



**U.S. DEPARTMENT OF COMMERCE**  
**Office of Inspector General**

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***Economic Development  
Administration***

***San Bernardino International  
Airport Authority and the  
Inland Valley Development Agency***

***Final Audit Report  
No. STL-18837-9-0001/October 2008***

**FOR PUBLIC RELEASE**

***Seattle Regional Office of Audits***






**UNITED STATES DEPARTMENT OF COMMERCE**  
**Office of Inspector General**  
Washington, D.C. 20230

October 17, 2008

MEMORANDUM FOR: A. Leonard Smith, Regional Director  
Seattle Regional Office  
Economic Development Administration

FROM:  Judith J. Gordon  
Assistant Inspector General  
for Audit and Evaluation

SUBJECT: Final Audit Report No. STL-18837-9-0001  
San Bernardino International Airport Authority and/or  
Inland Valley Development Agency  
San Bernardino, California  
EDA Grant Nos. 07-49-05304, 07-49-05422, 07-49-05623, and 07-49-05672

We are attaching a copy of the subject audit report for your actions in accordance with DAO 213-5, "Audit Resolution and Follow-up." The original report has been sent to the recipient, who has thirty (30) days from the date of the transmittal to submit comments and supporting documentation to you. We have also attached a copy of our transmittal letter. A copy of this report will be made available to the public through a posting at:

[http://www.oig.doc.gov/oig/reports/economic\\_development\\_administration/index.html](http://www.oig.doc.gov/oig/reports/economic_development_administration/index.html).

Under DAO 213-5, you have seventy-five (75) calendar days from the date of this memorandum to reach a decision on the actions you propose to take on each audit finding and recommendation and to submit an Audit Resolution Proposal to this office. The format for the proposal is Exhibit 8 of the DAO. As applicable, your written proposal must include the rationale and/or legal basis for reinstating any questioned cost in the report and should reference any supporting documentation relied on. Your comments should also address the funds to be put to better use, if any, cited in the audit report. Under the DAO, the Office of Inspector General must concur with your proposal before it may be issued as a final determination and implemented. The DAO prescribes procedures for handling any disagreements this office may have with the Audit Resolution Proposal. Also, please copy us when the audit determination letter is sent to the auditee.

Any information or inquiry regarding this final report should be directed to our Seattle Regional Office. All correspondence concerning this report should refer to our Final Audit Report No. STL-18837-9-0001.

Attachment

cc: Anita Sanders, EDA Audit Liaison  
Kristine Skrinde, Acting Chief, Public Works Division  
Mary Rudokas, EDA Project Engineer

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## **INTRODUCTION**

This report presents the results of our audit of Economic Development Administration (EDA) grant numbers 07-49-05304 (final), 07-49-05422 (interim), 07-49-05623 (interim) and 07-49-05672 (interim). The objectives of the audit were to determine whether (1) costs claimed under the EDA awards were reasonable, allowable, and allocable to the sponsored project; (2) award objectives were achieved or appropriate progress had been made towards award objectives; and (3) accounting, procurement, and project management practices and controls in effect at the time of the grant performance complied with award requirements, assured efficient grant administration, and resulted in an acceptable final product. See APPENDIX A for details regarding the audit scope, methodology, and standards.

The grants, detailed in Table 1, were awarded to the San Bernardino International Airport Authority (authority) and the Inland Valley Development Agency (agency) individually or jointly and provide for a federal share of 90 percent of the total estimated project costs, each with a specific not-to-exceed limit. Additional costs are the grantee's responsibility. The grants are part of a series of nine defense economic adjustment assistance awards with a total estimated project cost of over \$45 million to date that implement a base reuse strategy designed to convert the former Norton Air Force Base to civilian and commercial use. Planning and implementation efforts began under an award initially made in February 1994 and subsequently amended three times. This award was completed prior to the grants under audit; and four subsequent awards, implementing additional elements of the strategy, follow those included in our audit scope.

Funds for the awards were provided by the Department of Defense Office of Economic Adjustment from defense appropriation earmarks by members of the California congressional delegation. The Office of Economic Adjustment and EDA collaborate under a memorandum of understanding to help communities create a business environment attractive to investors. Under the memorandum of understanding, the Office of Economic Adjustment provides funding as the "cooperating agency," while EDA functions as "lead agency." As lead agency, EDA is responsible for (1) developing the final project application—ensuring that all pertinent statutory and regulatory requirements are met, (2) processing and awarding of grants, (3) making disbursements, (4) monitoring, and (5) closing out the project in accordance with its regulations.

Base realignment and closure legislation designated Norton Air Force Base for closure, and the base's official cessation of operation on March 31, 1994, precipitated economic setbacks throughout the region. In anticipation of the setbacks the affected communities formed two joint powers authorities to help mitigate their losses. The agency, formed in 1990, is comprised of the county of San Bernardino and the cities of San Bernardino, Colton, and Loma Linda, California, and is responsible for the redevelopment of the non-aviation portion of the former base. The authority consists of the same entities as the agency plus the city of Highland, California, and was formed in 1992 to oversee the aviation portion. Although the authority and the agency are two separate business entities, they operate out of the same offices and share executive, management, and administrative staff. Authority commission members, with the exception of those representing the city of Highland, also serve on the agency board. For this reason we have presented the results of the audit in a single audit report addressed to both entities. Also for



purposes of this report we refer to the agency and the authority, individually and collectively, as “the grantee.” However, the APPENDIXES clearly identify the specific grant and grantee.

Table 1. Award Detail

Grantee Award No.	Offer Date	Award Period	Total Estimated Project Cost	Percent Complete	Audit Cutoff Date	Purpose
<b>San Bernardino International Airport Authority</b>						
07-49-05304	9/26/02	9/2002-12/2005	\$2,638,889	100	9/30/2005	<ul style="list-style-type: none"> <li>• Hangar 763: Demolition and reconstruction of electrical backbone, some electrical rewiring on top of backbone design, and in-house construction of Bay doors 1 &amp; 2 and west annex</li> <li>• Hangar 695 &amp; 795: Fire suppression design and construction; underground piping, pump station, and emergency power</li> </ul>
07-49-05422	9/30/03	9/2003-9/2008 (60 months)	2,691,667	97	6/30/2007	<ul style="list-style-type: none"> <li>• Terminal: HVAC/alarm system upgrade</li> <li>• Bldg. 730: Re-roof; demolition and HVAC replacement</li> <li>• Hangar 763: Fire suppression installation, pump station valve modifications; design and equipment for backbone electrical</li> <li>• Hangar 795: Repair door and alarm</li> </ul>
<b>Inland Valley Development Agency</b>						
07-49-05623	9/23/04	9/2004-9/2009 (60 months)	3,588,889	80	9/30/2006	<ul style="list-style-type: none"> <li>• Demolition of 31 structures and cut and cap all utilities</li> <li>• Jet Rocket Engineering and Test site west: Landscape, irrigation, and perimeter security</li> </ul>
<b>Inland Valley Development Agency and San Bernardino International Airport Authority</b>						
07-49-05672	6/21/05	6/21/2005-6/21/2010 (60 months)	4,486,112	61	6/30/2007	<ul style="list-style-type: none"> <li>• Roadway and infrastructure improvements related to Harry Sheppard Blvd., Leland Norton Way, George Webster Drive and demolition of East Drive</li> <li>• Bldg 747: Demolition of two thirds of building, roof and wall of 1/4<sup>th</sup> of the building</li> <li>• Hangar 763: Asbestos abatement in the east annex</li> </ul>
<b>Total Estimated Project Cost</b>			<b>\$13,405,557</b>			

On September 24, 2008, the recipient provided comments and supporting documentation in response to our draft audit report, which we have evaluated and considered in the preparation of this final report. A synopsis of the recipient's responses to the draft report and our comments follow each related section. The recipient's letter is included as Appendix B. We did not include the attachments to the recipient's letter because they included sensitive information.

The recipient agreed with the need to improve controls and procedures to ensure compliance with award requirements but disagreed with the need to improve its financial management system. Of the \$700,335 in costs we questioned (before offsetting for the \$63,253 cost overrun on grant number 07-49-05304), the recipient disagreed with \$646,493. For reasons detailed in the following sections, we are unable to accept the recipient's arguments; and we reaffirm our findings and recommendations.

## Findings and Recommendations

### **I. Grantee Performed or Made Acceptable Progress toward Award Goals and Objectives**

The primary purpose of the EDA grants is to promote economic development by upgrading, rehabilitating, and renovating former base facilities to enable the grantee to lease facilities and retain and create jobs. At the time of our audit, one grant was complete, two others were substantially complete, and the fourth was two-thirds complete. Our review disclosed that the grantee had accomplished the objectives set forth in the one completed grant (07-49-05304) and made sufficient progress toward accomplishing the goals and objectives of the on-going awards included in our audit scope (07-49-05422, -05623, and -05672). Our conclusion was based on our observation of grantee accomplishments in the fall of 2007 and documents the grantee subsequently secured in July 2008 from responsible construction management and architectural and engineering consultants certifying after-the-fact that construction was completed in accordance with contract terms and conditions, including approved plans and specifications.

Figure 1. **Hangar 763**



OIG, October 2007

The scopes of work set forth in Table 1 are for the grants, as amended, in effect at the time of our audit. The awards provide for infrastructure improvements to support the development of a business park and airport operations at the former Norton Air Force Base. In aggregate, the



awards to date fund the upgrade of the terminal building and select hangars and include demolition and reconstruction of existing structures and infrastructure and roadway improvements; air/heating/alarm system upgrades; deconstruction and deconstruction management of asbestos abatement. Each grant implements a portion of the planning funded under previous, completed grants that defined the overall project to convert the former Air Force base to civilian use and promote economic adjustment in the San Bernardino area. As funding for this conversion is made available through specific earmarks of annual Department of Defense appropriations and transferred to EDA to award and administer, EDA awards a grant to fund a defined portion of the overall conversion project. The portion of the overall project to be funded is based on EDA's evaluation and approval of the grantee's application for the earmarked funds.

Because the projects involve rehabilitating, restructuring, and revitalizing old military facilities for which precise as-builts and overall structural and environmental conditions are not always initially known, arriving at a precisely defined scope and estimate of project cost that fits available funding is not always possible. Early in the process the grantee shifted award scopes as needed to utilize available earmarked funds. As such it was difficult for the grantee and EDA to keep each award distinctly defined, and the various awards have been subject to amendment and construction contracts are frequently changed. Questions raised by a new EDA project engineer in late 2005 disclosed problems with shifting scopes of work and precipitated two short trips to sort out award scopes of work and costs incurred and ultimately produced the amended scopes set forth in Table 1. It was those adjusted scopes that formed the basis for our review of grantee performance. The grantee and the new EDA project engineer have worked collaboratively to ensure that the awards, scopes of work, and approved budgets are clearly identified and distinguished from one another and within the annually appropriated earmarks. Therefore, we have accepted completed performance under grant no. 07-49-05304 and performance to date on the projects that were the subject of our interim audits. However, we encourage the grantee to institutionalize controls and provide sufficient technical staffing such that the improved progress to date is sustained and projects in progress produce an acceptable and well-defined final project.

## II. Results of Financial/Compliance Audit

### A. \$573,375 Is Due the Federal Government

The grantee claimed total project costs of \$10,819,511 through the specified final and interim audit cutoff dates. Our review disclosed that the grantee failed to ensure that its administration of the grants adhered to award terms and conditions inclusive of application assurances, federal cost principles, and uniform administrative requirements, causing us to question \$637,082. The results of our cost-incurred audit of the four grants are summarized in Table 2 and detailed in APPENDIXES F through I.

Table 2. Summary of the Financial Results of Audit

Federal Funds Disbursed		\$9,737,561
Total Project Costs Claimed	\$10,819,511	
Less Questioned Costs <sup>a/</sup>	637,082	
<b>Accepted Costs</b>	<b>10,182,429</b>	
Federal Share (90%)		9,164,186
<b>Amount Due to EDA</b>		<b>\$ 573,375</b>

Legend:

<sup>a/</sup> Of the \$637,082 questioned (\$700,335 less \$63,253 in cost overruns on grant number 07-49-05304), \$513,207 were unsupported

### Grantee Response and OIG Comments

#### Grantee Response

Of the \$700,335 in costs questioned the recipient disagreed with \$646,493 as follows:

• Labor and fringe benefits expense	\$249,088 <sup>a/</sup>
• JM Carden Change Order 1	149,575 <sup>b/</sup>
• Aero Change Order 1	144,000 <sup>c/</sup>
• Allison Chiller	85,690 <sup>d/</sup>
• CEDC Ceiling Overrun	<u>18,140<sup>e/</sup></u>
Total	\$646,493

Notes

<sup>a/</sup> The grantee contended that EDA had accepted its time distribution system based on a grantee letter certifying its system. The grantee appended a copy of the letter and an example of its labor accounting as Attachment 1 to its response. The grantee maintained that it was the grantee's and the former EDA project manager's understanding that the certification was approved as acceptable system for support of salaries and wages and added that the system was approved years earlier by its cognizant agency at the time, FAA.

The grantee also contended that EDA's approval of the grantee's first reimbursement request indicated it accepted the grantee's time distribution methods and that changing criteria is confusing and unfair. The grantee claimed that its system was approved by FAA because it has a time distribution system that complies with OMB Circular A-87, and it does distribute actual labor costs.

- b/ The grantee asserted that the J.M. Carden Change Order 1 is allowable because (1) the Board approved the work, (2) EDA approved the change order, (3) the grantee's construction manager approved the change order and confirmed completion in accordance with approved plans and specifications, and (4) the local fire department inspected and approved the system. The grantee also contended that EDA approved funding and reimbursement for the change order.
- c/ The grantee contended that the Aero Change Order 1 is allowable because the fire suppression work dealt with improvements to an integrated system, which affected all four bays—not just the two that were cited as within the scope of EDA grant number 07-49-05422, and which was required to meet life and fire safety code requirements. The grantee asserted that its construction manager approved the work and certified its completion, and the local fire department and the Board approved the work as well. The grantee noted that EDA approved and reimbursed the grantee for the change order and stated that it should be able to rely on those approvals.
- d/ The grantee asserted that the original value of the chiller and its relocation cost are allowable because it was originally installed on building number 48, which was later rendered "infeasible, as the tenant thereof closed its business." The grantee relocated the chiller to building 730 allowing it to "retain/create over 50 new jobs in building 730." The grantee stated that EDA reviewed, approved, and reimbursed the grantee for the \$85,690.
- e/ The grantee maintained that \$18,140 in engineering fees questioned as being in excess of the engineering agreement's fee ceiling is allowable because they are valid construction expenses, which EDA reimbursed. The grantee agreed that it should have requested EDA approval to shift amounts from one budget category of expense to another and noted that it had sufficient contingency at the time to do so.

## OIG Comments

We disagree with the grantee's various assertions with regard to the \$646,493 contested above, and reaffirm total questioned costs of the \$637,082 (\$700,335 less \$63,253 in cost overruns on grant number 07-49-05304). Our following comments are keyed to the notes in the preceding section.

- a/ We reaffirm questioned costs of \$249,088 for lack of an adequate time distributions system. Federal requirements for support for time distribution are in addition to standards for payroll documentation. The grantee's time distribution system does not comply with federal cost principles at OMB Circular A-87, Attachment B.11(h)(5), which identify the minimum requirements for time distribution records required to allocate labor to projects. The grantee's

system complied with the requirements, with the exception of provision (5)(b)—it did not account for the total activity for which each employee was compensated. The grantee's staff prepared time cards indicating the total time worked in support of the grantee's payroll system but prepared activity reports on an exception basis, identifying time worked on various federal grants and programs, which the grantee used to allocate labor and fringe benefits to the grants and programs. The distribution records did not account for and distribute the total activity for which each employee was compensated.

Although the grantee indicates that its time distribution system was previously approved by FAA, it did not provide support for this statement. Nor did it provide support for its contention that it was the understanding of both the grantee and the former EDA program manager that the grantee's certification was approved as an acceptable system for the support of salaries and wages. The grantee attachment provided in support of its statement that it provided certifications to EDA simply notes that reported salaries were approved and paid and supporting documentation was readily available and on file in the grantee's office. The grantee's assertions that (1) EDA's approval of its reimbursement request and disbursement of funds indicated acceptance of the costs and (2) changing criteria is confusing and unfair are not compelling. The grantee accepted the various EDA grants with federal cost principles and uniform administrative requirements clearly incorporated by reference and with EDA Standard Terms and Conditions for Construction Contracts appended. EDA also provided copies of EDA's *Requirements for Approved Construction Projects* with the early awards. The requirements for time distribution records have not changed (although the specific numeric citation within OMB Circular A-87 changed in 2004). Furthermore, uniform administrative requirements applicable to the grants at 15 CFR 24.51 stipulate that the funding agency has a right to disallow costs and recover funds on the basis of a later audit or other review. This provision is also present in EDA's Standard Terms and Conditions for Construction Projects, EDA's *Requirements for Approved Construction Projects*, and in EDA's closeout memoranda for completed awards.

- b/ We reaffirm questioned costs of \$149,575 for J.M. Carden Change Order 1 as unsupported. The grantee has not provided a bilaterally executed change order required by 13 CFR 305.19 (2002) or the cost analysis and evidence of a separately negotiated profit required by 15 CFR 24.36(f)(1) and (2) for this change order. As discussed at length in our response to Note <sup>a/</sup> above, the fact that EDA approved the change order and the grantee's reimbursement request and disbursed funds for Change Order 1 does not obviate the requirement that costs claimed be adequately supported or preclude subsequent adjustment based on a later audit or other review.
- c/ We reaffirm questioned costs of \$144,000 for Aero Change Order 1 as unsupported. While the grantee has provided additional explanation for the change order, which benefited all four bays of Hangar 763 rather than just the two bays that were included in the scope of the grant, the grantee did not provide documentation supporting its explanation or detail confirming that the overall, four-bay system upgrade was needed to obtain a certificate of occupancy to lease all four bays when two were already occupied. Furthermore, the documentation attached to the grantee's response was a copy of the EDA project manager's approval of the change order. However, that approval does not mitigate the absence of the cost analysis and separate negotiation of profit required by uniform administrative requirements at 15 CFR 24.36(f)(1)

and (2). As discussed at length in our response to Note <sup>a/</sup> above, the fact that the former EDA project manager approved the change order or that EDA approved the grantee's reimbursement request and disbursed funds for Change Order 1 does not obviate the requirement that costs claimed be adequately supported or preclude subsequent adjustment based on a later audit or other review.

<sup>d/</sup> We reaffirm questioned costs of \$85,690 for depreciation and relocation cost for the chiller relocated from building 48 to building 730 as unreasonable and unnecessary. We do not dispute that the chiller is currently in service at building 730, and we accepted the depreciated value of the chiller. We questioned depreciation of the chiller for the 19.75 months that it was in service at building 48 plus the cost of relocating the chiller to building 730, which was within the scope of work for grant 07-49-05422. We could find no evidence in pre-applications, applications, or award documents for either grants 07-49-05403 or -05422 that building 48 was part of the award scopes. As discussed at length in our response to Note <sup>a/</sup> above, the fact that the EDA reviewed, approved, and reimbursed the grantee for \$85,690 does not obviate the requirement that costs claimed be for work within the defined scope of the award or preclude subsequent adjustment based on a later audit or other review.

<sup>e/</sup> We reaffirm questioned costs of \$18,140 in engineering fees claimed in excess of the engineering agreement ceiling. The issue does not involve approval of shifts in approved budget categories but rather the fact that the grantee paid and claimed \$18,140 in excess of the cost ceiling set forth in its agreement for electrical engineering services. Uniform administrative requirements at 15 CFR 24.36(b)(10)(ii) provide that grantees will only use a time and materials type contract, if the contract includes a ceiling price that the contractor or consultant exceeds at its own risk. As detailed in note 3d of Appendix H, the ceiling established for the engineering contract was \$184,065. The grantee claimed a total of \$202,205 without an approved change order. The excess is unallowable for federal participation. As discussed at length in our response to Note <sup>a/</sup> above, the fact that the EDA approved the grantee's reimbursement request and disbursed funds for the \$18,140 in excess payments to the electrical engineer does not obviate the requirement that costs claimed be adequately supported or preclude subsequent adjustment based on a later audit or other review.

### ***B. Grantee Procurement Policies and Practices and Records Retention Policies Need Improvement***

The grantee had a purchasing policy and change order procedure that described the procedures to be followed for purchasing goods and services, set forth instructions for construction contracts and change orders, and established a conflict of interest policy. However, our tests of contracts, change orders, professional services agreements, and purchases disclosed that grantee procurements of such goods and services did not always meet financial management support provisions, minimum federal procurement standards, or records retention provisions of applicable uniform administrative requirements at 15 CFR Part 24.20, .36, and .42 or federal cost principles of OMB Circular A-87, Attachment A C.1(j). Grantees must maintain records sufficient to detail the significant history of procurements and accounting records must be supported by source documentation including those records specifically prescribed by uniform administrative requirements and federal cost principles. Grantees must retain supporting documentation for three

years after the submission of the final reimbursement request. The authority submitted a final reimbursement request for EDA Grant No. 07-49-05304 on January 30, 2007. Two of the remaining three grants were nearing completion while the third was on-going.

The grantee was unable to provide required documentation or documents were incomplete for a number of critical procurements. Review of grantee policies and tests of actual procurement procedures disclosed that the grantee lacked a defined records management system to safeguard and retain required support for procurement planning, execution, and administration actions and related financial claims to EDA. For example, we found that some construction specifications, bid advertisements, records of required pre-bid walk-throughs, sponsoring agency approvals, bilaterally executed change orders, cost analyses, and independent cost estimates were missing; and contractor progress and final payment requests lacked necessary certifications that work was completed in accordance with approved plans and specifications. Justifications for using the hourly rate method of compensation were missing as were the cost price analyses, which are required for all procurements and change orders. We initially received documents that grantee financial personnel gathered to support financial reports to EDA. While these documents were organized in binders, financial personnel acknowledged the files were incomplete and a function of what they received from the grantee program staff.

We followed up with program staff, but after several requests, numerous data voids remained. Grantee management explained that older records had been stored and subsequently moved and speculated that records had been lost or misplaced in the process. However, select documents, as opposed to entire files, were missing from virtually all procurement files that we tested, making that explanation unlikely the sole cause of the problem. The missing and inadequate documents represented elements (1) essential to required procurement histories; (2) necessary to manage contractor, consultant, and vendor performance; and (3) required to support contract change orders and agreement amendments, document funding agency approvals, demonstrate full and open competition, and certify that work was adequately supervised and completed in accordance with the terms of the contract and approved plans and specifications. We were poised to question \$8,936,441 or 85 percent of the total of construction costs and architectural engineering costs claimed for inadequate supporting documentation when the grantee requested the opportunity to obtain after-the-fact certifications from its consulting construction managers and engineers that work had been accomplished in accordance with approved plans and specifications. The grantee's efforts were successful. The after-the-fact certifications for past work, coupled with the grantee's agreement to obtain certificates for on-going work and to revise its standard contracting terms and conditions to require certifications in the future, enabled us to reduce construction cost questioned for lack of adequate support to only \$264,119.

Uniform administrative requirements at 15 CFR 24.36 (c) state that all procurements will be conducted in a manner to promote full and open competition, and EDA requirements further stipulate that advertisements for bids for construction projects should appear in publications of general circulation a minimum of four times within a 30-day period prior to opening bids to allow for preparation of bids and to obtain the coverage necessary to secure competitive bids and proposals. The grantee reported that it regularly advertised its invitations for bids in a number of local newspapers and services and systematically identified the sources used in the technical write-ups describing the procurement activity and recommending Board or Commission



approval. However, grantee files did not always contain publishers' certificates or accompanying copies of the actual advertisement for bids; and where publisher's certificates were on file, some indicated that the grantee failed to adhere to the 30-day minimum allowed for preparing bids to ensure maximum and full competition. Actual bid documents were not always available, and in at least two cases bid documents provided to us identified FAA rather than EDA as the funding source for the project.

### **Grantee Response**

The grantee agreed that its procurement and record retention policies and procedures need to be expanded and further codified to ensure that they meet current EDA requirements.

#### ***C. Grantee Needs Construction Management Controls, Policies and Procedures***

In the years since the base closure in 1994 and the establishment of the two grantee organizations, federal sources funded numerous financial assistance awards to help convert the former Air Force Base to commercial use, and the agency and authority anticipate receiving several more awards before the conversion is complete. The project is complex and work is being accomplished through multiple contracts, consulting agreements, and vendor purchases requiring excellent organization, communication, and coordination. However, the grantee does not have written project management policies and procedures defining the respective duties, responsibilities, and authorities of its various staff and guiding the planning, executing, administering, and monitoring of numerous projects and entities to ensure that the various component projects are completed timely and in accordance with federal requirements and the expected outcomes are achieved.

In the absence of written project management policies, we interviewed key management staff and examined key procurements to identify controls in use and whether they were implemented and functioning. Our review disclosed that while the program management principal had a command of intended controls, in actual practice those controls were either not communicated to the staff or were not consistently implemented. The grantee clearly benefited from the program manager's long tenure and institutional knowledge. However, program staff were subject to normal turnover. Both staff and the grantee require and would benefit from creation, documentation, and dissemination of clear policy statements and manuals of implementing procedures and controls to guide project progress and ensure that organizational goals are met and resources are used to meet organization and project goals and objectives.

As discussed in the prior section, the grantee did not have controls in place and operating to ensure that the required procurement documents were filed and retained. Our review of select construction contracts and consulting agreements spanning the four grants under audit also disclosed that the grantee controls over contract change orders and agreement amendments were inadequate. We questioned \$309,213 in claimed change order costs as unsupported because the grantee failed to comply with minimum federal procurement standards and documentation requirements. In two instances we noted change orders were paid, but available documentation did not include bilateral endorsements. Cost analyses required by uniform administrative requirements at 15 CFR 24.36(f) were either not performed or not documented. In addition, profit was not negotiated separately. In the case of one change order for \$144,000, the precise nature of

the work to be accomplished was not clear, and we eventually determined that part of the changed work was outside the scope of the award. Also, the cost information appended to the change order did not clearly identify whether the grantee received credit for materials included in the original contract that were replaced by the changed work. Consistent with our findings, the EDA project engineer declared numerous additional change orders related to grants 07-49-05623 and 07-49-05672 ineligible for EDA participation initially because they lacked sufficient documentation or justification and later because they were for ineligible elements of the project. At least a part of the problem arises from the grantee practice of requesting and receiving commission or board approval to award a contract along with a contingency amount to cover potential change orders. According to grantee management, the policy was intended to enable the program manager to process change orders up to the amount of the contingency without having to hold up the project while waiting for board or commission approvals. However, in several cases this policy resulted in the failure to provide sufficient notification and documentation of the changes to EDA; and at least one case required a contract ratification to retroactively authorize additional costs incurred.

In accordance with EDA guidance, each contract we reviewed incorporated both a contract performance period and a liquidated damages provision to promote timely contractor performance and to provide funds to offset the extra costs of grantee administration and technical oversight of the contract in the event that the contractor failed to meet the agreed upon performance period. EDA's *Requirements for Approved Construction Projects* notes that alterations to executed construction contracts require a formal contract change order, issued by the grantee, accepted by the contractor, and concurred with by EDA. However, the grantee either permitted extensions to the contract performance period without issuing a corresponding change order or failed to either address or document time extensions. Despite the fact that virtually every contract we reviewed (all contracts with a value of \$100,000 or more) exceeded the stated contract performance period by anywhere from a month to over a year—in no case did the grantee invoke and collect on the liquidated damages clause. Doing so would have (1) provided from \$500 to as much as \$1,500 per day to cover the additional costs incurred to administer the contract until it was completed and (2) given contractors a financial incentive for timely completion. Regardless of whether assessed, we would have taken liquidated damages due the grantee as an offset to additional administrative and construction management costs. However, in this instance there were no costs to offset because (1) we questioned the total of grantee administrative labor and fringe for reasons detailed in subsequent sections of this report and (2) there was no additional construction management cost claimed.

When asked to explain why the liquidated damages clause was not invoked, grantee management stated that contract performance periods only recently became a critical concern because in the past, the work involved unoccupied buildings and time was not an issue. Now that tenants are involved, grantee management said that time and contract periods are critical. The explanation is difficult to accept because the purpose of the EDA grants was economic adjustment in the form of code upgrades, demolition, abatement, and rehabilitation of existing facilities to enable the grantee to lease the buildings and thereby mitigate the adverse economic impacts on the San Bernardino community accruing from closure of the Norton Air Force Base. To this end it would be to the grantee's and the community's mutual benefit to complete work as soon as possible and get previously vacant properties leased, people employed, and revenue generated.

EDA's *Requirements for Approved Construction Projects* requires grantees to provide competent project inspection during construction. The grantee assured EDA that it would provide and maintain competent and adequate engineering supervision at the construction site to ensure that the completed work conformed to the approved plans and specifications. Our review of the two early grants disclosed that the grantee's project and leasing specialists had some involvement in project management, and there was also evidence of a project management purchase order and personal services contract; but the nature of the services was not specific, and the amounts claimed were minor with respect to the grantee's overall construction claims. The grantee also hired two consulting firms to provide project management services. One agreement clearly defined construction management functions, and information provided to us directly by the firm demonstrated that the firm fully performed the functions. However, in the second case the full nature of project management services to be provided was undefined, and the grantee was unable to provide additional detail or documentation from the firm beyond the agreement and related invoices to further elaborate on the services provided.

In the case of the more recent grants, construction management services were provided under three principal agreements with three separate firms. We took issue with the grantee's agreement with one firm, which called for the firm to provide plans and specifications, procurement assistance, and construction management services for the grantee's demolition and abatement project. However, costs for the services under the agreement were neither paid by the grantee nor claimed to EDA. Instead, a key project beneficiary paid the firm for its services under the grantee's agreement. The agreement had a clear scope defining the firm's responsibilities to the grantee; however, the grantee had virtually nothing beyond construction contractor progress payments to evidence what construction management services the firm had been providing.

While the grantee did not claim construction management costs under the agreement, the relationship among the various parties is still of concern because it does not provide sufficient protection of the grantee's and government's interests, could compromise quality control, and gives the appearance of a conflict of interest. Construction management relates to services provided by a consultant acting as a representative of the project owner. The services typically involve administering the design and construction contracts and may include responsibility for managing or coordinating the planning, design, and construction phases of the project. The construction manager is generally expected to act on behalf of the project owner, representing them in decisions related to planning, cost, and inspection. The grantee and EDA paid for the remediation and demolition contracts; but the construction management firm, paid by the project beneficiary, is responsible for assuring that the projects are completed in accordance with approved plans and specifications. Because the beneficiary is paying for construction management, it is not clear whose interests the construction manager truly serve.

The grantee did not have a clearly defined contract administration system. Uniform administrative requirements at 15 CFR 24.36(b)(2) state that grantees will maintain a contract administration system that ensures contractors perform in accordance with the terms, conditions, and specifications of their contracts or purchase orders. This requirement is further underscored by EDA's *Requirements for Approved Construction Projects*, which requires surveillance of project construction sufficient to assure compliance with plans, specifications, and all other

contract documents. Clear certification that work claimed was in accordance with approved plans and specifications was present for only one of the ten construction contracts with a value of \$100,000 or more that we reviewed. In other instances as examples, contractor pay estimates included consultant initials, annotations such as “okay to pay,” or were accompanied by a letter stating that the consultant had “searched our files and recommend that [the contractor] be paid in full...” Such documents were then covered by a grantee “Request for Payment,” which included signatures of the grantee program manager, the chief financial officer, and initials of the interim executive director. However, the exact meaning of the grantee endorsements was not clear; none of the individuals are professional engineers. In the absence of necessary technical assurances, we advised the grantee that we intended to question \$8,918,301 in construction costs as unsupported, pending an EDA assessment to determine whether the construction adhered to approved plans and specifications. Rather than wait for the EDA technical assessment, the grantee promptly directed its attorney to draft after-the-fact certifications that it then had signed by the consulting firms responsible for overseeing the construction. We accepted the construction on the basis of the after-the-fact certifications. Grantee management stated that they would continue to use certifications for work currently underway and would adjust standard contract provisions to require future contractors to use the American Institute of Architect’s *Application and Certification for Payment*, which incorporates an Architect’s Certificate for Payment.

Further complicating the contract administration process was the lack of an official procurement or contract file and the multitude of missing documents reported in earlier sections of this report. The accounting manager had organized and secured the information she routinely received, she extracted from other grantee sources, and she developed in support of claims submitted to EDA, but there was no central, comprehensive repository for official contract and procurement documents, which made ensuring that payments were made in accordance with terms, conditions, change orders, and amendments challenging. In testing architectural and engineering invoices to agreement terms, we questioned \$5,658 in invoices paid and claimed. The rates invoiced for one individual differed from the agreement payment schedule and another invoice was for a period subsequent to the established agreement period. In another instance, we questioned \$18,140 in costs claimed that were in excess of the specified agreement cost ceiling. During our exit conference, grantee management agreed with the need to strengthen and clarify contract management and administration procedures to ensure that all parties understood their responsibilities and authorities in the contract administration and approval process.

### **Grantee Response**

The grantee stated that it has and administers construction management controls and procedures and agreed that its protocols should be expanded and further codified to specifically assure that documentation meets current EDA requirements, including selection of professional services and construction managers.

#### ***D. Grantee Financial Management System Does Not Meet Minimum Federal Standards***

The grantee’s financial management system needs strengthening to meet minimum federal standards. Uniform administrative requirements applicable to the grantee’s awards set forth

minimum federal standards for financial management systems at 15 CFR 24.20(b). The grantee's system met most of the minimum standards. However, the grantee's time distribution system was inadequate. Therefore, we questioned as inadequately supported \$249,088 consisting of the total of labor and related fringe benefits claimed. Federal cost principles at OMB Circular A-87, Attachment B.11(h)(5) identify the minimum requirements for time distribution records required to allocate labor to projects. The grantee's system complied with the requirements, with the exception of provision (5)(b)—it did not account for the total activity for which each employee was compensated. Grantee management personnel reported that although they had previously claimed labor and fringe benefits under the EDA grants, they had since decided to eliminate future in-house administrative charges from reimbursement requests to EDA and therefore did not plan on changing the time distribution system to bring it into compliance with federal cost principles.

## **Grantee Response and OIG Comments**

### **Grantee Response**

The grantee contended that its financial management system complies with minimum federal financial management standards and asserted that its time distribution system is adequate as discussed at length at Grantee Response Note <sup>a/</sup> on p. 6 of this report.

### **OIG Comments**

We disagree and reaffirm our finding regarding the grantee's inadequate time distribution system. Our position is detailed at OIG Comments Note <sup>a/</sup> on p. 7 of this report

### ***E. Grantee Needs to Institute Controls Sufficient to Comply with Program Income Requirements***

Several of the buildings renovated or upgraded as the result of EDA assistance had already been leased and were generating revenue and others were poised to produce revenue shortly. However, the grantee was unfamiliar with the program income provisions of the awards and therefore had neither prepared nor submitted to EDA for approval the requisite reutilization plan intended to control and guide the application of program income expected to be generated by the various projects during their respective, expected 15-year life. Nor had the grantee developed a mechanism to (1) track and sequester program income generated and (2) account for expenditures from the generated income to ensure that the funds are used only for approved purposes in the order specified by EDA award terms and conditions, which provide:

- a. For projects that create long-term rental revenue, i.e., buildings or real property constructed or improved for the purpose of renting or leasing space (e.g. building sites), the Recipient agrees to use such income generated from the rental or lease of the project facility(ies) in the following order of priority:

- (1) Administration, operation, maintenance and repair, of the project facilities for their useful life (as determined by EDA) in a manner consistent with good property management practice and in accord with established building codes....
  - (2) Economic development activities that are authorized for support by EDA, provided such activities are within the EDA eligible area.
- b. Prior to the final disbursement of grant funds, the Recipient will develop and furnish to EDA for approval, an income reutilization plan that demonstrates that the funds generated from the EDA project will be expended for the purposes established above. Any changes made to the plan during the useful life of the project must also be submitted to EDA for its review and approval.

The grantee needs to develop a system to identify program income generated and expended thus far from its various projects and to systematically identify and restrict the use of program income to approved purposes for the remainder of the useful life of the projects.

## **Grantee Response and OIG Comments**

### **Grantee Response**

The grantee concurred with the need to address the program income requirements of its award and stated that it was “currently separating and tracking revenues on a per-facility basis, addressing the relative program income generated from [the] expenditures.” The grantee also responded that submission of a reutilization plan to EDA for review and concurrence was appropriate and noted that net revenues are restricted to the uses EDA deems appropriate under FAA rules and must be retained and used to further airport buildings and facilities.

The grantee asserted that program income requirements should be viewed for the Base Re-use area as one whole unit rather than accounting for each specific building, which the grantee contends serves no public purpose and would require arduous special fund accounting and which the grantee contends was not contemplated by EDA. The grantee also expressed reservations about restricting various income sources for purposes other than supporting the overall on-going operations of the airport, stating that this may become problematic with respect to the airport’s ability to comply with FAA and other operating and financial guidelines.

### **OIG Comments**

We appreciate the progress in identifying, tracking, and applying program income asserted by the grantee as well as the grantee’s concerns regarding the difficulties associated with complying with this provision and the potential for conflicts with FAA and other operating and financial guidelines. We encourage the grantee to seek EDA program and legal assistance to address these issues and timely resolve perceived conflicts between EDA requirements and other guidelines.



### ***Grantee Property Management Needs Improvement***

The grantee's property management system needs improvement to ensure that property acquired for EDA-funded projects is appropriately valued and applied to the project. Uniform administrative requirements at 15 CFR Part 24.20(b)(3) and 24.32 stipulate that grantees must ensure that property acquired with grant funds is adequately safeguarded and used solely for authorized purposes by the program for which it was acquired and also set forth minimum requirements for property management and control. Federal cost principles at OMB Circular A-87, Attachment A, C.1(a), 1(b), 2, and 3 require that costs be reasonable and necessary and be allocable to the award in accordance with the benefits received by the award. During our review of the grantee's claims, we noted that in April 2004 the authority acquired a chiller under EDA grant no. 07-49-05422. Upon receipt, the chiller was temporarily installed in a building that was outside the scope of the EDA grant. Nearly 20 months later the grantee relocated the chiller to a building within the scope of the EDA grant but neglected to credit the grant for the depreciation accruing while the chiller was on temporary loan or for the costs subsequently incurred to relocate the chiller to the EDA project building. We questioned \$85,690 consisting of (1) \$15,740 in depreciation for the months the chiller was used outside the project and therefore not allocable to the grant and (2) \$69,950 in costs to move and reinstall the chiller as unreasonable and unnecessary expense.

### **Grantee Response**

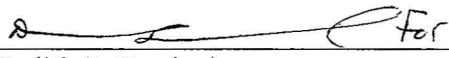
The grantee contends that the chiller was relocated with the approval of the former EDA project manager but agreed to take appropriate steps to ensure more effective communication and processes in the future to ensure compliance with EDA and other requirements.

### **Recommendations**

At the conclusion of our audit, we conducted an exit conference with grantee management to present our preliminary findings and recommendations. Grantee management personnel in general concurred with our findings and recommendations and expressed their intent to use the information to improve organization policies and procedures and to create others specifically directed to correcting conditions for the future. Grantee management recognized the need to institutionalize and memorialize in writing better processes, procedures and controls both for the good of the organizations' federal programs and for the organizations themselves as they moved forward into the next phase of their development. To this end, we recommend that the EDA Regional Director take the following actions:

1. Disallow questioned costs of \$637,082 and recover \$573,375 representing the federal share of questioned costs. (See page 6 and APPENDIXES F through I.)
2. Ensure that the grantee amends, augments, and implements its procurement and change order policy to comply with award terms and conditions including the minimum federal procurement standards of 15 CFR Part 24.36 and EDA *Requirements for Approved Construction Projects*. (See page 9.)

3. Ensure that the grantee develops and implements adequate construction management policies and procedures. (See page 11.)
4. In the event the grantee continues to claim labor and fringe benefits, ensure that it develops and implements a time distribution record employing personnel activity reports that comply with all requirements of OMB Circular A-87, Attachment B, B.11(h)(5). (See page 14.)
5. Require the grantee to provide and adhere to the program income reutilization plan required by EDA standard term and condition C.6 for EDA Grant No. 07-49-05304 and for each subsequent award as it is completed. Procedures should ensure that any prospective change to the reutilization plan is contingent upon EDA review and approval. (See page 15.)
6. Ensure that the grantee establishes procedures to identify, sequester, and account for program income and to prioritize and account for all expenditures from the account. (See page 15.)
7. Require the grantee to provide an accounting of all program income earned and expended to date for completed grants. If expenditures do not comply with the priorities prescribed by the standard terms and conditions, require the grantee to reimburse the program-related income account accordingly. (See page 15.)
8. Require the grantee to establish a property management policy and procedure that (1) ensures that property acquired under the award is used solely for the project, (2) ensures that property value is allocated to the grants in accordance with benefits received, and (3) incorporates the controls and minimum property management standards of 15 CFR Part 24.20(b)(3) and .32. (See page 17.)

  
Judith J. Gordon  
Assistant Inspector General  
for Audit and Evaluation

*For* 10/17/08  
Date

## **Appendix A: Objectives, Scope, and Methodology**

The objectives of the audit were to determine whether (1) costs claimed under the EDA awards were reasonable, allowable, and allocable to the sponsored project; (2) award objectives were achieved or in the case of the interim audits, that appropriate progress had been made towards award objectives; and (3) accounting, procurement, and project management practices and controls in effect at the time of the grant performance complied with award requirements, assured efficient grant administration, and resulted in an acceptable final product. The audit period and type of audit varied by award as shown in Table 3.

Table 3. **Audit Period**

<b>Award No.</b>	<b>Audit Period</b>	<b>Percent Complete</b>	<b>Type of Audit</b>
07-49-05304	9/26/02—9/30/05	100%	Final
07-49-05422	9/30/03—6/30/07	97%	Interim
07-49-05623	9/23/04—9/30/06	80%	Interim
07-49-05672	6/21/05—6/30/07	61%	Interim

Our audit methodology included review of EDA and grantee award files and financial, personnel, procurement, and performance records. We also held discussions with EDA, grantee, consultant, and independent audit personnel; administered questionnaires; conducted selective transaction testing; applied relevant analytical procedures; and observed claimed performance and accomplishments.

We conducted fieldwork in the agency's and authority's joint San Bernardino office during the periods of September 17-21, October 15-26, and November 15-16, 2007. Our review was complicated by (1) the late 2005 departure of the original EDA project engineer and EDA's movement and consolidation of official project files from southern California to Seattle, Washington; (2) the departure of the grantee's initial project and leasing specialist; (3) problems locating grantee project files or missing files; and (4) absence of technical certifications that work was completed in accordance with approved plans and specifications. We discussed our findings informally with key grantee personnel at intervals during the fieldwork and formally at an exit conference at grantee offices on November 16, 2007. We also provided additional detailed information on questioned costs via a phone call to the grantee's Chief Financial Officer on July 21, 2008, and reviewed additional documents provided to us on June 25, 2008.

We reviewed pertinent audit reports and available management letters issued by the agency's and authority's external auditor as available for fiscal years ending June 30, 2003, through June 30, 2006, for the authority and for fiscal years ending June 30, 2004, through June 30, 2006, for the agency. Audits of the authority for the four-fiscal year period were all OMB Circular A-133 single audits, as was the agency's audit for its fiscal year ending June 30, 2005. The independent auditor rendered unqualified opinions for the three most recent of the four authority audits. However, the auditor's opinion for the agency's single audit report for fiscal year 2005 was qualified. Neither the agency nor the authority qualified as a low risk auditee, as defined by OMB Circular A-133, during our audit period. Department of Commerce funding was audited as a major program and no costs were questioned. Performance reporting was an issue for the authority in FY 2004, but was not reported subsequently. We confirmed the quality of the independent auditor's work by a review of the firm's peer reviews for 2002 and 2005 (the next

peer review is not due until May 31, 2009). We adjusted the scope of our work to build upon the results of the independent audits. We augmented the independent auditor's work to satisfy our audit objectives by testing project transactions to evaluate internal controls and compliance with laws and regulations relevant to our audit objectives and the EDA awards. We also selectively confirmed claimed accomplishments by physical observation.

Our audit included an evaluation of the grantee's internal controls and compliance with laws and regulations limited to award provisions relative to our audit objectives, specifically those provisions pertaining to performance reporting, financial management and reporting, procurement, construction management, program-related income, and property management. We reviewed compliance with internal control requirements and laws and regulations as they applied to costs claimed and award performance. Key criteria for the audit included the EDA grant applications and assurances, the awards and their respective special terms and conditions, as well as:

- 13 CFR Chapter III, *Economic Development Administration*
- 15 CFR Part 24, *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments*;
- OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*
- OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*
- *Department of Commerce Economic Development Administration Standard Terms and Conditions Title II Public Works and Development Facilities and Economic Adjustment Construction Components*, dated March 1999
- *EDA's Requirements for Approved Construction Projects*, April 2000 edition

The grantee's computer-generated data was sufficiently reliable, given the objectives of the audit and the intended use of the data. The grantee used computer-based accounting systems to track and report the financial results of the project. We reviewed the agency's and authority's independent audits and available management letters applicable to the audit period and determined that there were no uncorrected deficiencies reported for the automated accounting system for fiscal years ended June 30, 2003, through June 30, 2006. We used computer-generated reports, but we did not solely rely on them as the basis for our audit conclusions. We relied, instead, on source records for our tests and reviews of program results and compliance. We traced financial claims to the automated accounting systems and to source documents. We noted no deficiencies other than those detailed in the body of this report.

The audit was conducted under the authority of the Inspector General Act of 1978, as amended, and Department Organization Order 10-13, dated August 31, 2006. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

## APPENDIX B

### Recipient Response to Draft Audit Report



San Bernardino International Airport



**VIA FEDEX**  
8653 9944 2489

September 24, 2008

Mr. David Sheppard  
Regional Inspector General for Audits  
Office of Inspector General  
U.S. Department of Commerce  
915 Second Avenue, Room 3062  
Seattle, WA 98174

**RE: DRAFT AUDIT REPORT DATED AUGUST 28, 2008**  
**REPORT NUMBER: STL-18837-8-0001**  
**AWARD NOS: 07-49-05304, 05422, 05623, and 05672**

Dear Mr. Sheppard:

The Inland Valley Development Agency (IVDA) and San Bernardino International Airport Authority (SBIAA) would like to thank you for the opportunity to review and comment on the Draft Audit Report, as provided by your office and dated August 28, 2008, ("Audit Report"). The IVDA and SBIAA very much appreciate the positive relationship we have shared with the U.S. Department of Commerce and Office of Economic Adjustment over the years, as well as your Staff in completing this assessment. Since the early 1990's, this partnership has effectuated the transformation of the former Norton Air Force Base into a thriving industrial park and emerging commercial Airport, creating thousands of new jobs in the region.

In recent years, this long-standing relationship has culminated in the implementation of additional yet critical economic development projects facilitated by certain federally appropriated funds, authorized by and through the United States Department of Defense, Office of Economic Adjustment, and administered by the U.S. Department of Commerce, Economic Development Administration (EDA). This effective partnership of EDA, IVDA, and SBIAA has been instrumental in continually achieving and delivering projected and programmed results based on the legislative intent of the respective funds, while serving to advance the core objectives of the EDA and IVDA in creating and retaining jobs in this economically challenged local area in and around the former Norton Air Force Base, which, with the help of these critical programs, is now emerging as the San Bernardino International Airport.

These critical funds have been employed, pursuant to legislative intent, not only to rehabilitate on-going former Norton Air Force Base infrastructure issues, but also to allow the EDA, IVDA, and the Airport to develop and build a job base and a revenue base to support the operations of the San Bernardino International Airport, now and into the future.



Mr. David Sheppard  
Regional Inspector General for Audits  
Office of Inspector General  
U.S. Department of Commerce  
September 24, 2008  
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We are requesting that you reconsider the findings in your report based on this additional information, and that most, if not all, of the costs be allowed as eligible.

Please note that over \$13 million in Grant funds were involved in your review with approximately four percent (4%) being questioned at this time. We have sincerely tried to comply with all of your requirements and sought approval whenever unusual transactions occurred prior to making the expenditures. We request reconsideration.

IVDA and SBIAA Staff appreciate this opportunity and have reviewed, in detail, the Audit Report. The following is a summary of our initial comments and findings, which are delineated and annotated in reference to the Audit Report document.

A. **Questioned Costs:**

The IVDA and SBIAA believe that the questioned costs in the Audit Report are, in fact, allowable under OMB Circular A-87, Attachment B.11.h(4,5) for the following reasons. This applies to Grant Numbers 07-49-05304; 07-49-05422; 07-49-05623; 074905672 in the amount of \$249,088 (See page 10, item D of your report):

1. Prior to the approval and reimbursement of the first pay request, the EDA Project Manager, called our accountant and asked for a certification letter, approved and signed by a responsible official of the SBIAA or the IVDA, to back up our force labor distribution report that was previously submitted on our pay request no. 01. In a letter dated March 12, 2003, addressed to Mr. A. Leonard Smith, Regional Director, of the U.S. Department of Commerce, Economic Development Administration (EDA), we included the requested certification letter. By completing the required certification, it was both the EDA's Project Manager and SBIAA/IVDA's understanding that this certification was an approved and acceptable system for support of salaries and wages. This is the same system that was approved years earlier by the cognizant agency at the time, U.S. Department of Transportation, Federal Aviation Administration (FAA). This system was an approved and acceptable system in our agency for years. Timely records were maintained wherein specific job costs were determined based on actual, reported time records. (See Attachment 1.)
2. The U.S. Department of Commerce Economic Development Administration approved and reimbursed our first pay request for Award No. 07-49-05304 on December 15, 2003, in the amount of \$24,519.00 indicating an acceptance of the methods we were using. We believe that changing the criteria is both confusing and unfair to grant recipients.



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3. The reason that our system was accepted by the FAA is because SBIAA and IVDA do, in fact, have a system as required, under section OMB Circular A-87, Attachment B.11(h), provision (5)(b). Time Sheets with specific job time allocations were maintained on a timely basis.
4. All employees' hours are accounted for, on a daily basis, through our County of San Bernardino-administered payroll system. Contemporaneously, an additional labor time sheet and summary distribution worksheet was completed. This worksheet was signed off by the employee at the time of submission and authorized as part of the time sheet submission. A separate time allocation worksheet was completed because the County of San Bernardino payroll system does not provide for job costing. Our agencies contract with the County of San Bernardino for all payroll services, but the actual costing to jobs must be done internally on our separate time sheets. We recorded only job-related time on these worksheets but recorded the total hours for each day on the separate County timesheets. On numerous occasions, oral conversations and visits to the County of San Bernardino were made to see if they could update/modify their system so we could eliminate our labor distribution report. As of today, the County system is still unable to perform this task for our agencies.
5. The direct labor costs are real and are substantiated. While we appreciate the interface and input from your office, as well as EDA Staff after these events, to disallow these expenditures entirely, based on the then implemented EDA processes would, in our estimation, represent a harsh penalty.

The IVDA and SBIAA believe that the questioned costs in the Audit Report are, in fact, allowable for the following reasons for Grant Number 07-49-05304, OMB Circular A-87, Attachment A, C.1.j and 15 CFR parts 24.20(b)(6) and .36(f), in the amount of \$149,575 (See page 21, footnote 3a):

1. The IVDA Board approved this work at a regular scheduled public meeting on August 25, 2004. (See Attachment 2.) The EDA Project Manager also approved this change order. (See Attachment 3.) Beard, Provencher & Associates Inc., as Construction Manager, reviewed this proposed change order and confirmed the progress-related completion for work as per plans and specifications. The City of San Bernardino Fire Department inspected and approved the system as configured and constructed. EDA reviewed and approved release of funds for this item.

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2. The U.S. Department of Commerce Economic Development Administration reviewed, approved and reimbursed on October 20, 2004, our pay request for Award No. 07-49-05304 on in the amount of \$149,575.00.

The IVDA and SBIAA believe that the questioned costs in the Audit Report are, in fact, allowable for the following reasons for Grant Number 07-49-05422 OMB Circular A-87 Attachment A,C.1 a,b,d and j and 15 CFR 24.36(f), in the amount of \$144,000 (See page 23, footnote 3a):

1. Hangar No. 763 is a 530,000 square foot multi-purpose, four-bay, heavy aircraft maintenance facility. This fire suppression work dealt with improvements to an integrated system which affected all four hangar bays. While improvements were completed to Hangar Bay Nos. three and four, additional work was required in order to meet applicable life and fire safety code requirements. Beard, Provencher & Associates Inc., as Construction Manager, reviewed this proposed change order work prior to approval and implementation, and has confirmed the completion of work pursuant to plans and specifications. Because this fire suppression system was integrated throughout all four bays in Hangar No. 763, this change order work for the Aqueous Film Foaming Foam (AFFF) was required in order to re-certify the final completed system. All work was performed and completed pursuant to applicable code requirements and inspected and approved the City of San Bernardino Fire Marshal. The IVDA Board approved this item at a regular scheduled public meeting on December 22, 2004. (See Attachment 4.)
2. The U.S. Department of Commerce Economic Development Administration reviewed, approved and reimbursed our pay request for Award No. 07-49-05422 on August 17, 2005, in the amount of \$144,000.00. We believe that Agencies should be able to rely on these approvals.

The IVDA and SBIAA believe that the questioned costs in the Audit Report are, in fact, allowable for the following reasons for 07-49-05422 OMB Circular A-87 Attachment A, C.1a, 1b, 2 and 3, in the amount of \$85,690 (See Page 24, footnote 3c of your report):

1. In this instance, an air conditioner/chiller unit (HVAC equipment) is questioned. The issue is that the Chiller was moved from one building to another building. The chiller remains in service, which unit has been constantly maintained in service since its installation at the on-going expense of the IVDA. While it was originally installed on a building (Building No. 48, pursuant to EDA Project Manager approval), which, given the EDA and legislative intent for use of these funds, was rendered at a later date as infeasible, as the tenant thereof closed its

Mr. David Sheppard  
Regional Inspector General for Audits  
Office of Inspector General  
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business. In an effort to conform to applicable EDA grant requirements, as well as the original legislative and EDA intent for use of these funds, the IVDA sought to create/retain jobs as an indirect benefit of this project investment. As such, the chiller was relocated to an alternate site, pursuant to EDA review, to former Norton Air Force Base, Building No. 730, which allowed the EDA and IVDA to retain/create over 50 new jobs now in Building No. 730. The relocation of the Chiller (HVAC equipment) was approved by the then EDA Project Manager at that time.

2. The U.S. Department of Commerce Economic Development Administration reviewed, approved and reimbursed our pay request for Award No. 07-49-05422 on December 8, 2006, in the amount of \$85,690.00.

The IVDA and SBIAA believe that the questioned costs in the Audit Report are, in fact, allowable for the following reasons for Grant Number 07-49-05422, No OMB regulation referenced, in the amount of \$18,140. (See page 24, footnote 3d of your report.):

1. The U. S. Department of Commerce Economic Development Administration approved and reimbursed our pay request for Award No. 07-49-05422 on January 28, 2005, in the amount of \$18,140.00. In this instance, the IVDA followed appropriate generally acceptable project management processes, and while the IVDA should have obtained EDA permission to shift from one category of project expense to another, nevertheless, this is a valid construction cost given the overall project budget, and the fact that the work was completed pursuant to the project scope, and as such, the reimbursement was thereafter made by EDA for this item of work. In the future, the IVDA will adhere to any and all applicable requirements in support of the collective economic development goals and objectives of both the EDA and IVDA.

In this situation, certain costs are questioned because in this particular grant, the budget for the Architectural Engineering fees budget was exceeded. We had \$177,777 in a contingency budget line item which could and should have been moved to not exceed the Architectural & Engineering budget line item.

- B. **Grantee Procurement Policies and Practices and Records Retention Policies Need Improvement:** We appreciate your audit staff's recommendations regarding improving our written project management procedures and internal controls to make certain our procedures are fully implemented. We take your recommendations seriously. We do have procurement policies and procedures which address all manner of IVDA project activities, but these need to be expanded and further codified to also envelop existing and



Mr. David Sheppard  
Regional Inspector General for Audits  
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other Project Management procedures pursuant to current EDA requirements, specifically:

Our records retention policies are in effect, but should be expanded and further codified in order to specifically to assure that documentation is processed pursuant to current EDA requirements.

- C. **Grantee Needs Construction Management Controls, Policies and Procedures:** While the IVDA does have and administers construction management controls and procedures, these protocols should be expanded and further codified to specifically assure that documentation is processed pursuant to current EDA requirements. This work includes an update with respect to current EDA requirements for selection of certain professional services, including construction managers.
- D. **Grantee Financial Management System Does Not Meet Minimum Federal Standards:** We believe that IVDA currently complies with this requirement, in that we have an approved system pursuant to EDA and FAA guidelines. (See discussion about time reporting, above.)
- E. **Grantee Needs to Institute Controls Sufficient to Comply with Program Income Requirements:** We believe that our Program Income Requirements should be viewed for our Base Re-use area as one whole unit of development. All income from the facilities are used solely to maintain the improved buildings and the Airport. Separate accounting for each specific building serves no public purpose and would require arduous special fund accounting not, in our opinion, contemplated by the EDA. Net revenues are restricted to the uses you deem appropriate under FAA rules and must stay on and be used to further the Airport buildings and facilities.

Given the legislative intent for the implementation and use of these funds, as well as the collective economic development and job creation goals and objectives of the EDA and IVDA, the successful implementation of these projects has succeeded in advancing the comprehensive redevelopment of the former Norton Air Force Base from an economically devastated and severely blighted area in and around the former Norton Air Force Base, which, with the help of these critical programs, is now emerging as a thriving commercial/industrial park and the San Bernardino International Airport. These vital infrastructure improvements, employed through the efforts of EDA, resulted in a transformation of dilapidated buildings and hangars, which will now begin to generate lease revenues to support the ever-increasing expenses related to the operations of the San Bernardino International Airport. While we are currently separating and tracking our revenues on a per-facility basis, addressing the relative program income generated from

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these expenditures, the Airport also operates under the parameters for the current and continued operation of an FAA Part-139 commercial airport, which parameters require that we adhere to specific operating and grant assurance covenants that restrict the Airport from diverting Airport revenues for certain purposes. While the submission of a reutilization plan to the EDA for review and concurrence is certainly appropriate, as an emerging public Airport, restricting these various income sources for purposes other than supporting the overall on-going operations of the San Bernardino International Airport, may become problematic with respect to the Airport's ability to comply with FAA and other operating and financial guidelines. Nevertheless, submission of a reutilization plan is consistent with the economic development goals and objectives, as well as the Base Reuse Plan previously adopted by IVDA for the redevelopment of the former Norton Air Force Base.

- F. **Grantee Property Management System Needs Improvement:** In an effort to conform with applicable EDA grant requirements as well as the original legislative and EDA intent for use of these funds, the IVDA sought to create/retain jobs as an indirect benefit of this project investment. In this instance, a chiller was relocated to an alternate site, pursuant to EDA review, to former Norton Air Force Base Building No. 730, which allowed the EDA and IVDA to retain/create over 50 new jobs now in Building No. 730. While the move of the Chiller (HVAC equipment) was approved by the then EDA Project Manager at that time, we do appreciate the progressive and proactive work that EDA staff employs with respect to the delivery of these projects. IVDA will make appropriate steps to ensure more effective communication and other processes in the future to ensure compliance with EDA and other requirements.

As discussed, the IVDA and Airport would like to thank you for the opportunity to review and comment on the draft Audit Report. We do recognize that the scope of the audit spanned several years and that resulted in a review of an initial scope, which scope was approved by EDA staff at that time. Since that time, a new EDA Project Manager was assigned and has hence worked tirelessly with IVDA Staff to implement these and future projects. However, due to appropriate re-scoping of projects previously approved by the prior EDA Project Manager, the assessment and audit as prepared and completed by your staff, was unfortunately complicated and had addressed what is now a restricted scope of work for some of the projects in question.

Base Reuse is and continues to be an arduous process, one which cannot be successfully envisioned or realized without collaboration and communication between the local reuse agency and its federal partners. The IVDA and SBIAA sincerely appreciate and rely upon the continued support of these agencies and their professional staff. We have and will continue to improve both our processes and their results; results that will continue to develop and build a job base and revenue base to support the operations of the San Bernardino International Airport, now and into

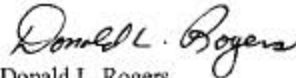
Mr. David Sheppard  
Regional Inspector General for Audits  
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the future for the economic benefit of the region. We respectfully request your review and reconsideration and hope you will find, herein, the basis for a potential change to the final audit report and findings. As always, we are happy to provide any additional information or arrange to meet with appropriate parties to discuss these matters further.

Again, thank you for your reconsideration of this very important matter. Please review this information at your convenience. If there are any concerns or questions, or if you require any additional information, please do not hesitate to contact me directly at (909) 382-4100, extension 232.

Sincerely,

**INLAND VALLEY DEVELOPMENT AGENCY  
SAN BERNARDINO INTERNATIONAL AIRPORT**



Donald L. Rogers  
Interim Executive Director

cc: (with enclosures)  
A. Leonard Smith, Regional Director Economic Development Administration (via FedEx: 8653-9944-2478)  
Mary Rudokas, EDA Project Engineer  
Mayor Patrick J. Morris, SBIAA President and IVDA Co-Chair  
Supervisor Josie Gonzales, IVDA Co-Chair  
Michael Burrows  
Alex Estrada  
Martin Romeo

Enclosures: Attachments 1 – 4 as referenced

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**APPENDIX C**

**San Bernardino International Airport Authority  
San Bernardino, California  
Final Audit of EDA Grant No. 07-49-05304  
Summary of Source and Application of Funds  
For the Period of September 26, 2002 through September 30, 2005**

	<b>Original Approved Award Budget</b>	<b>Approved Award Budget</b>	<b>Claimed by Grantee</b>
<b>Source of Funds</b>			
Federal share	\$2,375,000	\$2,374,999	\$2,374,999
Recipient share	263,889	263,889	263,889
Total	<u>\$2,638,889</u>	<u>\$2,638,888</u>	<u>\$2,638,888</u>
<b>Application of Funds</b>			
Administrative and legal expenses	\$100,000	\$98,001	\$98,001
Architectural and engineering fees	250,000		
Other architectural and engineering fees	50,000	18,158	18,158
Project inspection fees	5,000		
Construction	2,101,889	2,522,729	2,522,729
Contingencies	132,000		
Total Project Costs	<u>\$2,638,889</u>	<u>\$2,638,888</u>	<u>\$2,638,888</u>

**APPENDIX D**

**San Bernardino International Airport Authority  
San Bernardino, California  
Interim Audit of EDA Grant No. 07-49-05422  
Summary of Source and Application of Funds  
For the Period of September 30, 2003 through June 30, 2007**

<b><u>Source of Funds</u></b>	<b><u>Approved Award Budget</u></b>	<b><u>Claimed by Grantee through June 30, 2007</u></b>
Federal share	\$ 2,422,500	\$ 2,342,912
Recipient share	<u>269,167</u>	<u>260,324</u>
Total	<u>\$ 2,691,667</u>	<u>\$ 2,603,236</u>
<b><u>Application of Funds</u></b>		
Administrative and legal expenses	\$ 95,000	\$ 132,328
Architectural and engineering basic fees	100,000	
Other architectural and engineering fees	10,000	925
Project inspection fees	5,000	
Construction and project improvement expense	2,303,890	2,469,983
Contingencies	<u>177,777</u>	
Total Project Cost	<u>\$ 2,691,667</u>	<u>\$ 2,603,236</u>

**APPENDIX E**

**Inland Valley Development Agency  
San Bernardino, California  
Interim Audit of EDA Grant No. 07-49-05623  
Summary of Source and Application of Funds  
For the Period of September 23, 2004 through September 30, 2006**

<b>Source of Funds</b>	<b>Approved Award Budget</b>	<b>Claimed by Grantee through September 30, 2006</b>
Federal share	\$ 3,230,000	\$ 2,569,936
Recipient share	358,889	285,548
Total	<u>\$ 3,588,889</u>	<u>\$ 2,855,484</u>
<b><u>Application of Funds</u></b>		
Administrative and legal expenses	\$ 73,889	
Project inspection fees	5,000	
Demolition and removal expense	3,500,000	
Contingencies	10,000	
Total	<u>\$ 3,588,889</u>	<u>\$ 2,855,484</u>

**APPENDIX F**

**Inland Valley Development Agency and San Bernardino International Airport Authority  
San Bernardino, California**

**Interim Audit of EDA Grant No. 07-49-05672  
Summary of Source and Application of Funds  
For the Period of June 21, 2005 through June 30, 2007**

<b>Source of Funds</b>	<b>Approved Award Budget</b>	<b>Claimed by Grantee through June 30, 2007</b>
Federal share	\$ 4,037,501	\$ 2,449,713
Recipient share	448,611	272,190
Total	<u>\$ 4,486,112</u>	<u>\$ 2,721,903</u>

**Application of Funds**

Administrative and legal expenses	\$ 150,000	\$ 4,263
Architectural and engineering basic fees	500,000	68,082
Construction and project improvement expense	3,549,112	2,649,558
Contingencies	287,000	
Total	<u>\$ 4,486,112</u>	<u>\$ 2,721,903</u>

**APPENDIX G**

San Bernardino International Airport Authority  
San Bernardino, California  
Final Audit of EDA Grant No. 07-49-05304  
Summary of Financial/Compliance Audit  
For the Period of September 26, 2002 through September 30, 2005

Cost Category	Approved Project Budget	Claimed by Grantee	Per Audit			Ref. Notes
			Accepted	Questioned	Unsupported (Note 1)	
Administrative and legal expenses	\$ 98,001	\$ 98,001	\$ 6,705	\$ 91,296	\$ 83,232	2
Other architectural and engineering fees	18,158	18,158	18,158			
Construction and project improvement expense	2,522,729	2,522,729	2,430,730	91,999	86,341	3
Total	<u>\$ 2,638,888</u>	<u>\$ 2,638,888</u>	<u>\$ 2,455,593</u>	<u>\$ 183,295</u>	<u>\$ 169,573</u>	
Federal share of accepted project cost (90% not to exceed \$2,375,000)			\$ 2,210,034			
Less federal disbursements			<u>2,375,000</u>			
Amount due the government			<u>\$ 164,966</u>			

**Reference Notes**

- Note 1      Unsupported costs are those costs that the recipient could not adequately support at the time of audit; unsupported costs are also included in the total of questioned costs.
- Note 2      Questioned costs of \$91,296 consisted of the total of labor and fringe benefits claimed (\$83,232) and consulting fees of \$8,064. We questioned personnel and fringe benefits costs as unsupported because the grantee's time distribution record failed to account for the total time for which employees were compensated. [OMB Circular A-87, Attachment B.11.h(4) and (5)(b).] We questioned the consulting fees as ineligible for federal participation. EDA personnel previously declared the costs ineligible because the grantee failed to adhere to minimum federal procurement standards pertaining to sole source procurements, use of the hourly rate reimbursement method, procurement histories, and cost analysis, and separate negotiation of profit.

Note 3 The components of the grantee's construction claim are shown below in Schedule F-1.

**Schedule F-1. Components of Claimed Construction Cost**

	Claimed	Accepted	Questioned	Unsupported	Notes
Construction expense	\$ 2,366,092	\$ 2,216,517	\$ 149,575	\$ 149,575	3a
Miscellaneous expense	21,062	21,062			
Architectural and engineering fees	197,623	191,965	5,658		3b
Misclassified items	1,186	1,186			
Subtotal	\$ 2,585,963	\$ 2,430,730	\$ 155,233	\$ 149,575	
Less grantee adjustment	(63,253)		(63,253)	(63,253)	3c
Subtotal	\$ 2,522,710		\$ 91,980	\$ 86,322	
Plus audit adjustment	19		19	19	3d
Total construction expense	<b>\$ 2,522,729</b>	<b>\$ 2,430,730</b>	<b>\$ 91,999</b>	<b>\$ 86,341</b>	

**Notes to Schedule F-1**

- 3a We questioned \$149,575 of the \$2,366,092 claimed for construction expense representing the value of change order number 1 to the JM Carden contract as unsupported. The grantee was unable to provide the required cost analysis or a copy of the bilaterally executed change order. [OMB Circular A-87, Attachment A, C.1.j and 15 CFR Parts 24.20(b)(6) and .36(f)]
- 3b We questioned \$5,658 of consulting costs consisting of \$5,495 in fees for services after the consulting agreement expired and \$163 in reimbursements in excess of the rate specified in the agreement billing schedule. [OMB Circular A-87, Attachment A.C.1.j]
- 3c The grantee incurred a total of \$2,585,963 in construction costs but offset that amount by a \$63,253 credit representing an overrun of the approved project. We offset questioned and unsupported costs by the amount of the overrun.
- 3d We adjusted questioned and unsupported cost by \$19 representing the difference between the \$2,522,710 claimed and the \$2,522,729 the grantee actually incurred for construction costs.



**APPENDIX H**

San Bernardino International Airport Authority  
San Bernardino, California  
Interim Audit of EDA Grant No. 07-49-05422  
Summary of Financial/Compliance Audit  
Through Outlay Report and Request for Reimbursement No. 21 (Revised)  
For the Period of September 30, 2003 through June 30, 2007

Cost Category	Approved Award Budget	Claimed by Grantee	Per Audit			Ref. Notes
			Accepted	Questioned	Unsupported (Note 1)	
Administrative and legal expenses	\$ 95,000	\$ 132,328	\$ 10,006	\$ 122,322	\$ 120,087	2
Land, structures and rights-of-way...						
Relocation expense and payments						
Architectural and engineering fees	100,000	-	-			
Other architectural and engineering fees	10,000	925	925			
Project inspection fees	5,000	-	-			
Demolition and removal expense						
Construction and project improvement costs	2,303,890	2,469,983	2,206,515	263,468	177,778	3
Equipment expense						
Contingencies	177,777					
Total project cost	<u>\$ 2,691,667</u>	<u>\$ 2,603,236</u>	<u>\$ 2,217,446</u>	<u>\$ 385,790</u>	<u>\$ 297,865</u>	
Federal share of accepted costs (90% not to exceed \$2,422,500)			\$ 1,995,701			
Less federal funds disbursed			<u>2,342,912</u>			
Amount due the government through the interim audit cutoff date			<u>\$ 347,211</u>			

**Reference Notes**

- Note 1     Unsupported costs are those costs that the recipient could not adequately support at the time of audit; unsupported costs are also included in the total of questioned costs.
- Note 2     We questioned \$122,322 consisting of \$120,087 in grantee labor and related fringe benefits expense and \$2,235 in consulting fees. We questioned as unsupported the total of labor and fringe benefits claimed for lack of an adequate time distribution record. Federal cost principles applicable to the grant at OMB Circular A-87, Attachment B 11(h)(4) and (5)(b) require the grantee to maintain time distribution records to support labor and fringe benefits allocated to the grant. Such records must document 100 percent of the time for which each employee is compensated. SBIAA used an exception-

based time distribution record that did not account for 100 percent of the time for which each employee was compensated. We questioned \$2,235 in claimed consulting fees consisting of \$1,500 under a consulting agreement that EDA had declared ineligible for federal participation and \$735 for consulting fees applicable to an FAA-funded roof project for Building 763. Federal cost principles at OMB Circular A-87, Attachment A, C.1(b) and 3(c) require costs to be allocable to the grant-funded project.

Note 3 The components of the grantee's construction claim are shown below in Schedule G-1.

**Schedule G-1. Construction Costs Claimed**

Construction Costs	Claimed by Grantee	Per Audit			
		Accepted	Questioned	Unsupported	Notes
Aero	\$1,484,638				
Change Order Number 1			\$ 144,000	\$ 144,000	3a
Change Order Number 3			15,638	15,638	3b
Base Contract		\$1,325,000			
Allison Mechanical	296,021	210,331	85,690		3c
American Elevator	20,511	20,511			
Best Roofing	229,834	229,834			
DM Electric	145,224	145,224			
JM Carden	10,216	10,216			
RSE/Sierra	99,460	99,460			
Wide Lite	54,669	54,669			
Miscellaneous	80,204	80,204			
Architectural and engineering fees	46,865	28,725	18,140	18,140	3d
Advertising	2,341	2,341			
Total	\$2,469,983	\$2,206,515	\$ 263,468	\$ 177,778	

**Notes to Schedule G-1:**

3a We questioned \$144,000 for change order number 1 under the Aero Automatic Sprinkler Company contract as outside the scope of the grant and also as unsupported. According to documentation supplied by the grantee, change order number 1 was to upgrade Aqueous Film Forming Foam concentration level from 3 to 1 percent for Bays 3 and 4 of Hangar 763. The purpose of the EDA grant was to "construct building and fire code compliance improvements" in several buildings, including Hangar 763, to enable the grantee "to obtain a certificate of occupancy to lease Hangar No. 763 and generate much needed revenues." Hangar 763 consists of four bays. The Aero contract was to install a fire suppression interior piping system to Bays 1 and 2 of Hangar 763. Bays 3 and 4 had been the subject of \$30 million in leasehold upgrades by a tenant in the early 1990s and were already occupied. Change order number 1 provided for consistencies and efficiencies in the fire suppression system for Hangar 763 and in the airport fire suppression system as a whole, but it was not necessary to make Bays 3 and 4 code compliant or available for occupancy as both bays 3 and 4 already housed tenants and therefore is outside the scope of the EDA grant. The contractor provided supporting cost data for the

\$144,000 proposed change order, however, the grantee was unable to provide evidence of the supporting cost analysis required by 15 CFR 24.36(f). [OMB Circular A-87, Attachment A. C.1.a, b, d, and j. and 15 CFR 24.36(f)]

- 3b We questioned \$15,638 for change order number 3 under the Aero Automatic Sprinkler Company contract as unsupported. Although the grantee reimbursed the contractor for the change order we were unable to locate a signed copy of the change order or the grantee's cost analysis required by 15 CFR 24.36(f). [OMB Circular A-87, Attachment A. C.1.j and 15 CFR 24.36(f)]
  
- 3c We questioned \$85,690 in claims for Allison Mechanical as unreasonable and unallocable to the award. The grantee purchased a chiller from Allison Mechanical for \$47,812, which was installed in Building #48 on April 12, 2004 for the benefit of an existing lessee. Building 48 was not a part of the approved grant scope. On December 5, 2005 Allison Mechanical completed moving the used chiller from building #48 to building #730. We questioned \$15,740 representing 19.75 months depreciation on the chiller as unallocable to the project plus \$69,950 in relocation costs as unreasonable and unnecessary and therefore unallowable for EDA participation. OMB Circular A-87, Attachment A, C.1.a., 1.b., 2, and 3.
  
- 3d The grantee claimed a total of \$202,205 consulting fees for electrical engineering work. This consulting effort was claimed as part of architectural and engineering fees included in construction costs and consisted of \$155,590 of a total of \$2,522,729 in construction costs claimed for grant 07-49-05304 (see Schedule F-1) and \$46,865 of a total of \$2,469,983 in construction costs claimed for grant 07-49-5422. We accepted a total of \$184,065 for electrical engineering expense and questioned the balance of \$18,140 under grant number 07-49-5422, which represents the amount paid and claimed in excess of the agreement's fee ceiling of \$184,065.

**APPENDIX I**

San Bernardino International Airport Authority  
San Bernardino, California  
Interim Audit of EDA Grant No. 07-49-05623  
Summary of Financial/Compliance Audit  
For the Period of September 23, 2004 through September 30, 2006

Category of Expense	Approved Project Budget	Claimed by Grantee	Per Audit			Ref. Notes
			Accepted	Questioned	Unsupported	
					(Note 1)	
Administrative expense	\$ 73,889	\$ 42,871	\$ 1,365	\$ 41,506	\$ 41,506	2
Project inspection fees	5,000					
Demolition and removal	3,500,000	2,812,613	2,812,613			
Contingency	10,000					
Total project cost	<u>\$3,588,889</u>	<u>\$ 2,855,484</u>	<u>\$ 2,813,978</u>	<u>\$ 41,506</u>	<u>\$ 41,506</u>	
Federal share of accepted costs (90% not to exceed \$3,230,000)			\$ 2,532,580			
Less federal funds disbursed			<u>2,569,936</u>			
Amount due the government through the interim cutoff date			<u>\$ 37,356</u>			

**Reference Notes**

- Note 1 Unsupported costs are those costs that the recipient could not adequately support at the time of audit; unsupported costs are also included in the total of questioned costs.
- Note 2 We questioned \$41,506 as unsupported consisting of the total of labor and fringe benefits costs claimed, for lack of an adequate time distribution record. Federal cost principles applicable to the grant at OMB Circular A-87, Attachment B. 11(h)(4) and (5)(b) require the grantee to maintain time distribution records to support labor and fringe benefits allocated to the grant. Such records must document 100 percent of the time for which each employee is compensated. The grantee used an exception-based time distribution record that did not account for 100 percent of the time for which each employee was compensated.

**APPENDIX J**

**Inland Valley Development Agency and San Bernardino International Airport Authority  
San Bernardino California**

**Interim Audit of EDA Grant No. 07-49-05672**

**Summary of Financial/Compliance Audit**

**Through Outlay Report and Request for Reimbursement No. 5**

**For the Period of June 21, 2005 through June 30, 2007**

Cost Category	Approved Project Budget	Claimed by Grantee	Per Audit			Ref. Notes
			Accepted	Questioned	Unsupported	
						(Note 1)
Administrative and legal expenses	\$ 150,000	\$ 4,263	\$ 0	\$ 4,263	\$ 4,263	2
Architectural and engineering fees	500,000	68,082	45,854	22,228		3
Construction and project improvement expenses	3,549,112	2,649,558	2,649,558			
Contingencies	287,000					
Total project cost	<u>\$ 4,486,112</u>	<u>\$ 2,721,903</u>	<u>\$ 2,695,412</u>	<u>\$ 26,491</u>	<u>\$ 4,263</u>	
Federal share of accepted costs (90% not to exceed \$4,037,500)			\$ 2,425,871			
Federal funds disbursed through claim #5			<u>2,449,713</u>			
Amount due the government through the interim cutoff date			<u>\$ 23,842</u>			

**Reference Notes**

- Note 1 Unsupported costs are those costs that the recipient could not adequately support at the time of audit; unsupported costs are also included in the total of questioned costs.
- Note 2 Questioned costs of \$4,263 consisted of the total of labor and fringe benefits claimed. We questioned personnel and fringe benefits costs as unsupported because the grantee's time distribution record failed to account for the total time for which employees were compensated. [OMB Circular A-87, Attachment B.11.h(4) and (5)(b).]
- Note 3 We questioned \$22,228 of architectural and engineering consulting costs claimed. The charges were for change order number 4 to the agency's agreement with GLE Group, which EDA had declared ineligible for federal participation.]



October 17, 2008

Mr. Donald Rogers, Interim Executive Director  
San Bernardino International Airport Authority  
Inland Valley Development Agency  
294 S. Leland Norton Way, Suite #1  
San Bernardino, California 94208-0131

Dear Mr. Rogers:

Enclosed is a copy of Final Audit Report No. STL-18837-9-0001 concerning the following Department of Commerce financial assistance award:

Recipient:	San Bernardino International Airport Authority and/or Inland Valley Development Agency
Award Nos.:	07-49-05304 07-49-05422 07-49-05623 07-49-05672
Funding Agency:	Economic Development Administration

The final report was prepared by the Seattle Regional Office of Audits, Office of Inspector General. A copy of this report will be made available to the public through a posting at:  
[http://www.oig.doc.gov/oig/reports/economic\\_development\\_administration/index.html](http://www.oig.doc.gov/oig/reports/economic_development_administration/index.html).

This letter is notice of your opportunity and responsibility to review the report and to develop a complete response that addresses each audit finding and recommendation. If you believe that the final report is in error in any respect, or if you disagree with any of the findings and recommendations, it is important that you explain the error or your reasons for disagreement and submit to the Department evidence that supports your position. You should also explain how each documentary submission supports the position you are taking; otherwise, we may be unable to evaluate the information.

Your complete response will be considered by the Department in arriving at a decision on what action to take with respect to the findings and recommendations in the audit report. Enclosure 1 is an explanation of applicable administrative dispute procedures.

Your response to this report must be postmarked no later than thirty (30) days from the date of this letter. There will be no extensions to this deadline. If you do not submit a response within the required time frame, you will have no other opportunity to submit comments, arguments or documentation

before the Department makes a decision on the audit report. Please send your response (including documentary evidence) to:


A. Leonard Smith, Regional Director  
Seattle Regional Office  
Economic Development Administration  
915 Second Avenue – Room 1890  
Seattle, WA 98174

Please send a copy of your response to:

David Sheppard, Regional Inspector General for Audits  
Office of Inspector General  
U.S. Department of Commerce  
915 Second Avenue, Room 3062  
Seattle, WA 98174

If you have any questions about the final report or the audit process, please telephone our Seattle Regional Office at (206) 220-7970 and refer to the audit report number given above.

Sincerely,



Judith J. Gordon  
Assistant Inspector General  
for Audit and Evaluation

Enclosures

cc: Mayor Patrick Morris, President, San Bernardino International Airport Authority Commission  
and Co-Chair, Inland Valley Development Agency Board  
Supervisor Josie Gonzales, Co-Chair, Inland Valley Development Agency Board  
A. Leonard Smith, Regional Administrator, EDA Seattle Regional Office  
Kristine Skrinde, Chief, EDA Construction Management  
Mary Rudokas, EDA Project Engineer  
Anita Sanders, EDA Audit Liaison Officer

**NOTICE TO AUDITEE**

Financial Assistance Audits

1. Audit requirements applicable to a particular financial assistance award may be established by law, regulation, policy, or the terms of the recipient's financial assistance agreement with the Department of Commerce.
2. The results of any audit will be reported to the bureau or office administering the financial assistance award and to the recipient/auditee, unless the Inspector General of the Department determines that it is in the Government's interest to withhold release of the audit report.
3. The results of an audit may lead to adverse consequences for the auditee, including but not limited to the following actions (which are subject to applicable laws and regulations):
  - suspension and/or termination of current awards;
  - referral of identified problems to other federal funding agencies and entities as deemed necessary for remedial action;
  - denial of eligibility for future awards;
  - canceling the authorization for advance payment and substituting reimbursement by check;
  - establishment of special conditions in current or future awards; and,
  - disallowance of costs, which could result in a reduction in the amount of federal payments, the withholding of payments, the offsetting of amounts due the Government against amounts due the auditee, or the establishment of a debt and appropriate debt collection follow-up (including referrals to collection agencies).

Because of these and other possible consequences, an auditee should take seriously its responsibility to respond to audit findings and recommendations with explanations and evidence whenever audit results are disputed and the auditee has the opportunity to comment.

4. To ensure that audit reports are accurate and reliable, an auditee may have the following opportunities to point out errors (of fact or law) that the auditee believes were made in the audit, to explain other disagreements with audit findings and recommendations, to present evidence that supports the auditee's positions, and to dispute final recommendations:

- During the audit, the auditee may bring to the attention of the auditors at any time evidence which the auditee believes affects the auditors' work.
- At the completion of the audit on-site, as a matter of courtesy, the auditee is given the opportunity to have an exit conference to discuss the preliminary audit findings and to present a clear statement of the auditee's position on the significant preliminary findings, including possible cost disallowances.
- Upon issuance of the final audit report, the auditee may be given the opportunity to comment and submit evidence during the 30-day period after the transmittal of the report. (There are no extensions to this deadline.)
- Upon issuance of the final audit report, the auditee is given the opportunity to comment and to present evidence during the 30-day period after the transmittal of the report. (There are no extensions to this deadline.)
- Upon issuance of the Department's decision (the "Audit Resolution Determination"), on the audit report's findings and recommendations, the auditee has the right to appeal for reconsideration within 30 calendar days after receipt of the Determination letter if monies are due the government. (There are no extensions to this deadline.) The Determination letter will explain the specific appeal procedures to be followed.
- After an appeal is filed, or after the opportunity for an appeal has expired, the Department will not accept any further submissions of evidence concerning an auditee's dispute of the Department's decisions on the resolution of the financial assistance audit. If it is determined that the auditee owes money or property to the Department, the Department will take appropriate collection action but will not thereafter reconsider the merits of the debts.
- There are no other administrative appeals available in the Department.