



# CITY OF SAN BERNARDINO MUNICIPAL WATER DEPARTMENT

JUNE 30, 2021

SINGLE AUDIT REPORT

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CITY OF SAN BERNARDINO  
MUNICIPAL WATER DEPARTMENT

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SAN BERNARDINO MUNICIPAL WATER DEPARTMENT

SINGLE AUDIT REPORT

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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  
City of 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 City of San Bernardino Municipal Water Department (the "Department"), a component unit of the City of San Bernardino, California, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements, and have issued our report thereon dated December 1, 2021.

### **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. 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 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  
City of San Bernardino Municipal Water Department  
San Bernardino, California

**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 Department'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 Department's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Lance, Soll & Lughard, LLP*

Brea, California  
December 1, 2021



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 THE UNIFORM GUIDANCE

To the Water Board  
City of 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 City of 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 described 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, 2021. 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, 2021.

***Basis for Opinion***

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); 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 the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion. Our audit does not provide a legal determination of the Department's compliance with the compliance requirements referred to above.

***Emphasis of Matter***

As discussed in Note 1 to the Schedule of Expenditures of Federal Awards (the "Schedule"), the Schedule presents only the federal awards administered by the Department and does not purport to, and does not, present fairly the total federal expenditures of the City as a whole as of June 30, 2021, or nor does this report on compliance extend to those federal award programs not administered by the Department.



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

### ***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 government 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, 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 and therefore is not a guarantee that an audit conducted in accordance with GAAS, 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 the government program as a whole.

In performing an audit in accordance with GAAS, Government Auditing Standards, and 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 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**

*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 a 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 a combination of deficiencies, in internal control over compliance that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.



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

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. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be a material weakness, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that have not been identified.

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.

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

We have audited the financial statements of each major fund of the Department, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements. We issued our report thereon dated December 1, 2021, 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 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.

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.

*Lance, Soll & Lughard, LLP*

Brea, California  
December 1, 2021

**SAN BERNARDINO MUNICIPAL WATER DEPARTMENT**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2021**

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal Assistance Listing No.</u>	<u>Program Identification Number</u>	<u>Program Expenditures</u>
<b>U.S. Department of Interior</b>			
Direct Award:			
Title XVI Water Reclamation and Reuse	15.504	R10AC35282	\$ 361,596
<b>Total U.S. Department of the Interior</b>			<b><u>361,596</u></b>
<b>Environmental Protection Agency</b>			
Consent Decree *	66.000	#	
Operations and maintenance:			
Newmark			831,438
Muscoy			936,227
Site wide monitoring			141,129
Project management			<u>91,712</u>
Subtotal - Consent Decree			2,000,506
Direct Award:			
Superfund State, Political Subdivision, and Indian Tribe			
Site-Specific Cooperative Agreements	66.802	V-00T73801-8	<u>197,756</u>
<b>Total Environmental Protection Agency</b>			<b><u>2,198,262</u></b>
<b>Total Federal Expenditures</b>			<b><u>\$ 2,559,858</u></b>

\* Major Program

# A PIN number has not been assigned

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 FISCAL YEAR ENDED JUNE 30, 2021**

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**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, 2021. 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 FISCAL YEAR ENDED JUNE 30, 2021

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SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unmodified Opinion

Internal control over financial reporting:

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

Noncompliance material to financial statements noted?  yes  no

Federal Awards

Internal control over major programs:

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

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:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
66.000	Consent Decree

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

Auditee qualified as low risk auditee?  yes  no

**CITY OF SAN BERNARDINO MUNICIPAL WATER DEPARTMENT**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2021**

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**SECTION II - FINANCIAL STATEMENT FINDINGS**

No matters were reported.

**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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Deputy General Manager  
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Director of Water Utility  
KEVIN T. STEWART, P.E.  
Director of Water Reclamation  
JENNIFER L. SHEPARDSON  
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Regulatory Compliance  
CYNTHIA J. MOUSER  
Director of Finance

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## SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS FOR THE FISCAL YEAR ENDED JUNE 30, 2020

No matters were reported.