



CITY OF SAN BERNADINO MUNICIPAL WATER DEPARTMENT

FOR THE YEAR ENDED JUNE 30, 2024

SINGLE AUDIT REPORT

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CITY OF SAN BERNARDINO
MUNICIPAL WATER DEPARTMENT

Single Audit Report

For the Year Ended June 30, 2024

CITY OF SAN BERNARDINO
MUNICIPAL WATER DEPARTMENT

Single Audit Report

For the Year Ended June 30, 2024

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INDEPENDENT AUDITORS' 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 Water Board
San Bernardino Municipal Water Department
San Bernardino, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of each major fund of the San Bernardino Municipal Water Department (the "Department"), a component unit of the City of San Bernardino, California (the "City"), as of and for the year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements, and have issued our report thereon dated November 27, 2024.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Department's internal control over financial reporting (internal control) as a basis for designing 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 Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department'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 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.

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as item 2024-001, that we consider to be a significant deficiency.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Department's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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*.



To the Water Board
San Bernardino Municipal Water Department
San Bernardino, California

Department's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Department's response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. The Department's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of This Report

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

A handwritten signature in black ink that reads "Lance, Soll & Lughard, LLP". The signature is written in a cursive, flowing style.

Irvine, California
November 27, 2024



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE AND REPORT ON SCHEDULE OF EXPENDITURES OF
FEDERAL AWARDS REQUIRED BY UNIFORM GUIDANCE

To the Water Board
San Bernardino Municipal Water Department
San Bernardino, California

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited the San Bernardino Municipal Water Department (the "Department"), a component unit of the City of San Bernardino, California (the "City")'s compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of the Department's major federal programs for the year ended June 30, 2024. The Department's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Department 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, 2024.

Basis for Opinion on Each Major Federal Program

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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Department and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the Department's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the Department's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Department's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance



To the Water Board
San Bernardino Municipal Water Department
San Bernardino, California

and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Department's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Department's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Department's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we did identify a certain deficiency in internal control over compliance that we consider to be a significant deficiency.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2024-001 to be a significant deficiency.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

Government Auditing Standards requires the auditor to perform limited procedures on the Department's response to the internal control over compliance findings identified in our compliance audit described in the accompanying schedule of findings and questioned costs. The Department's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.



To the Water Board
San Bernardino Municipal Water Department
San Bernardino, California

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the San Bernardino Municipal Water Department, a component unit of the City of San Bernardino, as of and for the year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements. We issued our report thereon dated November 27, 2024, which contained unmodified opinions on those financial statements. Our audit was performed 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 the Uniform Guidance 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.

A handwritten signature in cursive script that reads "Lance, Soll & Lughard, LLP".

Irvine, California
November 27, 2024

SAN BERNARDINO MUNICIPAL WATER DEPARTMENT
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2024

Federal Grantor/Pass-Through Grantor/Program Title	Federal Assistance Listing Number	Program Expenditures
U.S. Department of Treasury		
Direct Award:		
Coronavirus State and Local Fiscal Recovery Funds	21.027	\$ 563,308
Total U.S. Department of the Interior		563,308
Environmental Protection Agency		
Consent Decree *	66.000	
Operations and maintenance:		
Newmark		\$ 1,294,116
Muscoy		867,686
Site wide monitoring		100,045
Project management		246,382
Subtotal - Consent Decree		2,508,229
U.S. Department of Homeland Security		
Direct Award:		
Hazard Mitigation Grant Program *	97.039	\$ 3,041,427
Total U.S. Department of the Interior		3,041,427
Total Federal Expenditures		\$ 6,112,964

* Major Program

Note a: Refer to Note 1 to the schedule of expenditures of federal awards for a description of significant accounting policies used in preparing this schedule.

Note b: There was no federal awards expended in the form of noncash assistance and insurance in effect during the year.

Note c: Total amount provided to subrecipients during the year was \$0.

CITY OF SAN BERNARDINO MUNICIPAL WATER DEPARTMENT
Notes To The Schedule Of Expenditures of Federal Awards
For The Year Ended June 30, 2024

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES APPLICABLE TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

A. Scope of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal grant activity of the San Bernardino Municipal Water Department (the "Department"), a component unit of the City of San Bernardino, California (the "City"), under programs of the federal government for the year ended June 30, 2024. The information in this Schedule is presented in accordance with the requirements of the Uniform Guidance. Because the Schedule presents only a selected portion of the operations of the Department, it is not intended to and does not present the financial position, changes in net position or cash flows of the Department, nor does it present all federal programs of the City of San Bernardino as a whole.

B. Basis of Accounting

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance. Under the accrual basis of accounting, expenditures are recognized when incurred. Expenditures reported include any property or equipment acquisitions incurred under the federal program. The Department did not use the 10% de minimis indirect cost rate as covered in section 200.414 of the Uniform Guidance.

NOTE 2: BACKGROUND OF THE CONSENT DECREE

In 1996, the City filed a complaint against the United States of America, Department of the Army (Army) to recover damages, response costs and other available remedies relating to contamination alleged to have originated at a World War II Army installation known as Camp Ono. In March 2005, the United States Department Court, Central Department, entered judgment, in the form of a consent decree (Consent Decree), in the matter of City of San Bernardino v. United States of America. The consent decree settles the City's and the State's claims arising from the groundwater contamination allegedly caused by the Army. The Consent Decree contains a number of provisions obligating the City (through the Municipal Water Department) to operate and maintain the Newmark Groundwater Superfund site (Site). The Site consists of two operable units, the Newmark Operable Unit and the Muscoy Operable Unit. The Newmark Operable Unit was declared operational and functional in 1998.

The Consent Decree provided for a payment of \$69 million from the Army to the City for performance of the work outlined in the consent decree. Upon entry of the Consent Decree, the City, through the Department, received title to all facilities constructed by the United States Environmental Protection Agency (EPA) for the Site and agreed to operate and maintain the groundwater extraction and treatment system for a period of 50 years. The \$69 million payment consisted of \$59 million for operation and maintenance and \$10 million for the construction of certain capital facilities that would be required in the future. The funds are subject to strict limitations, contained in the Consent Decree, as to how they may be spent.

Pursuant to the Consent Decree, \$10 million, including interest earned, has been set aside to be used only for (i) funding construction of treatment and directly related transmission systems that expanded the Department's capacity to deliver potable water, and (ii) funding work performed by the Department to complete construction of the Muscoy Operable Unit extraction system. These "capital facility" funds may not be used for costs incurred to operate, maintain, repair or retrofit components of the Site extraction or treatment systems constructed by EPA. In September 2007, the Muscoy Operable Unit was declared operational and functional.

CITY OF SAN BERNARDINO MUNICIPAL WATER DEPARTMENT
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2024

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unmodified Opinion

Internal control over financial reporting:

- Material weaknesses identified? ☐ yes ☒ no
- Significant deficiencies identified? ☒ yes ☐ none reported

Noncompliance material to financial statements noted? ☐ yes ☒ no

Federal Awards

Internal control over major programs:

- Material weaknesses identified? ☐ yes ☒ no
- Significant deficiencies identified? ☐ yes ☒ none reported

Type of auditors' report issued on compliance for major programs: Unmodified Opinion

Any audit findings disclosed that are required to be reported in accordance with Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance)? ☐ yes ☒ no

Identification of major programs:

Assistance Listing Number(s)
66.000
97.039

Name of Federal Program or Cluster
Consent Decree
Hazard Mitigation Grant Program

Dollar threshold used to distinguish between type A and type B program \$750,000

Auditee qualified as low risk auditee? ☒ yes ☐ no

SECTION II - FINANCIAL STATEMENT FINDINGS

Reference Number

2024-001

Evaluation of Finding

Significant Deficiency

Condition

San Bernardino Municipal Water Department personnel did not properly adhere to Department policies and procedures for verifying the authenticity of vendor requests to change bank account information. As a result, an unauthorized person was able to impersonate a legitimate vendor and submit a fraudulent request to change the bank account number associated with the vendor's invoices. The Department processed the request without verifying the identity of the requester or the validity of the new bank account information, resulting in approximately \$65,000 being paid to the wrong bank account before detecting the fraud.

Criteria

Internal control standards require that organizations establish and adhere to policies and procedures to verify the authenticity of vendor requests to change bank account information. This includes contacting the vendor by phone or in person using a previously known or independently obtained contact number and confirming the request and the new bank account information with an authorized representative of the vendor.

Cause of Condition

The Department lacked a written policy and procedure for verifying vendor requests to change bank account information. Additionally, staff responsible for processing vendor payments were not adequately trained on the importance of verifying such requests.

Effect or Potential Effect of Condition

The deficiency in internal control over vendor payments exposes the Department to the risk of financial losses, reputational damage, and legal liabilities. In this instance, the Department paid approximately \$65,000 to the wrong bank account before detecting the fraud.

Recommendation

To prevent and detect similar frauds in the future, we recommend that the Department implement the following measures:

1. Establish a written policy and procedure for verifying vendor requests to change bank account information. This should include contacting the vendor by phone or in person using a previously known or independently obtained contact number, and confirming the request and the new bank account information with an authorized representative of the vendor.
2. Train the staff responsible for processing vendor payments on the new policy and procedure, emphasizing the importance of adhering to it.
3. Periodically review the vendor master file to identify any changes made to vendor bank account information. Perform independent verification of these changes and investigate any discrepancies or anomalies.
4. Reconcile vendor payments with vendor statements and bank statements on a timely basis and follow up on any outstanding or unusual items.

Client Response

The Finance division has implemented additional procedures to mitigate the risk in the future. Vendor requests for new banking information or electronic payments submitted to Finance go into a workflow to be reviewed and independently verified. Senior staff call the requesting vendor to verify all information submitted before being approved in the Financial system. Staff have been trained and advised to not pay vendors without this verification process and physically cannot without the approval in the system.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

CITY OF SAN BERNARDINO MUNICIPAL WATER DEPARTMENT

CITY OF SAN BERNARDINO
WATER BOARD

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President

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SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS FOR THE FISCAL YEAR ENDED JUNE 30, 2023

No matters were reported.

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