

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

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JUNE 30, 2007

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May 2, 2008

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, 2007, which collectively comprise the City's basic financial statements and have issued our report thereon dated May 2, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the deficiency described as Item 2007-1 of the accompanying schedule of findings and questioned costs to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider item 2007-1 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 Item 2007-2.

We also noted certain other matters that we reported to management of the City in a separate letter dated May 2, 2008.

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

This report is intended solely for the information and use of the City Council and management of the City of San Bruno, California, 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. However, this report is a matter of public record and its distribution is not limited.

Oacenberg Ullakko Uuraiski & Co LLP

May 2, 2008

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 30, 2007. 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, 2007. 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 2007-2.

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 the 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be

significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as Item 2007-1 to be a significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs, we consider Item 2007-1 to be a material weakness. The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City's response and, accordingly, we express no opinion on it.

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, 2007, and have issued our report thereon dated May 2, 2008. 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 the City Council and management of the City of San Bruno, California, 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. However, this report is a matter of public record and its distribution is not limited.

Odeberg Ullakko Muravishi & Co LLP

City of San Bruno
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2007

| Federal Grantor/Pass Through Grantor, Program Title | Federal C.F.D.A. Number | Grant Number | Federal Assistance Expended |
|--|-------------------------------|-------------------|-----------------------------------|
| Federal Aviation Administration: | | | |
| Noise Abatement Program - Phase 14 | 20.106 | 3-06-0221-29 | 724,761 |
| TOTAL FEDERAL AVIATION ADMINISTRATION | | | 724,761 |
| Federal Highway Administration, pass through from State Dept of Transportation: | | | |
| El Camino Real Sneath Widening | 20.205 | CML - 5226-010 | 161,379 |
| TOTAL U.S. DEPARTMENT OF TRANSPORTATION | | | 161,379 |
| Public Health Service, U.S. Department of Health and Human Services Pass-Through County of San Mateo Special Program for the Aging: | | | |
| Supportive Services | 93.044 | n/a | 15,900 |
| Nutrition Services | 93.045 | n/a | 56,118 |
| TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES | | | 72,018 |
| Federal Emergency Management Agency Pass-Through State of California | | | |
| Buffer Zone Protection Program | 97.078 | | 15,089 |
| Assistance to Firefighters Program | 97.044 | EMW-2005-FG-06239 | 137,119 |
| TOTAL U.S. DEPARTMENT OF HOMELAND SECURITY | | | 152,208 |
| Office of Traffic Safety | | | |
| Office of Traffic Safety - DUI Enforcement/Sobriety Checkpoint | 20.600 | AL0643/AL050454 | 26,451 |
| Office of Traffic Safety - Speed Reduction & Pedestrian Safety | 20.600 | PT0545 | 25,928 |
| TOTAL U.S. DEPT. OF JUSTICE | | | 52,379 |
| TOTAL EXPENDITURES OF FEDERAL AWARDS | | | \$ 1,162,745 |

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 sub recipient 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, 2007

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? | <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No |
| Reportable conditions identified not considered to be material weaknesses? | <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No |
| Noncompliance material to financial statements noted? | <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No |

B. Federal awards

- | | |
|---|---|
| 1. Internal control over major programs: | |
| Material weaknesses identified? | <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No |
| Reportable condition identified not considered to be a material weakness? | <input checked="" type="checkbox"/> Yes <input type="checkbox"/> 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)? | <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No |
| 4. Identification of major programs: | |
| <u>CFDA Number</u> <u>Name of Federal Program</u> | |
| 20.106 Airport Improvement Program | |
| 5. Dollar threshold used to distinguish between Type A and Type B Programs | \$300,000 |
| 6. Auditee qualifies as low-risk auditee? | <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No |

SECTION II – FINANCIAL STATEMENT FINDINGS

2007-1 Timely completion of the audit of the City's Financial Statements

Observation: During the 2007 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.

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. The Department continues to utilize budgeted accounting consulting services to provide expert advice on handling complex/non-routine accounting matters. Formal month-end close procedures have been developed and this process is done in an accurate and timely manner. Management notes that with the completion of the 2007 audit, the City will be able to focus on ensuring that the year-end close and audit for 2008 will be done within a more acceptable timeframe.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

2007-2 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, 2007.

Recommendation: We recommend that the City file the data collection form for the fiscal year ended June 30, 2007 as soon as possible.

Resolution: Data collection forms have been submitted to the Federal Audit Clearinghouse for all fiscal years through June 30, 2006. Upon acceptance of the Single Audit by the City Council, the data collection form will be submitted for the year ended June 30, 2007.

SECTION IV – FOLLOW-UP ON PRIOR AUDIT FINDINGS

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

Observation: 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.

Recommendation: See current year 2007-1.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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

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

Resolution: See current year 2007-2.