

CITY OF SAN BRUNO, CALIFORNIA

SINGLE AUDIT REPORTS ON FEDERAL AWARDS PROGRAMS

*** * * * ***

JUNE 30, 2006

CITY OF SAN BRUNO, CALIFORNIA
SINGLE AUDIT REPORTS ON FEDERAL AWARDS PROGRAMS

JUNE 30, 2006

TABLE OF CONTENTS

	<u>Page</u>
Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	1
Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133	3
Schedule of Expenditures of Federal Awards	5
Notes to the Schedule of Expenditures of Federal Awards	6
Schedule of Findings and Questioned Costs	
I. Summary of Auditors' Results.....	7
A. Financial Statements	
B. Federal Awards	
II. Financial Statement Findings.....	8
III. Federal Awards Findings and Questioned Costs	8
IV. Follow-up on Prior Audit Findings	9
<u>Financial Statement Findings</u>	
<u>Federal Award Findings</u>	

October 5, 2007

Honorable Mayor and Members of the City Council
of the City of San Bruno, California
San Bruno, California

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of San Bruno, California (City) as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements and have issued our report thereon dated October 5, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as item 2006-1.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider item 2006-1 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2006-2.

We also noted certain other matters that we reported to management of the City in a separate letter dated October 5, 2007.

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

Odeberg Ullakko Umanishi & Co LLP

October 5, 2007

Honorable Mayor and Members of the City Council
of the City of San Bruno, California
San Bruno, California

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Compliance

We have audited the compliance of the City of San Bruno, California (City) with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 20, 2006. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

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

In our opinion the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 20, 2006. However, the results of our auditing procedures disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 2006-2.

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the City's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 2006-2.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions, and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items 2006-2 to be a material weakness.

Schedule of Expenditures of Federal Awards

We have audited the basic 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 fiscal year ended June 30, 2006, and have issued our report thereon dated October 5, 2007. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City's 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 has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

Odeberg Ullakko Muravishi & Co LLP

City of San Bruno
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2006

<u>Federal Grantor/Pass Through Grantor, Program Title</u>	<u>Federal C.F.D.A. Number</u>	<u>Pass-through Entity/Grant Number</u>	<u>Federal Assistance Expended</u>
<u>Federal Aviation Administration:</u>			
Noise Abatement Program - Phase 13	20.106	3-06-0221-NY	\$ 89,933
Noise Abatement Program - Phase 14	20.106	3-06-0221-29	234,447
TOTAL FEDERAL AVIATION ADMINISTRATION			324,380
<u>Federal Highway Administration, pass through from State Dept of Transportation:</u>			
El Camino Real - Hwy 380 to Sneath Lane	20.205	STPL-5226 (010)	784,297
Emergency Vehicle Priority System	20.205	STPLH- 5226 (013)	229,385
TOTAL U.S. DEPARTMENT OF TRANSPORTATION			1,013,682
<u>Public Health Service, U.S. Department of Health and Human Services Pass-Through County of San Mateo</u>			
<u>Special Program for the Aging:</u>			
Supportive Services	93.044	n/a	785
Nutrition Services	93.045	n/a	86,977
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			87,762
<u>Office of Traffic Safety</u>			
Office of Traffic Safety - DUI Enforcement/Sobriety Checkpoint	20.600	AL0643/AL0521	5,955
Office of Traffic Safety - CA Seatbelt Compliance	20.600	n/a	14,213
<u>Office of Justice Programs</u>			
LLEBG	16.592	2003-LBBX-1544	11,030
TOTAL U.S. DEPT. OF JUSTICE			31,198
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 1,457,022

CITY OF SAN BRUNO, CALIFORNIA

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE 1 - Summary of significant accounting policies:

Basis of accounting

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of San Bruno (City) and is presented on the modified accrual basis of accounting. Under this basis, revenues are recognized when they become susceptible to accrual, which means both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are recognized under the modified accrual basis of accounting when the related fund liability is incurred and the City has satisfied grant eligible reimbursement requirements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

NOTE 2 - Direct and pass-through programs:

Direct programs represent programs where the grantor federal agency remits federal funds direct to the City. Pass-through programs represent programs where the grantor federal agency remits funds to another government agency and that agency enters into a subrecipient agreement with the City and then reimburses the City with federal grant funds.

CITY OF SAN BRUNO CALIFORNIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

SECTION I – SUMMARY OF AUDITOR'S RESULTS

A. Financial statements

1. Type of auditors' report issued Unqualified
2. Internal control over financial reporting:
- Material weaknesses identified? _X_Yes _No
- Reportable conditions identified not considered to be material weaknesses? _X_Yes _No
- Noncompliance material to financial statements noted? _X_Yes _No

B. Federal awards

1. Internal control over major programs:
- Material weaknesses identified? _X_Yes _No
- Reportable condition identified not considered to be a material weakness? _X_Yes _No
2. Type of auditors' report issued on compliance for major programs Unqualified
3. Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section 510(a)? _X_Yes _No
4. Identification of major programs:
- CFDA Number Name of Federal Program
20.106 Airport Improvement Program
20.205 Highway Planning & Construction
5. Dollar threshold used to distinguish between Type A and Type B Programs \$300,000
6. Auditee qualifies as low-risk auditee? _Yes _X_No

SECTION II – FINANCIAL STATEMENT FINDINGS

2006-1 Timely completion of the audit of the City's Financial Statements

Observation: As similarly discussed in the prior year report (item 2005-1), during the 2006 audit we noted an apparent lack of sufficient skills and experience in the finance department to effectively evaluate and determine the appropriate accounting for non-routine and/or complex accounting transactions consistent with accounting principles generally accepted in the United States, in order to facilitate an accurate and timely year-end closing process. However, we noted that during the year there was a change in personnel and the City was able to hire someone with experience that hopefully will improve the timeliness and accuracy of the financial closing process.

Recommendations: We recommend that the City continue to improve its training program to educate finance personnel on accounting and financial reporting developments and their application. We also suggest that the City continue to hire outside technical consultants to fill the gap until it has developed this in-house expertise. We also recommend that the City continue to develop a formal monthly and year-end financial closing process that incorporates procedures, responsibilities and timetables for reviewing, analyzing and supporting the accounts and reconciliation process to facilitate an accurate and timely financial closing process.

Response: Management has continued the internal training program to build the skill of staff members in all areas necessary to perform monthly and annual accounting practices. Two of three-department positions (Assistant Finance Director and Accountant) predominately focused on accounting functions have been newly promoted since July 1, 2007. Both internal training and outside course instruction are vitally important in reaching the experience and knowledge levels for conducting timely accounting processes.

The Department continues to utilize budgeted accounting consulting services to provide expert advice necessary during the year-end close and audit projects. Management notes that the 2006 audit was completed in one-half the time needed for the 2005 audit and that similar improvement will be accomplished with the 2007 audit. In addition, formal month-end and year-end close procedures have been developed and are being refined on an ongoing basis.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

2006-2 Non- filing of prior years Single Audit Data Collection Forms

Requirement

The City is required to file a data collection form with the Federal Audit Clearinghouse within nine months of year end if they are subject to the Single Audit reporting requirements.

Condition

We noted that the City has not filed a data collection form for the fiscal year ended June 30, 2006.

Recommendation

We recommend that the City file the data collection form for the fiscal year ended June 30, 2006 as soon as possible.

Response: Data collection forms have been submitted to the Federal Audit Clearinghouse for all fiscal years through June 30, 2005. Upon acceptance of the Single Audit by the City Council, the data collection form will be submitted for the year ended June 30, 2006.

SECTION IV – FOLLOW-UP ON PRIOR AUDIT FINDINGS

2005-1 Timely completion of the audit of the City's Financial Statements

Requirement

The City is required to have an audit of their financial statements within nine months of the fiscal year end.

Condition

In the course of our audit we noted the absence of financial accounting personnel with sufficient skills and experience to effectively evaluate and determine the appropriate accounting for non-routine and/or complex accounting transactions consistent with accounting principles generally accepted in the United States, which resulted in a number of material audit adjustments to the financial statements during the course of the audit and resulted in the material restatement of the net assets as of June 30, 2004.

Recommendation

See current year item 2006-1.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

2005-2 Non- filing of prior years Single Audit Data Collection Forms

Observation: Based upon a search of the Federal Audit Clearinghouse data base, we noted the City last filed a data collection form for the fiscal year ended June 30, 2000. We also noted that during the years since last having filed a data collection form, the City was subject to the Single Audit reporting requirements and has had Single Audits performed by other auditors.

Resolution: Management has both completed the data collection forms and submitted them to the U.S. Department of Commerce Federal Audit Clearinghouse for fiscal years 2000-01, 2001-02, 2002-03, and 2003-04. Management has provided the original signed forms to Caporicci & Larson, the City's auditors during this period, for their certification and filing with the Federal Audit Clearinghouse.