned to authorized users prior to payment. P-Card transactions go through the City's procurement card payment process which includes review by the assigned Billing Official for completeness, accuracy, authorization and appropriateness. However, the Billing Official may not be part of the grant administration process and therefore, may not review expenditures for compliance with A-87 and grant specific allowable cost and activity requirements. There appears to be a lack of review for allowability by both the Program Manager and the Fiscal Division of the Department.
3. The control requiring purchases and expenditures to be reviewed and approved by the Fiscal Division after review and approval by the Program Manager and prior to submission to the Comptroller's Office's for payment processing, was not consistently followed.

Effect:

Without evidence that the proper review and approval has occurred, there is a risk that the Department may authorize and charge activities and costs to the federal program which are ultimately not allowable in accordance with the program requirements and A-87 cost principles.

Questioned Costs:

There are no questioned costs.

Context:

The Comptroller's Office has an established policy regarding the processing of invoice transactions and P-Card purchases for all City departments.

Both the Program Manager and Fiscal Division of the operating department should verify that purchases and invoices received by the operating department obtain the proper approval for payment. An approver in both the program and fiscal units of the operating department need to verify the accuracy and allowability of the purchases and expenditures prior to submission to the Comptroller's Office for payment. The department administrator completes the transaction entry into the City's SAP GL system once approvals have been verified then forwards the transaction to the Comptroller's Office for payment processing.

Although there was no noncompliance noted regarding allowable activities and allowable costs charged to the program, the Department needs to ensure that there is proper evidence to support the effective implementation of the established controls and they are operating as designed. There were other complimentary controls such as Department verbal approvals and Comptroller's Office review and approval to mitigate the risk of noncompliance.

CITY OF SAN DIEGO
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2015

Recommendation:

The San Diego Fire-Rescue Department needs to consistently adhere to internal controls regarding the review, approval, and processing of purchases, payments of invoices, and P-card transactions. All purchases and expenditures charged against the federal program should be reviewed by the Program Manager and then reviewed by the Fiscal Division to ensure the expenditure is authorized per the Grant Budget and represents an allowable activity and cost. We recommend the creation of a checklist or routing slip that can be included with all procurement and expenditure support to ensure authorization is obtained prior to submission for payment processing and that expenditures are for allowable activities and costs of the federal program. All supporting documents should be maintained together, in SAP or P-Card folder, and include the newly created checklist or routing slip. The program office administrative staff within the Department should only enter the expenditures in SAP after proper authorization is obtained by all required parties in the Department.

Also, the operating department should create a process narrative to document the internal controls related to the Department's grant programs.

Department's View and Corrective Action Plan:

Management agrees with the recommendation. The Fire-Rescue Department will complete a process narrative to document the process to ensure internal controls are in place to verify that all costs charged to the grants meet the allowability requirements of the grant. The Fire-Rescue Department will also collaborate with the Comptroller's Office to ensure proper adherence with City-wide internal controls and accounting practices.

Reference Number:	2015-002
Federal Program Title:	National Urban Search and Rescue (US&R) Response System
Federal Catalog Numbers:	97.025
Federal Agency:	U.S. Department of Homeland Security
Federal Award Number and Year:	2013 – EMW-2013-CA-K00054 2013 – EMW-2013-CA-USR-0009 2014 – EMW-2014-CA-K00042
Category of Finding:	Cash Management/Reporting

Criteria:

The A-102 Common Rule and OMB Circular A-110 (2 CFR part 215) requires that non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, Subpart C—Auditees, §.300 Auditees Responsibilities

The auditee shall:

- (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 and grant agreements that could have a material effect on each of its federal programs.

CITY OF SAN DIEGO
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2015

The control objectives related to cash management is to provide reasonable assurance that the (1) drawdown of Federal cash is only for immediate needs, (2) reimbursement is requested only after costs have been incurred, (3) States comply with applicable Treasury agreements, and (4) recipients limit payments to subrecipients to immediate cash needs.

The control objectives related to reporting is to provide reasonable assurance that reports of Federal awards submitted to the Federal awarding agency or pass-through entity include all activity of the reporting period, are supported by underlying accounting or performance records, and are fairly presented in accordance with program requirements.

Condition:

During our review of federal cash drawdown requests and submitted quarterly SF-425 Financial Reports and Semi-Annual Performance Reports, we noted a lack of support for the established internal control procedures as designed by the San Diego Fire-Rescue Department (Department).

1. Drawdown requests are to be reviewed and approved by the Supervising Management Analyst in the Fiscal Division of the Department prior to Comptroller's Office review. For 25 out of 25 drawdown requests tested, the Department was unable to provide documentation that the drawdowns were approved prior to submission.
2. Quarterly SF-425 Financial Reports are to be reviewed and approved by the Supervising Management Analyst in the Fiscal Division of the Department prior to Comptroller's Office review. For the 3 SF-425 reports tested, the Department was unable to provide evidence that the reports were approved prior to submission.
3. For the 1 Semi-Annual Performance Report tested there was no evidence to support that the Comptroller's Office had reviewed and approved the report prior to submission. The Comptroller's Office has established and communicated City-wide, when reports include financial information, operating departments should submit the reports to the Comptroller's Office before final submission to ensure the completeness and accuracy.

Although there was a lack of evidence to support that the proper review and approvals actually occurred, there was no noncompliance noted from the testing performed.

Cause:

Based upon discussion with the Supervising Management Analyst from the Department, internal controls related to Cash Management and Reporting include review and approval of federal drawdowns and SF-425 reports by the Supervising Management Analyst prior to submission to the Comptroller's Office for final review. However, the review and approval by the Supervising Management Analyst was provided verbally to the Management Analyst (preparer) before the federal cash drawdown requests and financial reports are submitted to the Comptroller's Office for approval. Hence, we could not substantiate whether the review and/or approval actually occurred.

The Comptroller's Office policy requires all grant reports that includes fiscal amounts to be submitted to the Comptroller's Office for review prior to submission to the federal agency. There is currently no control in place to ensure review by the Comptroller's Office for the Semi-Annual Performance Report, which contains financial information, prior to report submission.

CITY OF SAN DIEGO
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2015

Effect:

The possible effects due to the lack of evidence concerning the review and approval of the federal cash drawdown requests and submission of the financial and performance reports is the following:

- The City may submit federal cash drawdown requests which are not for immediate cash needs, and include cash amounts for which expenditures have not yet been incurred.
- Quarterly SF-425 Financial Reports and the Semi-Annual Performance Report may contain inaccurate and incomplete financial information.

Questioned Costs:

There are no questioned costs.

Context:

The Department submitted seven (7) SF-425 Quarterly Financial Reports and two (2) Semi-Annual Performance Reports during the year ended June 30, 2015.

Although there was a lack of evidence to support that the proper Department review and approvals actually occurred, there was no noncompliance noted as a result of the testing performed. The complimentary controls established, such as the review and approval by the Comptroller's Office, mitigates the potential risk for noncompliance.

Recommendation:

The Department should document its review and approval procedures for the federal cash drawdown requests and preparation and submission of the Quarterly SF-425 Financial Reports and Semi-Annual Performance Report. Although the approval process between the Department and Comptroller's Office is documented via email correspondence, the Department should consider scanning and uploading such documentary evidence into SAP or file electronically with the submitted drawdown requests and financial reports. Currently, general fund accounts receivables related to deployments for California Task Force 8 are not being reviewed and approved by the Comptroller's Office per the City's general fund accounts receivable (AR) process. However, since these ARs relate to federal expenditures and reported in the schedule of expenditures of federal awards, the Comptroller's Office should review these ARs (for readiness) similar to the grant ARs for deployments.

The Department should amend the performance report preparation and submission process to include controls that require the Comptroller's Office review and approval prior to report submission.

Department's View and Corrective Action Plan:

Management agrees with the recommendation. The Department will prepare a process narrative to document the formal review process for cash drawdown requests, Quarterly SF-425 Financial Report and Semi-Annual Financial Reporting submissions. This review will include the review of General Fund reimbursement requests related to deployments for California Task Force 8.

CITY OF SAN DIEGO
Summary Schedule of Prior Audit Findings
For the Year Ended June 30, 2015

No matters reported.