

CITY OF RICHMOND
SINGLE AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2006

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FOR THE YEAR ENDED JUNE 30, 2006

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

We are required by the Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-profit Organizations*, to present an overview of the Single Audit which is presented below.

We have audited the basic financial statements of the City of Richmond, California, for the year ended June 30, 2006 and have issued our unqualified report thereon dated February 16, 2007. These basic financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in the United States of America; *Government Auditing Standards*, issued by the Comptroller General of the United States and the Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non profit Organizations*. We performed a Single Audit as requested by the City to comply with the provisions of the Single Audit Act as amended in 1996 and OMB A-133.

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued:	<u>unqualified</u>		
Internal control over financial reporting:			
• Material weakness(es) identified?	<u> </u> yes	<u> x </u> no	
• Reportable conditions(s) identified that are not considered to be material weaknesses?	<u> x </u> yes	<u> </u> none reported	
Noncompliance material to financial statements noted?	<u> </u> yes	<u> x </u> no	

Federal Awards

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

unqualified

Internal control over major programs:

- Material weakness(es) identified? yes x no
- Reportable condition(s) identified that are not considered to be material weaknesses x yes none reported

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?

 x yes no

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
<u>14.218</u>	<u>HUD – Community Development Block Grant Program</u>
<u>14.239</u>	<u>HUD – Home Investment Partnership Program</u>
<u>14.248</u>	<u>Community Development Block Grant – Section 108 Loan</u>
<u>14.246</u>	<u>Community Development Block Grant / Brownfields Economic Development Initiative</u>
<u>17.258, 17.259, and 17.260</u>	<u>Department of Labor Workers Investment Act – Adult, Youth, and Dislocated Worker</u>
<u>17.261</u>	<u>Department of Labor – H-1B Visa Program</u>
<u>84.287</u>	<u>Department of Education – 21st Century Learning Center</u>

Dollar threshold used to distinguish between Type A and type B programs:

\$ 409,830

Auditee qualified as low-risk auditee?

 yes x no

Section II – Financial Statement Findings

Our audit disclosed reportable conditions, but no material weaknesses or instances of noncompliance material to the basic financial statements. We communicated these conditions and other matters to City Council in our separate Memorandum on Internal Controls dated March 2, 2007.

Section III – Federal Award Findings and Questioned Costs

Current Year Findings and Questioned Costs

Our audit disclosed the following finding required to be reported in accordance with OMB Circular A-133:

Finding 06-01: Timesheets

Program Affected: Department of Labor passed through the State of California, Employment Development Department, Workforce Investment Act – Youth, CFDA# 17.259.

A sample of 15 employees and 9 pay periods were chosen as part of payroll expenditure testing. During our testing we noted that a total of 13 timesheets were not approved either by the employee themselves or by a responsible official. All timesheets should be reviewed by the appropriate personnel and signed to verify hours worked are properly recorded.

Management's Response:

Currently the procedure for processing timecards is as follows: timecards are signed by the employee and their supervisor and then submitted to the Senior Accountant for processing. The Senior Accountant is to ensure all signatures are in place prior to processing. The Senior Accountant reviews the documentation with the Director before final processing. Immediately, the Senior Accountant will also initial all timecards to ensure all signatures are in place prior to processing and prior to review with the Director.

Finding 06-02: Contribution Matching Requirements

Program Affected: Department of Labor, H-1B Visa Program, CFDA# 17.261

Part II – Budget Information, Section B – Cost Sharing/Match Summary of the grant agreement indicated that Cash and In-Kind Contributions total cost sharing/Match rate is 25%. However, of the 14 original participants, 12 of them are no longer available to participate in the project due to company mergers, closures and lay-offs. These participants are major contributors of the In-Kind Contributors per the original agreement. We noted during the review of the agreement that the City made a verbal agreement with the Department of Labor to change the total cost sharing/match rate to 50% for any participants currently contracted with the City. There has been no official written modification approving the change.

Management's Response:

All written modifications occurred at the end of Fiscal year 2006 and in Fiscal Year 2007. The Employment & Training Department will review all written modifications to be sure the cost sharing/match rate is in a written modification to the Department of Labor. Effective immediately, any change to an application that resulted in a grant award will have a written modification to the grantee (if this is a requirement of the grantee).

Finding 06-03: Grant Agreement Modification

Program Affected: Department of Labors, H-1B Visa Program, CFDA# 17.261

Per review of the sub-agreement between the City and Clorox, we noted that Clorox became a participant in the program on November 30, 2004. However, Clorox was not added to the participants list for the Federal grant until the award was modified on June 05, 2006. The City should notify the Department of Labor as soon as possible when changes are made to the original participants list in the grant agreement.

Management's Response:

All written modifications occurred at the end of Fiscal Year 2006 and in Fiscal Year 2007. The Employment & Training Department will review all written modifications to be sure that any change in sub recipients is in a written modification to the Department of Labor. Effective immediately, any change to an application that resulted in a grant award will have a written modification to the grantee (if this is a requirement of the grantee).

Finding 06-04: Procurement Policies and Procedures

Program Affected: Department of Labors, H-1B Visa Program, CFDA# 17.261

The City's contract with Clorox Company's in the amount of \$520,000 was awarded based on a sole source. According to the City's procurement policies and procedures, contract value greater than \$10,000 requires approval from City Council. Per review of the sole source request form there was no approval from City Council. The City should follow its procurement policies and procedures in order to comply with the OMB Circulars.

Management's Response:

Immediately, the Employment & Training Department will follow its procurement policies and procedures in order to stay in compliance with the Office of Management and Budget (OMB) circulars.

Finding 06-05: Report Compliance

Program Affected: Department of Labors, H-1B Visa Program, CFDA# 17.261

According to the grant agreement, Part IV – Special Conditions, #5: “The awardee shall submit Quarterly reports no later than 30 days after the end of the calendar year quarters.” We reviewed the four quarterly reports that were submitted by the City and only one out of the four reports was submitted on time. The City should make sure that all required reports are submitted timely in accordance with the grant agreement.

Management’s Response:

The Senior Accountant thought the deadline for quarterly reporting for the Department of Labor H1B grant was the last day of the month after the close of the quarter. Beginning April 2007, the quarterly reports will be filed before the 25th day of the month after the close of a quarter.

Finding 06-06: Reimbursement Requests

Program Affected: Department of Housing and Urban Development – Community Development Block Grant (CDBG), CFDA 14.218

We selected a sample of 15 expenditures for allowable activity and reimbursement testing. Two of the invoices/expenditures that qualified for CDBG allowable activities and reimbursement were not claimed for reimbursement from CDBG. City does not appear to have consistent procedures in place to process grant reimbursement requests. The City should make sure that all allowable activities are properly processed for reimbursement from CDBG.

Management’s response:

A reimbursement from CDBG funds that have been recorded in the City’s automated financial system (SAP) will be delayed until the activity is completed. Once the activity is completed (i.e. house painted, improvements accepted by the building department, etc.) then program staff receives proper documentation to draw down funds from CDBG. Beginning April 2007 the Agency’s accounting staff will coordinate with the program staff to make sure that all documentation is received for programmatic requirements and accounting requirements. This will result in a timelier draw down of funds.

Finding 06-07: Community Development Block Grant Action Plan

Program Affected: Department of Housing and Urban Development – Community Development Block Grant (CDBG), CFDA 14.218

The Redevelopment Agency of the City of Richmond purchased the Mira Flores property for approximately \$6.1 million. CDBG funds in the amount of \$79,000 were used to assist the purchase of the property. According to the City's resolution #145-04, CDBG funds in the amount of \$449,000 were allocated towards the predevelopment and remediation of the Miraflores Housing Development Project. However the City used the \$449,000 for a loan to the developer. The appropriation of the \$79,000 for the acquisition of property is neither identified in the CDBG action plan nor approved by the City Council. The City should make sure that all activities charged to CDBG grant are identified in the Action Plan.

Management's response:

In Fiscal Year 2005-2006 the adopted budget reflects the \$79,000 to be funded by Community Development Block Grant (CDBG) funds for acquisition (see resolution 05-21). Approval of the budget may include approval of CDBG expenditures that are in addition to the Action Plan. Currently these expenditures are tracked to be included in the Action Plan the year the expenditure is to be expected. When the \$79,000 is drawn down in IDIS (Integrated Disbursement and Information System-this system is a direct draw down and information to HUD) it is coded as a revolving loan which is a CDBG source (not a CDBG entitlement). By coding this as a revolving loan in IDIS, CDBG will give permission for the acquisition. Then this is reported in the Consolidated Annual Performance and Evaluation Report (CAPER).

Finding 06-8: Disposition of Real Property

Program Affected: Department of Housing and Urban Development – Community Development Block Grant (CDBG), CFDA 14.218

During the fiscal year the City disposed a parcel of real property that was previously acquired using CDBG funds. According to the OMB Circular A-110, the City is required to obtain prior approval from HUD for disposition of any real property acquired with CDBG funding. In addition, the proceeds from the sale must be remitted back to CDBG, the awarding agency. The City did not appear to have followed this procedure. The City should follow up with HUD to determine what appropriate actions should be taken.

Management's response:

Immediately, the Agency will notate the funding source on all properties the Agency purchases. The Agency, before selling the property, will get proper permission from the funding source.

Finding 06-9: Public Service Expenditures

Program Affected: Department of Housing and Urban Development – Community Development Block Grant (CDBG), CFDA 14.218

According to the A-133 Compliance Supplement, Agency Compliance Requirements for this program, funds obligated for public service during the program year must not exceed 15% of the grant money received plus 15% of the program income received during the preceding year. Per review of the IDIS C04PR26 Financial summary report, the funds obligated during the program year was 20.73%.

Management's Response:

The City has an identified Neighborhood Revitalization Strategy Area (NRSA) in the Iron Triangle/Woods neighborhoods wherein public service activities are carried out by Community Based Development Organizations. Public service activities within these neighborhoods are not counted against the public service cap of 15 percent. (24 CFR 570.204 (b)(2)(ii)).

Finding 06-10: Quarterly Reports

Program Affected: Department of Education, 21st Century Learning Center Program, CFDA# 82.287

The Grant Award Notification Agreement for the fiscal year 05/06 states that, "The grantee shall submit expenditure and attendance reports to the California Department of Education on a quarterly basis." The City submitted only the annual expenditure and attendance report to the California Department of Education in fiscal year 05/06. It appears that the City did not submit any quarterly reports as required in the agreement. The City should submit all required reports timely in order to comply with the Grant Award Notification Agreement.

Management's Response:

The City has added a Grants Manager to monitor City compliance with grantor reporting requirements, as well as the timely invoicing of grantors for expenses incurred. Staff commits to the timely submission of expenditure and attendance reports to the California Department of Education on a quarterly basis henceforward.

Finding 06-11: Reimbursements Follow up

Program Affected: Department of Education, 21st Century Learning Center Program, CFDA# 82.287

According to the City staff, after a reimbursement request is sent to the Department of Education, there is a follow up performed to make sure that the City receives and records the reimbursement in the appropriate fund. The City should make use of the Department of Education's Grant Administrations and Payment System Report to track reimbursement request and make sure that receipts from reimbursements are recorded in the appropriate fund.

Management's Response:

Staff, specifically the Grants Manager, will access the Grant Administration and Payment System Activity Report (GAPAR) to confirm receipt of award payments. In fact, the Grants Manager did access GAPAR to confirm that no payments were received. The Grants Manager continues to periodically check to see if payments have been released by the State to-date. There still are no records of a payment release.

Section IV - Status of Prior Year Findings and Questioned Costs

Finding 05-01: Incomplete Program Supplement

Program Affected: Department of Transportation, passed through the State of California Department of Transportation, Highway Planning and Construction Program, CFDA# 20.205.

The City was unable to locate a complete copy of the Program Supplement for the Nevin Plaza Project. The Program Supplement was missing the second page of the Special Covenants or Remarks section which includes clauses six through ten. The City obtained the missing pages from the State. In the future, the City should ensure complete documentation is maintained for future grant awards.

Current Status:

Additional support is being provided to Engineering Services to facilitate project management. As part of this process, file maintenance will be enhanced, including keeping separate and complete files for all program supplements. As a back-up, all program supplements will be electronically scanned.

Per City Engineer Rich Davidson, the description above reflects what is currently being done.

Finding 05-02: Missing Master Agreement

Program Affected: Department of Transportation, passed through the State of California Department of Transportation, Highway Planning and Construction Program, CFDA# 20.205.

The City was unable to locate a copy of the City's Master Agreement with the State of California Department of Transportation. In the future, the City should ensure proper documentation is maintained for all grant awards.

Current Status:

Additional support is being provided to Engineering Services to facilitate project management. As part of this process, file maintenance will be enhanced. As a back-up, all contract agreements will be electronically scanned.

The description above reflects what is currently being done.

Finding 05-03: Timeliness of Completing Construction Contract

Program Affected: Department of Transportation, passed through the State of California Department of Transportation, Highway Planning and Construction Program, CFDA# 20.205.

The Program Supplement Special Covenants and Remarks Section #5, states that the Administering Agency will complete the construction contract within 36 months of the award. The construction contract was awarded on October 29, 2002 and as of March 9, 2006, construction had not been completed. The City should contact the State Department of Transportation to discuss the situation and determine what steps should be taken.

Current Status:

Per City Engineer Rich Davidson, the extension was granted. A Project Manager has been appointed. The database is being developed in collaboration between the newly-appointed Project Manager in Engineering and the newly-appointed Grants Manager in Finance.

Finding 05-04: Low-Income Eligibility Earmarking Requirement

Program Affected: Department of Labor, passed through the State of California, Employment Development Department, Workforce Investment Act – Youth, CFDA# 17.259.

A minimum of 95% of eligible participants in Youth Activities must meet the criteria of disadvantaged low-income youth, as defined in 29 USC 2801(25) (20 CFR section 664.220). Only 89% of the program's eligible participants were low-income for the fiscal year ended June 30, 2005. The City should review eligible participants on an ongoing basis to ensure that they are meeting the low-income eligibility requirements.

Current Status:

Currently there is a section entitled homeless for eligible participants. There is a percentage in this category. This category is not listed as low income, but a homeless youth is low income. Taking this percentage into account will fulfill the low income requirement.

Finding 05-05: Contribution Matching Requirement

Program Affected: Department of Labor, H-1B Visa Program #1, CFDA# 17.261.

Part II – Budget Information, Section B – Cost Sharing/Match Summary of the grant agreement indicated that Cash and In-Kind Contributions of \$855,812 and \$1,468,600, respectively, were to be made. According to the agreement, a partnership known as EBRIT was to make these contributions as part of the program effort. In the final financial status report, the City reported \$1,768,370 as the in-kind match from EBRIT. The City reported no cash contributions from EBRIT. These matching contributions were \$551,042 less than budgeted. The Department of Labor requested the City to work with EBRIT and assemble the final in-kind and cash contributions for reporting to the federal government. This has not yet been completed. We understand that the Cash Contribution was not made because pledged revenue was not received as planned. In addition, we understand that the grant is now closed. The City should contact the Department of Labor to determine the action that should be taken to rectify this situation.

Current Status:

Although there were no changes to grant awards in FY06, the new procedure is being followed.

Finding 05-06: Reimbursement Filed Before Expenditure was Disbursed

Program Affected: Department of Labor, H-1B Visa Program #1, CFDA# 17.261.

On March 17, 2005, the City received \$126,152 in federal reimbursements for expenditures paid on March 30, 2005. Compliance regulations require that the City minimize the time between the receipt of federal reimbursements and disbursements by the City. The City should request reimbursements within three days of disbursement to comply with federal regulations.

Current Status:

The new procedure is being followed.

Finding 05-07: Subrecipient Monitoring

Program Affected: Department of Labor, H-1B Visa Program #1, CFDA# 17.261.

The H-1B Visa Program had six subrecipients during fiscal year 2005. OMB Circular A-102 Common Rule (§__.37 and §__.40(a)), OMB Circular A-110 (§__.50(a) require that the City monitor program subrecipients. The City did not perform any monitoring of it's subrecipients during the fiscal year. The City needs to perform monitoring to ensure that grant funds are being spent in compliance with the grant agreement.

Current Status:

We actually had seven sub recipients. Our first H-1B grant ended in December 2003, we got a 1 year no cost extension through December 2004 and the final closeout was March 2005. There was a monitoring done for Las Positas College in September 2004. Subsequent issues to this monitoring have been resolved.

2006 Update: The status is unchanged.

Finding 05-08: Compliance with Grant Conditions

Program Affected: Department of Housing and Urban Development, Community Development Block Grant, CFDA# 14.218

City staff was unable to provide us with a response as to whether Item 8 of the Special Conditions section of the grant agreement for Grant #B-04-MC-06-0015. While Item 8 applies to planning or construction of water or sewer facilities projects, City staff should be readily able to provide information regarding the applicability of the Section and determine whether or not the City is in compliance with the grant agreement.

In addition, according to 24 CFR section 58.34, CDBG Funds cannot be obligated or expended prior to the receipt of the Department of Housing and Urban Development's approval of a Request for Release of Funds. The City was unable to provide us with the Request for Release of Funds or documentation as to whether this Grant was exempt from this requirement. The City should take steps to locate this document and routinely retain such requests in program files.

Current Status:

HUD approves Release of Funds based on project sub recipient and not by the dollar amounts needed for these project sub recipients. HUD does not require a Request for Release of Funds for both CDBG and HOME programs for FY 04/05 and FY 05/06 if the Request for Release of Funds for FY 03/04 that was approved by HUD covered the same project sub recipients for FY 04/05 and FY 05/06. HUD only requires Request for Release of Funds if we have new project sub recipients.

CITY OF RICHMOND, CALIFORNIA
Schedule of Expenditures of Federal Awards
for the year ended June 30, 2006

<u>Federal Grantor/Pass Through Grantor Program Title</u>	<u>Federal CFDA Number</u>	<u>Grant Number</u>	<u>Program Expenditures</u>
U. S. Department of Housing and Urban Development			
Community Development Block Grant/Entitlement Grant 05	14.218	MC-06-0015	1,765,736
Community Development Block Grant/Entitlement Grant 06	14.218	MC-06-0015	<u>1,074,248</u>
			2,839,984
Home Investment Partnership Program 05	14.239	M-05-MC-060209	269,783
Home Investment Partnership Program 06	14.239	M-06-MC-060209	<u>584,843</u>
			854,626
YouthBuild	14.243	Y-02-IM-CA-0095	9,822
Section 108 Loan (3.5)	14.248		3,045,701
Section 108 Loan (3.0)	14.248		<u>2,687,321</u>
			5,733,022
Section 108 BEDI Grant	14.246		<u>687,321</u>
			10,124,775
<i>Total Department of Housing and Urban Development</i>			
U. S. Department of Labor			
H-1B Visa Program #2	17.261	AH-13436-03-60	1,152,840
Workforce Investment Act - Adult	17.258	R692493	443,822
(Passed through the State of California) Workforce Investment Act -Youth	17.259	R692493	376,294
(Passed through the State of California) Workforce Investment Act - Dislocated Worker	17.260	R692493	421,827
(Passed through the State of California) Workforce Investment Act - Nurses Workforce Initiative	17.260	R485296	92,651
(Passed through the State of California) Workforce Investment Act -Rapid Response	17.260	R692493	135,027
(Passed through the State of California) Workforce Investment Act - Youth Foster Care	17.260	R692493	9,297
			<u>2,631,758</u>
<i>Total U. S. Department of Labor</i>			
U. S. Department of Health and Human Services			
Transitional Living	93.550	09CX5027	120,783
			<u>120,783</u>
<i>Total U. S. Department of Health and Human Services</i>			
U. S. Department of Education			
(Passed through the State of California) 21st Learning Centers			
Richmond & Kennedy High Schools	84.287	07-2002-CCLC-003	254,589
DeJean Middle School	84.287	07-2002-CCLC-007	86,305
Richmond High Expansion	84.287	07-2002-CCLC-242	153,174
King & Lincoln Middle Schools	84.287	07-2003-CCLC-51	106,776
Education Fund	84.287		86,000
			<u>686,844</u>
<i>Total U. S. Department of Education</i>			
U. S. Department of Justice:			
Local Law Enforcement Block Grant VIII	16.592	2003-LB-BX-2285	37,543
Local Law Enforcement Block Grant IX	16.592	2004-LB-BX-0689	<u>59,303</u>
			96,846
<i>Total U. S. Department of Justice</i>			
Total Expenditures of Federal Awards			<u><u>13,661,006</u></u>

CITY OF RICHMOND
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note 1-Reporting Entity

The Schedule of Expenditure of Federal Awards (the Schedule) includes expenditures of Federal awards for the City and its component units as disclosed in the notes to the Basic Financial Statements.

Note 2-Basis of Accounting

Basis of accounting refers to *when* revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus applied. All governmental funds and agency funds are accounted for using the modified accrual basis of accounting. All proprietary funds are accounted for using the accrual basis of accounting. Expenditures of Federal Awards reported on the Schedule are recognized when incurred.

OMB Circular A-133 requires that certain adjustments be made to expenditures recognized when incurred. The adjustments applicable to the City are summarized below:

Expenditure of Long-Term Debt Proceeds – In this fiscal year, the City received proceeds from long-term debt funded by the federal government. In accordance with OMB Circular A-133, section .205(d) the City included current year expenditures of such proceeds on the Schedule of Expenditures of Federal Awards.

Note 3-Direct and Indirect (Pass-Through) Federal Awards

Federal awards may be granted directly to the City by a federal granting agency or may be granted to other government agencies which pass-through federal awards to the City. The Schedule includes both of these types Federal award programs when they occur.

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Honorable Mayor and City Council
City of Richmond, California

We have audited the basic financial statements of the City of Richmond as of and for the year ended June 30, 2006, and have issued our report thereon dated February 16, 2007. We conducted our audit in accordance with generally accepted auditing standards in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

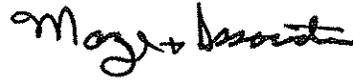
In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

However we did communicate other matters to City Council in our separate Memorandum on Internal Controls dated February 16, 2007.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However we did communicate other matters to City Council in our separate Memorandum on Internal Controls dated February 16, 2007.

This report is intended solely for the information and use of the City Council, management and Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Mayer + Associates".

March 2, 2007

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133

Honorable Mayor and City Council
City of Richmond, California

Compliance

We have audited the compliance of the City of Richmond with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. The City's major Federal programs are identified in Section I - Summary of Auditor's Results included on the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major Federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Richmond's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in Section III – Federal Award Findings and Questioned Costs.

Internal Control over Compliance

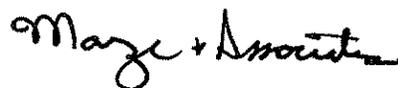
The management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133. However, the results of our auditing procedures disclosed instances of noncompliance with are required to be reported in accordance with OMB Circular A-133 and which are described in Section III – Federal Award Findings and Questioned Costs.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the City as of and for the year ended June 30, 2006, and have issued our report thereon dated February 16, 2007. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the City Council, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than the specified parties.



March 2, 2007