

San Bernardino Associated Governments

Compliance Report
Year Ended June 30, 2012

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**Schedule of Expenditures of Federal Awards
Year Ended June 30, 2012**

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. Department of Transportation			
Highway Planning and Construction Program:			
Pass-through State Department of Transportation:			
I-215 from Orange Show Rd. to Rialto Ave. - Segment 3 - ROW	20.205*	CMLN-6053-059	\$ (70,943)
I-215 from Rialto Ave. to 9th Street - Segment 1 - ROW	20.205*	CMLN-6053-060	(957)
San Bern. County Mojave Desert Air Basin Rideshare	20.205*	CML-6053-071	191,930
I-215 ROW Segment 2: S/O 9th St. to S/O Mass. St. Arterial Roadway Traffic Signal Interconnect System Tiers 3 & 4	20.205*	CMLN-6053-072	348,100
South Coast Air Basin Rideshare - Valley Cong/Mitigation Air Quality	20.205*	CMTLSPL-6053-077	1,807,645
ARRA - I-215 Corridor North, Segments 1 and 2	20.205*	CMLG-6053-078	1,009,234
ARRA - I-215 Corridor North, Segments 1 and 2	20.205*	ARRA C220-ESPLN-6053-080	622,477
ARRA - I-215 Corridor North, Segments 1 and 2	20.205*	ARRA C230-ESPLN-6053-080	5,080,820
ARRA - I-215 Corridor North, Segments 1 and 2	20.205*	ARRA C240 DA 8-1427	28,276,703
I-215 Corridor North, Segments 1 and 2 - Demo Funds	20.205*	ESPLN-6053-080	500,000
I-215 Corridor North, Segments 1 and 2	20.205*	PNRSCML-6053-081	7,974,633
Palm Ave. 530 Ft. So. of I-215/Palm Ave., Interchange to 1,450 Ft. So.	20.205*	CML-6053-087	127,579
I-10 in Redlands & Yucaipa From Fort St. O/C to Live Oak Canyon Rd.	20.205*	STPLN-6053-088	3,376,967
SR-210 from Locust Ave. to .31 Mile W. of Riverside Ave., Segment 9	20.205*	STPLN-6053-094	350,029
City of Colton & SB Hunts Ln. Fr. No. of Oliver Holmes Rd. to So. of Riverwood	20.205*	PNRSCML-6053-095	601,279
I-10 Citrus Interchange - Fontana	20.205*	STPCMLN-6053-097	2,739,086
Rideshare Mojave Desert Air Basin	20.205*	CML-6053-098	145,724
Rideshare South Coast Air Basin	20.205*	CML-6053-099	3,728
I-215 Bi-county HOV ROW and Utility Relocation	20.205*	CMLN-6053-101	2,604,848
Total U.S. Department of Transportation			55,688,882
U.S. Department of Energy			
Conservation Research and Development:			
ARRA - Clean Cities FY09 Petroleum Reduction	81.086*	ARRA DE-EE0002173	3,686,107
Total U.S. Department of Energy			3,686,107
Total Expenditures of Federal Awards			\$ 59,374,989

* Denotes major program

See Notes to Schedule of Expenditures of Federal Awards.

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Notes to Schedule of Expenditures of Federal Awards

Note 1. Basis of Presentation and Summary of Significant Accounting Policy

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal grant activity of the San Bernardino Associated Governments (SANBAG) under programs of the federal government for the year ended June 30, 2012. The information in this Schedule is presented in accordance with the requirements of the Office of Management and Budget (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. Because the Schedule presents only a selected portion of the operations of SANBAG, it is not intended to, and does not, present the financial position of SANBAG.

The accompanying Schedule is presented on the modified-accrual basis of accounting.

Note 2. Amount Provided to Subrecipients

During the fiscal year ended June 30, 2012, SANBAG made payments to its subrecipient Ryder Truck Rental, Inc. in the amount of \$3,686,107 under the Conservation Research and Development grant, CFDA #81.086.



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

Board of Directors
San Bernardino Associated Governments
San Bernardino, CA

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the San Bernardino Associated Governments (SANBAG) as of and for the year ended June 30, 2012, which collectively comprise SANBAG's basic financial statements, and have issued our report thereon dated February 5, 2013, which includes an emphasis-of-matter paragraph. 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

Management of SANBAG is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered SANBAG'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 SANBAG's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of SANBAG's internal control over financial reporting.

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 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.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined previously. However, we identified a certain deficiency in internal control over financial reporting, described in the accompany Schedule of Findings and Questioned Costs as item 2012-1, that we consider to be a significant deficiency in internal control over financial reporting. 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether SANBAG'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. This included those provisions of laws and regulations identified in the Transportation Development Act of 1971, as amended, and corresponding regulations of the California Government Code. 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*.

We noted certain matters that we have reported to management of SANBAG in a separate letter dated February 5, 2013.

SANBAG's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit SANBAG's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Board of Directors, the Audit Subcommittee, 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.



Irvine, CA
February 5, 2013



**Independent Auditor's Report on Compliance With Requirements That Could
Have a Direct and Material Effect on Each Major Program and on Internal Control
Over Compliance in Accordance With OMB Circular A-133, and on the
Schedule of Expenditures of Federal Awards**

Board of Directors
San Bernardino Associated Governments
San Bernardino, CA

Compliance

We have audited the San Bernardino Associated Governments' (SANBAG) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. SANBAG'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 SANBAG's management. Our responsibility is to express an opinion on SANBAG'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 SANBAG'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 on SANBAG's compliance with those requirements.

In our opinion, SANBAG complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and is described in the accompanying Schedule of Findings and Questioned Costs as item 2012-2.

Internal Control Over Compliance

Management of SANBAG 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 SANBAG's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of SANBAG'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 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.

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 deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of SANBAG as of and for the year ended June 30, 2012, which collectively comprise SANBAG's basic financial statements, and have issued our report thereon dated February 5, 2013, which contained an unqualified opinion on those financial statements. Our audit was conducted for the purpose of forming our opinions on the financial statements that collectively comprise SANBAG's financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for the purposes of additional analysis as required by OMB Circular A-133, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain other procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the financial statements as a whole.

SANBAG's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. We did not audit SANBAG's response and, accordingly, we express no opinion on the response.

This report is intended solely for the information and use of the Board of Directors, the Audit Subcommittee, 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.



Irvine, CA
February 5, 2013

San Bernardino Associated Governments

**Schedule of Findings and Questioned Costs
Year Ended June 30, 2012**

I. Summary of Auditor's Results

Financial Statements

Type of Auditor's Report Issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified Yes No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? Yes None Reported
- Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? Yes None Reported

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

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? Yes No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
20.205	Highway Planning and Construction
81.086	Conservation Research and Development

Dollar threshold used to distinguish between Type A and Type B programs: \$ 1,781,250

Auditee qualified as low-risk auditee? Yes No

San Bernardino Associated Governments

**Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2012**

II. Financial Statement Findings

A. Internal Control Matters

#2012-1 – Segregation of Duties

Criteria: Due to the limited number of people working in the Finance Department at SANBAG, there are certain duties currently performed by the same employee that should be segregated to different employees.

Condition: There is no standard review process of month-end reconciliations over investments and debt. The accounting manager prepares the reconciliations and posts the adjustments to the general ledger.

Effect: Duties should be segregated to serve as a check and balance and to maintain an adequate control system.

Recommendation: We recommend that SANBAG implement a regular supervisory review of month-end reconciliations prior to adjustments being posted.

View of Responsible Official and Planned Corrective Action: Even though SANBAG's Finance Department is limited, segregation of duties is implemented as efficiently as possible. Routine transactions are posted into the EDEN financial system, and the ending cash balances for investment and debt agree to the trustee statements. Finance is currently preparing a process of monthly reconciliation of all cash balances.

B. Compliance Findings

None reported.

III. Findings and Questioned Costs for Federal Awards

A. Internal Control Matters

None reported.

B. Compliance Findings

#2012-2 – Procurement and Suspension and Debarment

Federal Program: CFDA 20.205 – Highway Planning and Construction

Pass-Through Entity: California Department of Transportation

Compliance Requirements: Procurement and Suspension and Debarment

Criteria: As noted with the prior year finding 2011-5, SANBAG has not developed procedures for obtaining and verifying suspension and debarment with its vendors.

San Bernardino Associated Governments

Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2012

B. Compliance Findings (Continued)

Condition: The June 2012 *Compliance Supplement* from the OMB Circular A-133 requires that nonfederal entities perform a verification check for covered transactions by either checking the EPLS, collecting a certification from the entity, or adding a clause or condition to the covered transaction with the entity.

Questioned Costs: There were no questioned costs identified.

Cause: SANBAG is not performing a verification check for covered transactions, which is a requirement in the OMB Circular A-133.

Effect: By not performing one of the three requirements above, SANBAG increases its risk of contracting with a suspended and debarred vendor.

Recommendation: We recommend SANBAG add policies and procedures to its procurement policy to address suspension and debarment. We also recommend that procedures are implemented to address the compliance requirements noted above.

View of Responsible Official and Planned Corrective Action: SANBAG staff is aware of the requirement to verify suspension and debarment and will implement procedures to verify suspension and debarment in fiscal year 2012/2013.

San Bernardino Associated Governments

**Summary Schedule of Prior Year Audit Findings
Year Ended June 30, 2012**

I. Financial Statement Findings

A. Internal Control Matters

Finding 2011-1: Accounting Systems

Current Status: This item has been fully corrected during the year ended June 30, 2012. Full implementation of the EDEN financial system was completed as of November 30, 2011. The accounting system does have the ability to accumulate and sort financial data into a format that is required for reporting purposes.

Finding 2011-2: Financial Reporting Process – Material Misstatements

Current Status: Full implementation of the EDEN financial system was completed as of November 30, 2011. The errors noted in the prior year were due to formulas within Excel spreadsheets. As SANBAG has converted its accounting system to EDEN, this risk has been fully corrected.

B. Compliance Findings

None reported.

II. Findings and Questioned Costs for Federal Awards

A. Internal Control Matters

None reported.

B. Compliance Findings

Finding 2011-3: Procurement Procedures Approval by the State Department of Transportation (DOT)

Current Status: This was fully corrected during the year ended June 30, 2012. The State DOT approved SANBAG's policies in April 2012.

Finding 2011-4: Sole-Source Procurement Documentation

Current Status: This was fully corrected during the year ended June 30, 2012. SANBAG did follow procedures to comply with procurement procedures awarded by sole-source and justification was provided to SANBAG Board of Directors and Department of Energy. SANBAG personnel provided documentation to the auditors to substantiate compliance.

Finding 2011-5: Procurement and Suspension and Debarment Verification Check

Current Status: SANBAG acknowledges the requirement of verification of suspension and debarment and relied on its consultant to perform this function. This will be added into SANBAG's procurement policies and procedures during the fiscal year ending June 30, 2013.

San Bernardino Associated Governments

**Summary Schedule of Prior Year Audit Findings (Continued)
Year Ended June 30, 2012**

B. Compliance Findings (Continued)

Finding 2011-6: Subrecipient Communication

Current Status: This was fully corrected during the year ended June 30, 2012. SANBAG acknowledges the requirement to document at the time of disbursement of funds, the federal award number, CFDA number and amount of ARRA funds. SANBAG implemented procedures to ensure compliance with this requirement as soon as SANBAG staff was notified of this federal requirement.