

CITY OF RICHMOND
SINGLE AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2012

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For The Year Ended June 30, 2012

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CITY OF RICHMOND
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2012

SECTION I—SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of auditor’s report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? X Yes No
- Significant deficiency(ies) identified? X Yes None Reported

Noncompliance material to financial statements noted? Yes X No

Federal Awards

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

Internal control over major programs:

- Material weakness(es) identified? X Yes No
- Significant deficiency(ies) identified? 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

SECTION I—SUMMARY OF AUDITOR’S RESULTS (Continued)

Identification of major programs:

CFDA#(s)	Name of Federal Program or Cluster
17.258, 17.259, 17.260, 17.278 (Cluster)	Department of Labor – ARRA – Workforce Investment Act – Adult Program, Youth Program, Title I Rapid Response
14.218, 14.253 (Cluster)	Department of Housing and Urban Development – ARRA – Community Development Block Grants/Entitlement Grants
14.239	Department of Housing and Urban Development – Home Investment Partnerships Program
81.128	Department of Energy – ARRA – Energy Efficiency and Conservation Block Grant Program
12.612	Department of Defense – Community Base Reuse Plans, Project Grant/Cooperative Agreement – Navel Fuel Depot Point Molate Pollution Remediation Grant
16.710	Department of Justice – ARRA – Public Safety Partnership and Community Policing Grants
17.261	Department of Labor – Workforce Investment Act Pilot Programs – Earmark Grants
20.500, 20.507 (Cluster)	Department of Transportation – ARRA – Federal Transit – Capital Investment Grants/Formula Grants (Urbanized Area Formula Program)
66.818	Environmental Protection Agency – Brownfields Revolving Loan Fund Agreement & Brownfields Cleanup Cooperative Agreements

Dollar threshold used to distinguish between type A and type B programs: \$699,896

Auditee qualified as low-risk auditee? Yes X No

SECTION II – FINANCIAL STATEMENT FINDINGS

Our audit did disclose significant deficiencies, material weaknesses, but no instances of noncompliance material to the basic financial statements. We have communicated the material weaknesses and significant deficiencies, along with other matters, in a separate Memorandum on Internal Control dated April 5, 2013, which is an integral part of our audits and should be read in conjunction with this report.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Our audit disclosed the following findings and questioned costs required to be reported in accordance with section 510(a) of OMB Circular A-133.

Finding 2012-01 **SEFA Preparation**

CFDA Number: 14.218, 14.253, 14.239, 14.257, 66.815, 66.818, 16.710, 16.588, 97.116, 20.513, 20.205, 20.500, 20.507, 11.307

CFDA Title: Community Development Block Grant Entitlement Grants Cluster, including
ARRA-funded CDBG-R
HOME Investment Partnerships Program
ARRA - Homelessness Prevention and Rapid Re-Housing Program (HPRP)
Environmental Workforce Development and Job Training Cooperative
Agreements
Brownfield Assessment and Cleanup Cooperative Agreements
ARRA-Public Safety Partnership and Community Policing Grants
ARRA-Violence Against Women Formula Grants
ARRA-Port Security Grant Program
Capital Assistance Program for Elderly Persons and Persons with Disabilities
ARRA-Highway Planning and Construction
Federal Transit - Capital Investment Grants
Federal Transit - Formula Grants (Urbanized Area Formula Program)
Economic Adjustment Assistance

Federal Agency: Department of Housing and Urban Development
Environmental Protection Agency
Department of Justice
Department of Transportation
Department of Commerce

Pass-Through Entity: State of California Office of Emergency Services
Contra Costa County Sheriff's Department
State of California Department of Transportation
Bay Area Rapid Transit

Criteria: In accordance with the requirements of OMB Circular A-133 and the Single Audit Act, the City should report all Federal expenditures in the Schedule of Expenditures of Federal Awards (SEFA) each fiscal year.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)

Finding 2012–01 SEFA Preparation (Continued)

Condition: The SEFA initially provided for audit was materially misstated, and the prior year SEFA did not include expenditures for all prior year programs. When we received the initial SEFA for the Single Audit work, the federal award expenditures totaled \$11,745,794 and the dollar threshold used to distinguish between type A and type B programs was \$352,373. As we began tracing the reported amounts to supporting documentation and comparing the grants listed to the prior year SEFA, we noted a number of material discrepancies. After more than five revisions, the federal award expenditures totaled \$23,329,854 and the dollar threshold used to distinguish between type A and type B programs was \$699,896. The significant errors noted on the original SEFA include:

- Community Development Block Grant program expenditures were reported as \$1.2 million, but they were increased to \$1.5 million on the final SEFA.
- Community Development Block Grant Neighborhood Stabilization Program expenditures of \$884 thousand were not included.
- ARRA-funded CDBG-R program expenditures of \$14 thousand were not included.
- Unexpended cash balances of the loan programs for the Community Development Block Grant Program and HOME Investment Partnerships Program totaling \$1.3 million were not included.
- Homelessness Prevention and Rapid Re-Housing Program expenditures of \$146 thousand were not included.
- Environmental Workforce Development and Job Training Cooperative Agreements program expenditures of \$112 thousand were not included.
- The Brownfield Assessment and Cleanup Cooperative Agreements program was included with expenditures of \$262 thousand, however it was discovered that expenditures for fiscal year 2011 had not been included in the prior year SEFA, and expenditures for fiscal years 2011 and 2012 of \$906 thousand are now reported on the SEFA.
- The Public Safety Partnership and Community Policing Grant expenditures on the SEFA changed from \$1.3 million to \$1.66 million and were finally reported as \$1.3 million.
- The ARRA-funded Violence Against Women Formula Grants program expenditures of \$191 thousand were not included.
- The ARRA-funded Port Security Grant Program expenditures were reported as \$307 thousand, but the actual expenditures were \$303 thousand.
- Capital Assistance Program for Elderly Persons and Persons with Disabilities program expenditures of \$290 thousand were not included.
- Highway Planning and Construction program expenditures of \$226 thousand were not included.
- The Federal Transit - Capital Investment Grants and Federal Transit - Formula Grants (Urbanized Area Formula Program) was not included, and it was later determined that expenditures for fiscal years 2010 and 2011 had not been included on the prior year SEFA, and expenditures for fiscal years 2011, 2011 and 2012 of \$8.5 million are now reported on the SEFA.
- Economic Adjustment Assistance program expenditures and the balance of unexpended cash balance of the revolving loan program totaling \$371 thousand were not included.

As noted above, the City did not report expenditures of Federal awards for the Brownfield Assessment and Cleanup Cooperative Agreements and The Federal Transit - Capital Investment Grants and Federal Transit - Formula Grants (Urbanized Area Formula Program) for fiscal years 2010 and 2011 in those SEFA's. The program expenditures from 2010 and 2011 for these two programs are being reported in the June 30, 2012 SEFA.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)

Finding 2012–01 SEFA Preparation (Continued)

Effect: Excluding annual program expenditures from the SEFA or incorrect reporting not only misstates the SEFA, it results in noncompliance with the requirements of individual grant agreements and OMB Circular A-133. As a result, future federal funding could be adversely affected. In addition, when we began the single audit work we based it on the initial SEFA and the calculation of the Type A versus Type B threshold, which resulted in our testing a major program that would not have been needed based on the final SEFA.

Cause: The administration of the City’s grants changed during the fiscal year and the new Grants Manager did not have full knowledge of all of the City’s federal grant programs. In addition, the Grants Manager was unaware of the prior year grant expenditures for the two programs noted.

Recommendation: The City must develop procedures and policies to centralize the reporting of grant activity with the Grants Manager to ensure that all data is readily available when year-end grant activity reporting is necessary. These procedures should facilitate the preparation of the SEFA so that annual expenditures for all grant programs are accurately included on the SEFA. In addition, all City departments should be notified that they must communicate the receipt of all federal funding to the Finance Department to ensure centralized tracking of all grant programs for Single Audit Reporting. Finally, the Grants Manager should be trained in grants management so she has a better understanding of reporting requirements, including the preparation of the SEFA.

View of Responsible Officials and Planned Corrective Actions:

Contact person: Connie Valentine, Sr. Budget Analyst/Grant Manager- (510) 620-6701

Corrective Action: The City’s grant policy was submitted on May 3, 2013 to the Finance Committee and distributed to all project managers. This included the City’s procedure in handling grants. Training has started by Grant Manager for different departments to show how MUNIS GL System can be used in effectively monitoring and reporting grants.

Finding 2012-02 Documentation of Participant Eligibility - Missing Participant File

CFDA Number: 17.258, 17.259, 17.260, 17.278

CFDA Title: Workforce Investment Act Cluster

Federal Agency: Department of Labor

Pass-Through Entity: State of California Employment Development Department

Criteria: The OMB Circular A-133 Compliance Supplement requires that individual program participants meet eligibility criteria. The City must maintain documentation of program participant eligibility.

Condition: During our testing of the eligibility of 40 program participants, we found that one participant file could not be located and therefore the eligibility of the participant could not be verified.

Effect: The City did not expend grant funds on this participant during the fiscal year, and we are not questioning costs. However, due to the missing file we were not able to determine if the participant met the qualifications to participate in the Workforce Investment Act for Adults program.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)

Finding 2012-02 Documentation of Participant Eligibility - Missing Participant File (Continued)

Cause: City staff could not determine why they were not able to locate the file.

Recommendation: The City should develop procedures to ensure that participant files are retained and can be located at any time throughout the year. In addition, until the file is located or the eligibility of this participant is reconfirmed, the participant should be removed from the list of eligible participants.

View of Responsible Officials and Planned Corrective Actions:

Contact person: Rosemary Viramontes, Project Coordinator (510) 307-8018

Corrective Action: In an effort to prevent this oversight from occurring in the future, the Management Information Systems (MIS) Unit will continue to practice due diligence in securing documentation for all files listed on the Data Validation report. The pre-established 45 day-Enrollment/Eligibility Verification rule will be strictly adhered to.

The particular case manager in question has been admonished regarding the importance of adhering to the client document retention policy. As of March 2013 all MIS and case management staff members have been re-trained on all pre-established Data Validation and Document Retention policies.

Finding 2012-03 Accurate Preparation of IDIS Financial Summary Report

CFDA Number: 14.218

CFDA Title: Community Development Block Grants / Entitlements Grants

Federal Agency: Department of Housing and Urban Development

Criteria: The City is required to file an annual Financial Summary Report (C04PR26) using the Housing and Urban Development’s Integrated Disbursement and Information System (IDIS) that contains accurate financial information. In addition, in accordance with the OMB Circular A-133 Compliance Supplement Agency Program Requirements, the C04PR26 is to be included in the annual performance and evaluation report that must be submitted for the CDBG Entitlement Program 90 days after the end of the program year.

Condition: The City’s C04PR26 for the program year 2011, which includes the activity for fiscal year 2012, reported a zero balance on line 01, Unexpended CDBG Funds at End of Previous Program Year. However, the balances should have been \$103,759. Line 01 feeds into other calculations in the C04PR26.

Effect: The City is not reporting complete and accurate information to the awarding agency which could adversely impact future grant funding.

Cause: City staff along with their HUD representative is still becoming familiar with the system and the City has been unable to change the balance in line 01.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)

Finding 2012-03 Accurate Preparation of IDIS Financial Summary Report (Continued)

Recommendation: The City should work with the HUD representative to improve on the accuracy of the reporting.

View of Responsible Officials and Planned Corrective Actions:

Contact person: Latha Ravinder, Accounting Manager (510) 620-6739;
Illuminada Hallare, Senior Accountant (510) 307-8139

Corrective action: The PR26 report will be prepared by Ana Cortez, Program Manager, Housing, based on the financial information provided by the Finance Department. It will then be reviewed by the Senior Accountant/Accounting Manager for accuracy and approved by the Finance Director before being filed with HUD.

Finding 2012-04 Timely Submission of Financial Reports

CFDA Number: 14.218
CFDA Title: Community Development Block Grants / Entitlements Grants
Federal Agency: Department of Housing and Urban Development

Criteria: Section L(1) Financial Reporting of the OMB Circular A-133 Compliance Supplement for the Community Development Block Grant Program requires the grantee to submit a C04PR03 – Activity Summary Report and a C04PR26 – CDBG Financial Summary 90 days after the end of the of a grantee’s program year.

Condition: The City did not submit the C04PR03 – Activity Summary Report nor the C04PR26 – CDBG Financial Summary for program year 2011 prior to the 90 day deadline of the City’s program year or September 30, 2012. The reports were filed on February 15, 2013.

Effect: The City is not in compliance with the financial reporting requirements of the program.

Cause: The City of Richmond Project Managers are aware of the submittal of deadlines for the two reports, but were unable to complete the reports on time due to staff turnover.

Recommendation: The City should ensure that all financial reports are submitted in accordance with the requirements of the program requirements.

View of Responsible Officials and Planned Corrective Actions:

Contact person: Patrick Lynch, Housing and Community Development Director
(510) 412-2053

Corrective Action: The City is in the process of adopting Federal policies and procedures per department of Housing and Urban Development financial reporting guidelines.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)

Finding 2012-05 **Cash Management - Draw Down of HOME Investment Partnerships Program Funds**

CFDA Number: 14.239
CFDA Title: HOME Investment Partnerships Program
Federal Agency: Department of Housing and Urban Development

Criteria: In accordance with 24 Code of Federal Regulation (CFR) Section 92.502, HOME funds drawn from the United States Treasury must be expended for eligible costs within fifteen days. In addition, HOME Funds in the City’s account should be disbursed before requests are made for HOME funds from the grantor.

Condition: The City drew down HOME monies in the amount of \$132,882 for payroll expense occurring in September 2011, February 2012, and March 2012 and although the funds were disbursed within the fifteen days of draw down, they were drawn down prior to the expenditure of those funds. However, eligible loan expenditures amounting to \$11,197 were drawn down from the grantor related to the Filbert Townhomes project on February 22, 2012, but were not expended until March 9, 2012, outside the fifteen day window. Finally, the City requested reimbursement for grant related expenditures for the Lillie Mae Jones Plaza Housing Development project during fiscal year 2012 despite unexpended program income cash balances in the City’s loan program account at that time.

Effect: The City is not in compliance with the provisions of 24 CFR Section 92.502.

Cause: Limited staff and the need to pay for the acquisition of properties related to the HOME program caused the City to mistakenly draw down the monies in advance in prior year, and with the departure of key grant staff in February 2012, the City has made an effort to draw down less frequently because there is no one replacing her to review the drawdowns.

Recommendation: The City should develop procedures to expend drawn down funds within fifteen days of receipt in order to be in compliance with the CFR. The City should work with the grantor to determine whether interest earned on the advanced funds need to be returned to the grantor. In addition, the City should develop procedures to ensure that unexpended program income of the HOME funds is recycled into new loans prior to requesting draw down from the grantor.

View of Responsible Officials and Planned Corrective Actions:

Contact persons: Patrick Lynch, RCRA Housing Division Director (510) 412-2053
 Ana Cortez, Community Development Program Manager (510) 231-3079

Corrective action: The City will develop procedures to ensure that we expend draw down funds from HOME Investment Partnership Program within fifteen days in compliance with 24 CFR Section 92.502. The Senior Accountant will coordinate with the Community Development Program Manager to ensure that funds drawn are reconciled and consistent with the actual recorded current year expenditures in the general ledger.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)

Finding 2012-06 **Review of Reimbursement Requests**

CFDA Number: 14.239
CFDA Title: HOME Investment Partnerships Program
Federal Agency: Department of Housing and Urban Development

Criteria: The OMB Circular A-133 Compliance Supplement and the A-102 Common Rule require that non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. In addition to other implications, this means that grant reimbursement requests should be reviewed and approved by someone other than the preparer to ensure that they include only eligible costs of the program.

Condition: The Finance Director of the Richmond Community Redevelopment Agency left the City in February 2012. She was responsible for reviewing and approving grant draw downs of the HOME program, and we understand that responsibility has not been assigned to another employee. However, the City drew down HOME funds in March 2012, therefore it does not appear that the draw down was reviewed by an appropriate employee.

Effect: The City is not in compliance with the internal control requirements of the OMB Circular A-133 Compliance Supplement and the A-102 Common Rule. This means that there is a risk of ineligible costs being charged to the grant. In addition, the City has incurred grant expenditures that have not yet been drawn down from the grant which puts a cash flow strain on the City’s non-grant funding sources.

Cause: The person previously in charge of reviewing the City’s draw downs left the City in February 2012. Since then, the City has made an effort to not draw down funds while there is no one to review them.

Recommendation: The City should immediately find someone on staff that is capable and eligible to review and approve HOME draw down funds prior to their submission to the grantor. In addition, that person should review and approve any grant draw down requests that were filed after the departure of the Finance Director of the Richmond Community Redevelopment Agency.

View of Responsible Officials and Planned Corrective Actions:

Contact persons: Patrick Lynch, RCRA Housing Division Director (510) 412-2053
 Ana Cortez, Community Development Program Manager (510) 231-3079

Corrective action: The City plans on assigning someone new the duties of reviewing draw downs.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)

Finding 2012-07 Annual Filing of HUD 60002 Performance Report

CFDA Number: 14.239
CFDA Title: Home Investment Partnerships Program
Federal Agency: Department of Housing and Urban Development

Criteria: Section L(2) Performance Reporting of the OMB Circular A-133 Compliance Supplement for the HOME Investment Partnerships Program requires the annual filing of the HUD 60002 Section 3 Summary Report for each grant over \$200,000 that involves housing rehabilitation, housing construction, or other public construction.

Condition: The City was required to file a fiscal year 2012 HUD 60002 report for the Lillie Mae Jones project, but documentation that the required report was filed was not provided to us for audit.

Effect: The City could not demonstrate compliance with the performance reporting requirements of the program.

Cause: The City of Richmond/Redevelopment Agency Development Project Managers are aware of the required submittal of the HUD 60002 Section 3 Summary Report, and indicated that the report for the Lillie Mae Jones project had been filed, but the report and documentation it had been filed was not provided to us.

Recommendation: The City should ensure that all performance reports are filed on an annual basis in accordance with the program requirements and that documentation of the report and filing are readily available for audit.

View of Responsible Officials and Planned Corrective Actions:

Contact persons: Patrick Lynch, Housing and Community Development Director
(510) 412-2053
Ana Cortez, Community Development Program Manager
(510) 231-3079
Charice Duckworth, Development Project Manager (510) 412-2052

Corrective action: The report in question will be located. In the future, City staff will ensure that compliance documentation is readily available for audit.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)

Finding 2012-08 **Payroll Costs Charged to Grant Should be Based on Actual Time**

CFDA Number: 14.239
CFDA Title: Home Investment Partnerships Program
Federal Agency: Department of Housing and Urban Development

Criteria: Attachment B of OMB Circular A-87 indicates that budget estimates or other distribution percentages determined before the services are performed do not qualify as support for salaries and wages charges to Federal awards, but may be used for interim accounting purposes, provided that:

- a. The City's system for establishing the estimates produces reasonable approximations of the activity actually performed;
- b. At least quarterly, comparisons of actual costs to budgeted distributions based on the monthly activity reports are made. Costs charged to Federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show the differences between budgeted and actual costs are less than ten percent; and
- c. The budget estimates or other distribution percentages are revised at least quarterly, if necessary, to reflect changed circumstances.

Condition: During our testing of payroll charged to the grant for two of the three employees charged to the grant for the months ended September 2011, December 2011 and March 2012, we noted that the payroll costs were based on flat percentages of 20% and 15% of the employees' gross pay. The City does not complete a review at least quarterly to ensure that the estimates are a reasonable approximation of the actual activity performed.

Effect: The City is not in compliance with the compensation documentation requirements of OMB Circular A-87.

Questioned Costs: We question costs of \$54,708, which consist of all payroll and fringe benefits charged to the grant in fiscal year 2012.

Cause: The City thought the percentage allocations were an allowable basis for charging payroll costs to the grant.

Recommendation: The City should either charge payroll and fringe benefits to the grant based on the actual time spent working on the grant, or complete the required quarterly comparisons of actual activity and adjust the grant costs accordingly as required by the provisions of OMB Circular A-87. In addition, the City should determine what portion of the payroll and fringe benefit costs charged in fiscal year 2012 are allowable and adjust the grant accordingly.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)

Finding 2012-08 Payroll Costs Charged to Grant Should be Based on Actual Time (Continued)

View of Responsible Officials and Planned Corrective Actions:

Contact persons: Patrick Lynch, Housing and Community Development Director
(510) 412-2053

Corrective action: During fiscal year 2012 the actual time was not used to charge the grants and instead percentage allocations were used, but City staff has since implemented an “actual time” allocation system starting in July 2012.

Finding 2012-09 Providing Subrecipient Documentation for Audit in a Timely Manner

CFDA Number: 14.239
CFDA Title: Home Investment Partnerships Program
Federal Agency: Department of Housing and Urban Development

Criteria: Section M (Subrecipient Monitoring) of the OMB Circular A-133 Compliance Supplement for the Home Investment Partnerships (HOME) Program requires that before disbursing funds to a subrecipient, each participating jurisdiction is required to enter into written agreements with the entity which includes provisions dealing with the use of HOME funds, program income, uniform administrative requirements, other program requirements, affirmative marketing, requests for disbursement of funds, reversion of assets, records and reports, and enforcement of the agreement.

Condition: The HOME program disbursed funds to a nonprofit corporation, Community Housing Development Corporation of North Richmond (CHDC), during fiscal year 2012. We selected two disbursements to CHDC totaling \$18,102 for testing, and although the costs were supported by detailed invoices and appear to be allowable costs under the HOME program, City staff was unable to provide a copy of the subrecipient agreement with CHDC and documentation that the City had performed monitoring procedures related to the subrecipient.

Effect: Although we understand the subrecipient agreement has been executed, City staff did not provide a copy of the agreement for audit and therefore was not able to demonstrate compliance with the subrecipient monitoring requirements of the OMB Circular A-133 Compliance Supplement.

Questioned Costs: We question costs of \$54,708, which consist of all disbursements to CHDC charged to the grant in fiscal year 2012.

Cause: City staff did not provide a copy of the subrecipient agreement for audit in a timely manner.

Recommendation: The City should have all grant documentation readily available for audit.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)

Finding 2012-09 Providing Subrecipient Documentation for Audit in a Timely Manner (Continued)

View of Responsible Officials and Planned Corrective Actions:

Contact persons: Latha Ravinder, Accounting Manager (510) 620-6739

Corrective action: The fiscal year 2012-13 Grant Management Policy was recently presented and accepted by the Finance Committee on May 3, 2013. The City plans on adding a section on “sub recipient monitoring” to the fiscal year 2013-14 Grant Management Policy. This section will address the audit requirements of OMB Circular A-133 as it relates to determining who is a sub recipient, the receipt and maintenance of agreements and compliance with the terms of the agreement among other requirements.

Finding 2012-10 Expend Grant Funds in Accordance with Grant Budget Limitations

CFDA Number: 17.261

CFDA Title: Workforce Investment Act – Pilots, Demonstrations and Research Projects

Federal Agency: Department of Labor

Pass-Through Entity: City of Emeryville

Criteria: Part II (Budget Information) of the grant agreement for the Workforce Investment Act George Miller Earmark grant for the Richmond BUILD Green Careers Academy project includes a detailed budget that indicates not only the cost types that are allowable, but specific components of each allowable expenditure category.

Part IV (Special Clauses and Conditions), Clause #1, of the grant agreement indicates that “flexibility is allowed within the grant budget (except wages, salaries and fringe benefits and indirect cost rates) provided no single line-item is increased or decreased by more than 20%. Changes in excess of 20% and any changes in wages, salaries and fringe benefits and indirect cost rates must receive prior written approval of the Grant Officer. In addition, any changes in mix or match within the wages and salaries line do not require a grant modification. However, the assigned Department of Labor Federal Project Officer must review the changes prior to implementing them. Failure to obtain such prior written approval may result in cost disallowances.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)

**Finding 2012-10 Expend Grant Funds in Accordance with Grant Budget Limitations
(Continued)**

Condition: During our testing of expenditures under the Workforce Investment Act grant for the Richmond BUILD Green Careers Academy project we noted that the expenditures included indirect labor, indirect administrative labor, equipment lease costs, administrative costs and other allocated costs.

Although the costs tested that were charged to the grant appear to be in compliance with the cost principals of OMB Circular A-87, they were not in compliance with the cost limitations of the grant budget, and the budget was not amended prior to the closure of the grant. Below is a summary of the grant budget categories, the fiscal year 2012 expenditures by general ledger category, and the categories that had expenditures in excess of the budget.

<u>Expenditure Categories</u>	<u>Budget</u>	<u>Actual Fiscal Year 2012 Expenditures</u>	<u>Expenditures in Excess of Budget</u>
Personnel			
Program Manager (75% of time)	\$102,600		
Case Manager (full time)	90,000		
Case Manager (50% time)	45,000		
Admin. Intern (full time)	43,200	\$66,332	\$23,132
RichmondWorks labor	0	7,936	7,936
Fringe Benefits (A)			
Program Manager	53,352		
Case Manager	46,800		
Case Manager	23,400		
Total direct labor and fringe benefits		134,026 (C)	(D)
Travel for Three Staff Members to Two Training Conferences			
Air travel to two conferences	2,400		
Lodging at two conferences	2,160		
Per diem at two conferences	960		
Equipment	0	1,705	1,705
Supplies			
Tool kits for participants (140)	28,000		
Consumable construction supplies	12,128	26,954	14,826
Other supplies	0	11,745	11,745
Contractual			
Instructional Services	120,000	21,799	
Energy Efficiency Instructional Services (Rising Sun Energy Center)	65,000	72,500	7,500
Solar Technology Instructional Services (Solar Richmond)	65,000	22,500	
Other contractual services	0	5,000	5,000
Other Costs	0	25,772	25,772
Indirect Costs	0	0	
Administrative Costs	0 (B)	123,815	123,815
Total	\$700,000	\$520,084	\$221,431

- (A) Based on 52% of salary and includes medical, dental, vision, retirement, short and long-term disability, worker's compensation, MediCal, and unemployment.
- (B) The budget indicates "all administrative functions for the project will be paid for by other non-Department of Labor funds."
- (C) Based on our testing of the pay periods included in the months of September 2011 and May 2012, the City charged 100% and 50%, respectively, of the Program Manager's salary, which average to 75%. We did not test additional pay periods.
- (D) The general ledger does not break down the payroll by employee and between salaries and fringe benefits. However, total direct labor and fringe benefits charged to the grant do not appear to exceed the budget. See also (C).

Effect: The City is not in compliance with the grant budget category limitations and expended grant funds that were ineligible costs under the grant.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)

Finding 2012-10 **Expend Grant Funds in Accordance with Grant Budget Limitations (Continued)**

Questioned Costs: We question costs of \$221,431, which consist of the costs in excess of the category budget noted above, or in areas that were not included in the grant budget.

Cause: City staff believed the costs incurred were allowable under the grant, but did not monitor the costs in accordance with the grant budget limitations.

Recommendation: City staff should work with the grantor to determine if the grant budget can be amended to include the additional cost categories and to shift unused budget amounts to categories that exceeded the budget. In the future, grant agreements should be reviewed in detail prior to expenditures being incurred to determine whether there are line-item budget limitations and specific cost limitations.

View of Responsible Officials and Planned Corrective Actions:

Contact persons: Jill Perry, Employment & Training Finance Manager, (510) 307-8012

Corrective action: The City agrees that the costs charged to the grant are in compliance with the cost principals of OMB Circular A-87. The City disagrees with the auditors' characterization of costs within the grant budget as indicated on their worksheet, and believes that with two minor exceptions, the City is in compliance with the grant budget category limitations, and the City further believes that expended grant funds are eligible costs under this grant. These exceptions are \$6,560 exceeded in the supplies category, and a correction needed to the grant budget narrative, page 11 of the original award document. The City will contact the grantor to determine if the grant budget can be amended to shift line-item budgeted amounts to cover these minor exceptions. The City believes that within their worksheet the auditor included items of cost improperly characterized as administrative costs which are clearly inconsistent with disciplines enumerated in 20 CFR 667.220 (b) as encompassed under this grant. The City disputes the amount of costs questioned by the auditors.

Finding 2012-11 **Documentation of Compliance with Grant Provisions**

CFDA Number: 66.818
CFDA Title: Brownfield Assessment and Cleanup Cooperative Agreements
Federal Agency: Environmental Protection Agency

Criteria: The grant agreement for the Brownfields Revolving Loan Fund Cooperative Agreement indicates a project period of July 1, 2004 to September 30, 2010, and the grant agreement for the Brownfields Cleanup Cooperative Agreement indicates a project period of July 1, 2006 to September 30, 2011.

Section IV (Cleanup Environmental Requirements) of Attachment A to the Brownfields Cleanup Cooperative Agreement requires that a Quality Assurance Plan, a Sampling and Analysis Plan or other comparable document covering Quality Assurance activities must be prepared before any sampling or cleanup activities at the site may begin.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)

Finding 2012-11 Documentation of Compliance with Grant Provisions (Continued)

Condition: During our testing of expenditures incurred under both of the above grant agreements, we noted that expenditures were incurred after the grant project periods noted above. For example, costs under the Brownfields Cleanup Cooperative Agreement incurred in March, April and August 2011 were reimbursed by the grantor although they were incurred well after the grant project period. Since the costs were reimbursed by the grantor, we inquired about whether the grants had been amended to extend the project period, but City staff did not provide documentation.

City staff did not provide documentation to demonstrate compliance with the Quality Assurance Plan requirements of the grant agreement.

Effect: City staff did not demonstrate compliance with grant project period limitations and Quality Assurance Plan requirements.

Cause: City staff did not respond timely to audit documentation requests and did not provide the requested information.

Recommendation: Although it appears that the costs incurred after the period of availability were allowed by the grantor, and the grantor requires approval of Quality Assurance Plan which means reimbursement would not have been made if the document were not approved by the grantor, City staff must develop procedures to ensure that third-party requests for documentation are fulfilled in a timely manner. The City should have all grant documentation readily available for audit and respond timely to audit requests.

View of Responsible Officials and Planned Corrective Actions:

Contact person: Patrick Lynch, Housing and Community Development Director
(510) 412-2053

Corrective Action: City staff believes that the City is in compliance with all grant requirements and will develop procedures to ensure that grant documentation is readily available for audit.

SECTION IV - STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS –
Prepared by Management

Financial Statement Prior Year Findings

There were financial statement findings reported in the prior year, the current status of which we have communicated in a separate Memorandum on Internal Control dated April 5, 2013, which is an integral part of our audits and should be read in conjunction with this report.

Federal Award Prior Year Findings and Questioned Costs

Finding 2011-01 Timely Submission of Grant Reimbursement Requests

CFDA Number: 20.205
CFDA Title: ARRA - Highway Planning and Construction
Federal Agency: Department of Transportation
PassThrough Entity: California Department of Transportation

Criteria: Special Covenant number 4 of the Program Supplement CML-5137(036) for the Downtown Pedestrian and Bicycle Enhancement project and Special Covenant number 5 of the Program Supplement ESPL-5137(037) for the ARRA - funded Carlson Boulevard Asphalt Concrete Overlay project require that invoices are to be submitted “at least once every six months commencing after the funds are encumbered.” If no invoices are submitted for a six month period the City is required to submit a written explanation to the State which includes a target billing date and amount. Also, if invoices or a written explanation are not submitted every six months, the State reserves the right to suspend future authorizations/obligations, and invoice payments for any ongoing or future federal-aid.

Condition: The City submitted the first invoice for the Downtown Pedestrian & Bicycle Enhancement project on December 17, 2010 and did not submit another invoice until July 8, 2011. The City submitted the second invoice for the Carlson Boulevard Asphalt Concrete Overlay project on February 2, 2011 and did not submit another invoice until October 7, 2011. The City did not submit the required written explanations to the grantor for either project.

Effect: The City is not in compliance with reimbursement request filing requirements of the Program Supplements and is potentially subject to the sanctions noted above.

Cause: Due to staff turnover, the timely invoicing of costs was not achieved.

Recommendation: The City should submit invoices at least once every six months or a written explanation for the lack of invoice submittal with a target date and billing amount to remain in compliance with the Program Supplements. The City should ensure that it complies with all filing requirements specified in the grant award documents.

View of Responsible Officials and Planned Corrective Actions:

Contact person: Melissa Tigbao, Engineer I, (510) 412-2039

Corrective action: Engineering staff verbally notified Caltrans District 4 staff of the lapse in time associated with the invoice. Since that time, Engineering has adopted a Standard Operating Procedure to submit invoices once every six months to Caltrans.

SECTION IV - STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS (Continued)

Finding 2011-01 Timely Submission of Grant Reimbursement Requests (Continued)

Current Status: The above grants received final payment from the grantor and are now closed. The City has instituted procedures to make sure that reimbursements are submitted in a timely manner.

Finding 2011-02 Timely Submission of Grant Award Package

CFDA Number: 20.205
CFDA Title: ARRA - Highway Planning and Construction
Federal Agency: Department of Transportation
PassThrough Entity: California Department of Transportation

Criteria: Special Covenant number 3 of the Program Supplement CML-5137(036) for the Downtown Pedestrian and Bicycle Enhancement project states that contract award information “shall be submitted by the administering agency to the District Local Assistance Engineer within 60 days after the project contract award. Failure to do so will cause a delay in the State processing invoices for the construction phase” of the project.

Condition: The construction contract for the Downtown Pedestrian and Bicycle Enhancement project was awarded on May 6, 2010 but the City did not submit the award package to the District Local Assistance Engineer until December 17, 2010.

Effect: The City is not in compliance with the requirements of the Program Supplement.

Cause: Staff was sidetracked by major in-field issues related to utilities and overlooked the requirement since there would not be any immediate billing.

Recommendation: The City should ensure that it complies with all filing requirements specified in the grant award document.

View of Responsible Officials and Planned Corrective Actions:

Contact person: Michael Williams, Project Manager (510) 307-8147
Corrective action: The City has adopted a Standard Operating Procedure to submit all materials when due to Caltrans.
Current Status: The Standard Operating Procedure was implemented.

SECTION IV - STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS (Continued)

Finding 2011-03 **Cash Management - Draw Down of Neighborhood Stabilization Program (NSP), Community Development Block Grant (CDBG) and Community Development Block Grant-ARRA (CDBG-R) Funds in Advance of Expenditures**

CFDA Number: 14.218 & 14.253
CFDA Title: ARRA - Neighborhood Stabilization Program Grant and Community Development Block Grant Program
Federal Agency: Department of Housing and Urban Development

Criteria: In accordance with 24 CFR Part 85.22, payment methods shall minimize the time elapsing between the transfer of funds from the United States Treasury and the issuance or redemption of checks, warrants, or payment by other means by the recipients. In addition, the Cash Management provisions of OMB Circular A-133 require that when grants are funded on a reimbursement basis, program costs must be paid for by City funds before reimbursement is requested from the grantor. When funds are advanced, recipients must follow procedures to minimize the time elapsing between the transfer of funds from the U.S. Treasury and disbursement. Generally, a grant is determined to be on the reimbursement basis if grant expenditures are incurred within three days of receiving the grant funds.

Condition: The City drew down \$1,422,698 of NSP funds and also drew down CDBG-R funds of \$329,457 prior to expenditures being incurred. During our testing of expenditures for the NSP we noted that two payroll disbursements on September 30, 2010 totaling \$9,742, a subrecipient disbursement of \$16,384 on August 10, 2010, and a subrecipient disbursement of \$295,152 on October 1, 2010 were applied to a grant drawdown that had been filed on June 25, 2010 and received on June 29, 2010. We also noted two NSP subrecipient disbursements paid on November 8, 2010 in the amounts of \$115,830 and \$153,368 were applied to a grant drawdown that had been filed on September 13, 2010 and received on September 15, 2010. Upon further inquiry, we understand that the City had drawn down all remaining NSP grant funds on September 13, 2010 in advance of incurring expenditures and although the grant was fully expended by June 30, 2011, the grant should have been drawn on a reimbursement basis.

During our testing of expenditures for the CDBG-R program we noted one disbursement of \$329,457 on September 29, 2010 was applied to a grant draw down filed on September 14, 2010 and received on September 16, 2010. Finally, during our testing of expenditures for the CDBG program we noted one disbursement of \$10,258 on June 30, 2011 was applied to a grant draw down filed on February 25, 2011 and received on March 1, 2011, because the original grant draw down had included a duplication of expenditures that were not returned to the grantor and were instead retained in a non-interest bearing checking account.

We also noted that the Department of Housing and Urban Development had identified the cash management issue in its program monitoring letter to the City dated September 28, 2010 for the NSP program.

Effect: Drawing down funds in advance does not minimize the time elapsing between receipt of funds and expenditures and is not in compliance with 24 CFR Part 85.22 and the Cash Management provisions of OMB Circular A-133.

SECTION IV - STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS (Continued)

Finding 2011-03 **Cash Management - Draw Down of Neighborhood Stabilization Program (NSP), Community Development Block Grant (CDBG) and Community Development Block Grant-ARRA (CDBG-R) Funds in Advance of Expenditures (Continued)**

Cause: The City's limited staff and needing to quickly pay for acquisition of properties under the Neighborhood Stabilization Program caused the City to draw the monies in advance. Community Development Block Grant-ARRA monies were drawn down to quickly pay for the escrow of the Filbert Townhomes Development. While the Community Development Block monies were drawn down in error. The error was not caught due to oversight.

Recommendation: The City should not draw down funds until expenditures have been incurred and should minimize the time elapsing between the draw down and the expenditure to three days or less. In addition, the City should determine whether the interest earned on the grant funds advanced need to be returned to the grantor.

View of Responsible Officials and Planned Corrective Actions:

Contact persons: Patrick Lynch, RCRA Housing Division Director (510) 412-2053
Ana Cortez, Community Development Program Manager (510) 231-3079

Corrective action: The City agrees that funds should not be drawn down until expenditures have been incurred. The Housing Director, Project Manager and Senior Accountant will see to it that clear procedures will be in place to ensure that premature draw downs will not happen again and that there should be better monitoring of invoices and payments as well as corresponding draw downs.

Current Status: The Corrective Action has been implemented by segregating the account voucher and the approved voucher before the drawdown in IDIS. The Vouchers are now approved by the Account Manager after ensuring that the expense has been incurred correctly. The City does not allow for drawdown of any expenses prior to the expense being incurred.

Finding 2011-04 **Subrecipient Monitoring**

CFDA Number: 17.274, 17.258, 17.259, 17.260 and 17.278
CFDA Title: YouthBuild and ARRA - Workforce Investment Act
Federal Agency: Department of Labor
Pass-Through Entity: State of California Employment Development Department
Oakland Private Industry Council and Peralta Community College District

Criteria: OMB Circular A-133 section 400(d)(3) requires that a pass through entity shall monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

SECTION IV - STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS (Continued)

Finding 2011-04 Subrecipient Monitoring (Continued)

Condition: During our testing of the City's subrecipient monitoring we noted that for the YouthBuild program, which includes ARRA and non-ARRA funding, the City notified the subrecipient of the need to do a monitoring visit and set a date. However, the City did not perform the site visit. In addition for the Workforce Investment Act (WIA) program the City had previously treated the Oakland Private Industry Council (OPIC) as a subrecipient and performed monitoring visits, however in the current fiscal year no monitoring was done.

Effect: The City is not in compliance with the subrecipient monitoring required by OMB Circular A-133 section 400(d)(3).

Cause: Due to the City being under staffed within the YouthBuild program the monitoring visit did not occur. The City made the determination that the contract with OPIC did not display the characteristics indicative of a federal award received by a subrecipient described in OMB Circular A-133 and instead treated them as a vendor in fiscal year 2011.

Recommendation: Subrecipient monitoring should be a priority to all grant programs to ensure that the City is in compliance with OMB Circular A-133. The City should also establish procedures to perform the necessary monitoring visits of subrecipients to ensure that they are in compliance with the grant agreement. In addition, OPIC appears to be a subrecipient of the City, not a vendor, therefore the City should treat them as a subrecipient and complete the required monitoring.

View of Responsible Officials and Planned Corrective Actions:

- Contact person:** Jill Perry, Employment & Training Finance Manager, (510) 307-8012
- Corrective action:** Moving forward, the Employment & Training Department will allocate sufficient staffing resources to the financial and accounting functions of the department. With adequate staffing levels in this unit, the department should be able to adhere to established procedures in all areas, including the annual cycle of subrecipient fiscal monitoring. It is understood that these grant programs allow ten percent of the award to be used for financial and administrative purposes, and the department will strive to effectively utilize that portion to support only fiscal and administrative functions.
- Current Status:** Implemented - The City conducted a Monitoring Visit to OPIC on April 18, 2012, and found compliance issues.

SECTION IV - STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS (Continued)

Finding 2011-05 Overpayment to Participants, Interns and Vendors

CFDA Number: 17.274
CFDA Title: YouthBuild
Federal Agency: Department of Labor

Criteria: In accordance to OMB Circular A-87, Attachment A, Section A, #3, each governmental unit, in recognition of its own unique combination of staff, facilities, and experience, will have the primary responsibility for employing whatever form of organization and management techniques may be necessary to assure proper and efficient administration of Federal awards. In addition, review and approval procedures of grant-related documentation should include a recalculation of amounts reported to ensure they are clerically accurate.

Condition: During our testing of 32 services and supplies disbursements for participant allowances, intern wages and vendor invoices charged to the YouthBuild program we noted that the supporting documentation for 7 of the disbursements contained mathematical errors that resulted in over and underpayments that netted to an overpayment of \$1,309. Although timesheets are reviewed by the Program Manager, it appears that they were not adequately reviewed for mathematical accuracy. Invoices are reviewed by Program Manager and adjusted as necessary, however, an adjustment made to an invoice and communicated to the Accounts Payable department was not executed. The invoice was paid at the original invoice amount even though the amount in the system showed it had been adjusted.

Effect and Questioned Costs: Mathematical errors resulted in excessive costs to the YouthBuild program of \$1,309 and therefore we question the costs.

Cause: It was an oversight of City staff.

Recommendation: The Program Manager should check the mathematical accuracy of the timesheets and ensure that when invoices are adjusted that the correct amount is paid to vendors. The Program Manager must ensure that time allocated to the grant is correct for participants and interns, and not just sign off on the timesheets. Procedures should be developed to ensure appropriate amounts are paid and reimbursed by grants.

View of Responsible Officials and Planned Corrective Actions:

Contact person: Jill Perry, Employment & Training Finance Manager (510) 307-8012

Corrective action: Moving forward, the Employment & Training Department will allocate sufficient staffing resources to the financial and accounting functions of the department. With adequate staffing levels in this unit, time sheets and vendor payments can be more closely monitored and controlled by skilled personnel qualified and trained in these functions. With sufficient staffing, additional review and follow-up processes can be implemented. It is understood that these grant programs allow ten percent of the award to be used for financial and administrative purposes, and the department will strive to effectively utilize that portion to support only fiscal and administrative functions.

Current Status: Overpayment was refunded to the grantor in August 2012.

SECTION IV - STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS (Continued)

Finding 2011-06 **Youth Low-Income Eligibility Documentation**

CFDA Number: 17.259
CFDA Title: ARRA - Workforce Investment Act
Federal Agency: Department of Labor
Pass-Through Agency: State of California Employment Development Department

Criteria: To be eligible for Workforce Investment Act youth programs participants must meet low-income requirements defined in the Workforce Investment Act Eligibility Technical Assistance Guide. Participants must provide adequate documentation to support low-income status including, but not limited to pay stubs, bank statements, public assistance records, and/or unemployment records.

Condition: During our Workforce Investment Act eligibility testing we noted that for two out of the six youth participants tested a signed applicant affidavit was the only low-income supporting documentation. Applicant statements are not listed as adequate documentation in the Workforce Investment Act Eligibility Technical Assistance Guide. We also noted that the State performed a monitoring visit and reported deficiencies in youth low-income eligibility documentation in its letter to the City dated May 18, 2011.

Effect: The City is not in compliance with the low-income documentation requirements of the Workforce Investment Act Technical Assistance Guide. Although, the participants are required to be eligible to participate, they do not receive stipends or other supportive services payments from the program, therefore we do not question costs associated with the noncompliance.

Cause: City believed that a signed applicant affidavit was sufficient to meet documentation requirements.

Recommendation: City should continue with the Corrective Action Plan implemented in response to the State Monitoring Report and obtain sufficient low-income documentation to support the eligibility of participants.

View of Responsible Officials and Planned Corrective Actions:

Contact person: Jill Perry, Employment & Training Finance Manager, (510) 307-8012

Corrective action: The City has implemented the Corrective Action Plan as noted in response to the State Monitoring Report, and is currently obtaining sufficient low-income documentation to support the eligibility of participants. The Workforce Investment Board has adopted a revised policy and new standardized forms designed to more effectively maintain compliance with this regulation. Additionally, the staff has received training in order to fully implement this revised policy.

Current Status: Procedures were established in Employment & Training to verify eligibility. However, see Finding 2012-02.

SECTION IV - STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS (Continued)

Finding 2011-07 **Cash Management - Draw Down of HOME Investment Partnerships Program Funds**

CFDA Number: 14.239
CFDA Title: HOME Investment Partnerships Program
Federal Agency: Department of Housing and Urban Development

Criteria: In accordance with 24 Code of Federal Regulation (CFR) Section 92.502 HOME funds drawn from the United States Treasury account must be expended for eligible costs within fifteen days.

Condition: The City drew down HOME Investment Partnerships Program monies of \$277,354 on September 16, 2010 for the Filbert Townhomes Project. Expenditures in the amount of \$134,282 were disbursed on September 30, 2010 which is within the fifteen day requirement; however the remaining \$143,072 consisted of payments not disbursed until July 2011, December 2011 and February 2012 which is well over fifteen days. We also noted that eligible payroll and Community Housing Development Organization expenditures amounting to \$42,315 were not drawn down in the current year.

Effect: The City is not in compliance with 24 CFR Section 92.502.

Cause: Due to the City's limited staff and the need to pay for the acquisition of properties related to the HOME program caused the City to mistakenly draw down the monies in advance.

Recommendation: The City should expend drawn down funds within fifteen days in order to be in compliance with the CFR and develop procedures to ensure draw downs are consistent with actual current year expenditures. The City should work with the grantor to determine whether interest earned on the advanced funds need to be returned to the grantor.

View of Responsible Officials and Planned Corrective Actions:

Contact persons: Patrick Lynch, RCRA Housing Division Director (510)412-2053
 Ana Cortez, Community Development Program Manager (510)231-3079

Corrective action: The City will develop procedures to ensure that we expend draw down funds from HOME Investment Partnership Program within fifteen days in compliance with 24 CFR Section 92.502. The Senior Accountant will coordinate with the Community Development Program Manager to ensure that funds drawn are reconciled and consistent with the actual recorded current year expenditures in the general ledger.

Current Status: The Corrective Action has been implemented by segregating the account voucher report and approval process in IDIS. Vouchers for drawdown are approved after ensuring that the expense has been incurred within the time frame stipulated. The City is continuing to work on determining if interest earned needs to be returned to the vendor.

See also 2012-05.

SECTION IV - STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS (Continued)

Finding 2011-08 Annual Filing of HUD 60002 Performance Report

CFDA Number: 14.239
CFDA Title: Home Investment Partnerships Program
Federal Agency: Department of Housing and Urban Development

Criteria: Section L(2) Performance Reporting of the OMB Circular A-133 Compliance Supplement for the HOME Investment Partnerships Program requires the annual filing of the HUD 60002 Section 3 Summary Report for each grant over \$200,000 that involves housing rehabilitation, housing construction, or other public construction.

Condition: The City was required to file a fiscal year 2011 HUD 60002 report for the Filbert Townhomes and Lillie Mae Jones projects. The City filed the HUD 60002 report for the Filbert Townhomes project, but not for the Lillie Mae Jones project.

Effect: The City is not in compliance with the performance reporting requirements of the program.

Cause: The City of Richmond/Redevelopment Agency Development Project Managers are aware of the submittal of the HUD 60002 Section 3 Summary Report, but the Lillie Mae Jones Project Manager resigned before completing the report.

Recommendation: The City should ensure that all performance reports are filed on an annual basis in accordance with the requirements of the program requirements.

View of Responsible Officials and Planned Corrective Actions:

Contact persons: Patrick Lynch, RCRA Housing Division Director (510) 412-2053
 Ana Cortez, Community Development Program Manager (510) 231-3079
 Charice Duckworth, Development Project Manager (510) 412-2052

Corrective action: The new Project Manager is currently verifying information to complete and submit the 2011 HUD 60002 Report for the Lillie Mae Jones project.

Current Status: See 2012-07

SECTION IV - STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS (Continued)

Finding 2011-09 **Unallowable Payroll and Fringe Benefit Costs Charged to Grant**

CFDA Number: 16.710
CFDA Title: ARRA - Public Safety Partnership and Community Policing Grants
Federal Agency: Department of Justice

Criteria: Under the ARRA COPS Hiring Recovery Program grant agreement and the OMB Circular A-133 Compliance Supplement Agency Program Requirements, allowable costs for the grant include entry-level salaries and fringe benefits based on the City's actual entry-level sworn officer salary and fringe benefit costs that are identified on the Final Financial Clearance Memorandum that was sent to the City. Any additional costs for higher than entry-level salaries and fringe benefits will be the responsibility of the City.

Condition: As noted in prior year finding 2010-01, the City charged salary and fringe benefit amounts to the grant that were above the entry level amounts included in the Final Financial Clearance Memorandum and had eligible costs that were not charged to the grant. The net amount questioned in the prior year was \$74,115. Due to the timing of that finding, the City continued to charge amounts in excess of the limits in the first and second quarters of fiscal year 2011 totaling \$95,887. The City reduced its third quarter drawdown by \$100,091 to return some of the excess charges to the grant. However, the fourth quarter drawdown was not reduced by the remaining balance of ineligible costs of \$69,911. In addition, we noted that it appears that the City is paying fringe benefits at a rate slightly less than that anticipated in the Final Financial Clearance Memorandum, but is not reducing the charges to the grant by that savings.

Questioned Costs: We question costs of \$69,911, which consist of the net ineligible costs left to be returned to the grantor.

Effect: The City is not in compliance with the allowable cost provisions of the grant agreement and the Agency Program Requirements.

Cause: City staff believed that all payroll expenses, excluding overtime, were allowable expenditures under the grant. The year two entry level fringe benefit costs authorized in the Final Financial Clearance Memorandum are based on budgeted data and the actual fringe benefit costs were not consistent with the amounts authorized in the Final Financial Clearance Memorandum.

Recommendation: The City should reduce future grant drawdowns by the \$69,911 of ineligible costs remaining to be returned and should calculate the fringe benefits paid for each employee charged to the grant to determine if there additional ineligible costs or if a grant award modification request should be submitted in accordance with the COPS Hiring Recovery Program Grant Terms and Conditions 7.

View of Responsible Officials and Planned Corrective Actions:

Contact person: Lt. Charles Whitney, Police Officer, (510) 621-1816

Corrective action: The City deducted over \$100k from the reimbursement requested in April 2011. The auditors are still questioning \$69,911 in costs, so the City will review the costs again and deduct those costs from the next reimbursement scheduled for April 2011 if applicable.

Current Status: The unallowed amount was deducted from a subsequent reimbursement request and the City has analyzed costs to date and they have been trued-up to only include allowable costs.

SECTION IV - STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS (Continued)

Finding 2011-10 Accurate Preparation of Reimbursement Requests

CFDA Number: 20.205
CFDA Title: ARRA - Highway Planning and Construction Cluster
Federal Agency: Department of Transportation
Pass Through Entity: State of California Department of Transportation

Criteria: The City should submit accurate reimbursement requests for expenses incurred and paid during the course of the grant period authorized by the awarding agency. The California Department of Transportation requires that reimbursement requests include cumulative data for each grant, so that grant drawdowns are only requested for the change in cumulative federal expenditures.

Condition: During our tests of reimbursement requests for the Transportation for Livable Communities Downtown Pedestrian Bicycle Enhancement project we found that the City had inaccurately prepared reimbursement request #2 by using \$1,120,757 as the total costs as opposed to \$1,089,184. The \$31,573 difference was due to a partial retention release payment that was double counted in calculating the cumulative project costs. In addition, the \$31,753 had been included and reimbursed on the previous request.

Effect and Questioned Costs: The City was reimbursed for 88.53% of the \$31,573 retention release payment twice therefore we question costs of \$27,951.

Cause: The City believed that the retention was not part of the total costs and needed to be added back to accurately reflect project costs.

Recommendation: The City should return the \$27,951 to the grantor by correcting the error on the next reimbursement request, and should work with the grantor to determine if interest earned on the funds needs to be returned to the grantor. In addition, reimbursement requests should be reviewed in detail and compared to the supporting contractor invoices to ensure they are prepared accurately.

View of Responsible Officials and Planned Corrective Actions:

Contact person: Michael Williams, Project Manager, (510) 307-8147

Corrective action: Staff will research to confirm the veracity of the auditor’s finding, and if correct, will work with the grantor to have the amount in question deducted from the amount of the currently unpaid last invoice if feasible. If not, staff will work through the Finance Department to return the over billing error to the grantor. Future invoices shall be reviewed in detail to ensure they are prepared accurately.

Current Status: The City will follow the Standard Operating Procedure in preparing accurate reimbursement requests.

The City will ensure the overbilling has been returned to the grantor.

SECTION IV - STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS (Continued)

Finding 2011-11 **Accurate Preparation of Schedule of Expenditures of Federal Awards**

CFDA Number: 20.205
CFDA Titles: ARRA - Highway Planning & Construction
Federal Agencies: Department of Transportation
Pass Through Entity: State of California Department of Transportation

Criteria: Section 301 of OMB Circular A-133 requires that the City report all federal expenditures in the Schedule of Expenditures of Federal Awards (SEFA) each fiscal year, using the same accounting basis as the City's financial statements.

Condition: The City's funds that account for grant activity in the financial statements use the modified accrual basis of accounting, which means the expenditure transactions applicable to the reporting period that occur within 60 days after the end of the fiscal year are accrued and recorded as expenditures in that same fiscal year. During our testing of the reimbursement requests we noted that \$182,811 of prior fiscal year expenditures had been requested for reimbursement and although these expenditures were properly recorded in the City's accounts payable prior year balance, they were not reported on the prior or current fiscal year SEFA that was provided for audit.

Cause: City staff did not report the \$182,811 of expenditures on the June 30, 2010 SEFA, because they had not been requested for reimbursement prior to June 30, 2010 and staff was not aware that they should be preparing the SEFA on the modified accrual basis of accounting.

Effect: The City is not in compliance with Section 301 of OMB Circular A-133.

Recommendation: The City should ensure that the SEFA is prepared using the modified accrual basis of accounting, consistent with the accounting basis of the funds used to report the grant activity. In addition, the City should develop procedures to ensure that year end expenditure accruals are included in a grant drawdown within the same accrual period to provide proper matching of grant revenues and expenditures in the same reporting period. In the event grant drawdowns are not matched with expenditures in the same period, the information should be included on the subsequent SEFA.

View of Responsible Officials and Planned Corrective Actions:

Contact person: Michael Williams, Project Manager, (510) 307-8147

Corrective action: Staff will work through the Finance Department to ensure that the auditor's recommendation regarding the use of the SEFA for consistency in accounting is followed. This work will also include developing procedures that will assure proper matching of grant revenues and expenditures in the same reporting period.

Current Status: Based on correspondence received from the Department of Transportation dated December 6, 2012, they have determined that this finding has been resolved. However, see 2012-01.

SECTION IV - STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS (Continued)

Finding 2011-12 **Grant Award Documents**

CFDA Number: 14.218
CFDA Titles: Community Development Block Grant/Entitlement Grant
Federal Agencies: Department of Housing and Urban Development

Criteria: Section 8 of the Community Development Block Grant (CDBG) Funding Approval/Agreement (B-09-MC-0015) dated July 1, 2009 between the City and the Department of Housing and Urban Development contains Special Conditions that the City must also comply with.

Condition: During our testing of the CDBG program, we were unable to review the Special Conditions of the agreement. While normally the Special Conditions only applies to planning and construction of water or sewer facilities projects, the City's 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.

Cause: City staff was unable to locate the second page of the agreement and could not provide a response to the Special Conditions noted in the agreement.

Effect: The City's auditors were unable to test and verify if the City was in compliance with the Special Conditions noted in the CDBG agreement.

Recommendation: City staff should take steps to request the second page of the agreement from the grantor and ensure that complete documentation is maintained for future grants.

Contact person: Ted Ferrer, RCRA Senior Accountant, (510) 307-8124

Corrective action: Steps have been taken to ensure that the Program Manager request the second page of the grant agreement from the grantor for the 2009 and 2010 grant years. Procedures are being put in place to ensure that this won't happen again with future grant agreements.

Current Status: Staff was able to obtain page 2 of the Agreement.

SECTION IV - STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS (Continued)

Finding 2010-01 **Unallowable Payroll and Fringe Benefit Costs Charged to Grant**

CFDA Number: 16.710
CFDA Title: Public Safety Partnership and Community Policing Grants
Federal Agency: Department of Justice

Criteria: Under the ARRA COPS Hiring Recovery Program grant agreement and the OMB Circular A-133 Compliance Supplement Agency Program Requirements, allowable costs for the grant include entry-level salaries and fringe benefits based on the City's actual entry-level sworn officer salary and fringe benefit costs that are identified on the Final Financial Clearance Memorandum that was sent to the City. Any additional costs for higher than entry-level salaries and fringe benefits will be the responsibility of the City.

Condition: The City charged salary and fringe benefit amounts to the grant that were above the entry level amounts included in the Final Financial Clearance Memorandum totaling \$89,464. These salary and fringe benefit amounts are ineligible costs, which were comprised of an employee signing bonus, shift differential pay and uniform allowance pay. In addition, the City had eligible payroll and fringe benefit costs in the first quarter of the grant in the amount of \$15,349 that were not drawn down from the grant. The ineligible and eligible costs were not discovered by the City during the review of the grant drawdown requests.

Questioned Costs: We question costs of \$74,115, which consist of the ineligible costs less the eligible costs listed above.

Effect: The City is not in compliance with the allowable cost provisions of the grant agreement and the Agency Program Requirements.

Cause: City staff believed that all payroll expenses, excluding overtime, were allowable expenditures under the grant.

Recommendation: The City should contact the grantor to determine whether future grant drawdowns can be reduced by the ineligible costs or if the funds need to be returned to the grantor. The City should ensure that all future grant drawdowns are only for eligible costs under the specific grant agreement, Agency Program Requirements and the OMB Circular A-87 (Cost Circular). In addition, all staff responsible for creating reimbursement requests should be made aware of specific grant limitations and all reimbursement requests should be reviewed in detail by a second employee prior to submission to ensure that only eligible costs are being requested.

Contact Person: Connie Valentine, Senior Budget Analyst, (510) 620-6701

Management's Response: The City concurs and has been in contact with the grantor. The City will work with the grantor to calculate the actual amount due back to the grantor and this amount will be deducted from the next grant drawdown in April 2011. In addition, the City will develop procedures for preparing the draw downs to make sure only allowed amounts are requested.

SECTION IV - STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS (Continued)

Finding 2010-01 Unallowable Payroll and Fringe Benefit Costs Charged to Grant (Continued)

Current Status: The City worked with the grantor. The amounts were recalculated and the total overage was deducted from the reimbursement requested in April 2011. See also Finding 2011-09.

Finding 2010-02 Inventory of Capital Assets Acquired with Federal Funds

CFDA Number: 16.710
CFDA Title: Public Safety Partnership and Community Policing Grants
Federal Agency: Department of Justice

Criteria: Common Rule A-102 requires that federally funded equipment records be maintained, a physical inventory of equipment be taken at least every two years and reconciled to equipment records, an appropriate control system be used to safeguard equipment, and equipment be adequately maintained.

Condition: The City has not performed a physical inventory of federally funded capital assets in at least the past two years.

Effect: The City is not in compliance with the equipment management requirements of Common Rule A-102.

Cause: Although City staff indicated that they were aware of the requirement, the City has also indicated that it lacked the funds to pay for an inventory count.

Recommendation: The City should establish procedures to account for federally funded capital assets including the completion of a physical inventory at least every two years and earmarking of assets purchased with Federal funds. The City should also reconcile the federally funded capital asset inventory to the City's equipment records. This inventory count should not require the use of outside resources and instead could be the responsibility of the individual departments of the City, coordinated through the capital asset accounting function of the City's Finance Department.

Contact person: Crispin Nunez, Accountant II - (510) 620-6596

Management's Response: The department does not currently have the resources to perform this function. The City does not have an Inventory Management Specialist and therefore does not have anyone to oversee department capital assets inventories. The Finance Department will be requesting appropriations to be aside for a 3rd party firm to come in and conduct a citywide inventory. Once assets have been properly identified by department, staff will look at integrating the information into the MUNIS system to be used for individual departmental inventories.

Current Status: Policy and procedure is now in place and being implemented.

SECTION IV - STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS (Continued)

Finding 2010-06 **Accurate Preparation and Review of IDIS Financial Summary Report (Continued)**

Current Status: The City of Richmond, RCRA/Housing staff continues to work with HUD /IDIS Consultant to revise PR26 and create protocols to support this report in the future.

The Senior Accountant of the City of Richmond will coordinate with the City of Richmond Community Development Program Manager to reconcile the PR26 with the general ledger to ensure accuracy of the reports prior to the finalization.

See also 2012-03.

Finding 2010-09 **Supporting Documentation for Administrative Expenses Charged to the Grant**

CFDA Number: 12.612
CFDA Title: Community Base Reuse Plans, Project Grant/Cooperative Agreement – Naval Fuel Depot Point Molate Pollution Remediation Grant
Federal Agency: Department of Defense, Department of the Navy

Criteria: Section 802 of the City's Early Transfer Cooperative Agreement (ETCA) for the Naval Fuel Depot Point Molate Pollution Remediation project indicates that the agreement is to be administered according to the following authorities: Department of Defense Directive 3210.6; the Uniform Administrative Requirements for Grants and Cooperative Agreements; other applicable portions of Title 32 of the Code of Federal Regulations; and pertinent OMB Circulars. The ETCA does not specifically provide for funding administrative costs the City may incur during the course of the project, but it appears those costs would be subject to the allowability and limitations included in the authorities listed above.

The City entered into a Remediation Agreement with a developer under which the developer is to complete the cleanup on behalf of the City in accordance with the requirements of the ETCA. Section 503 of the Remediation Agreement indicates that the City and the developer are entitled to reimbursement for administrative costs incurred whether before or after the execution of the ETCA or the Remediation Agreement in the amounts of \$630,000 for the City and \$170,000 for the developer. However, OMB Circular A-87 states that pre-award costs are allowable only to the extent they would have been allowable if incurred after the date of the award and only with the written approval of the awarding agency.

Condition: As discussed in finding 2010-08, the City received an advance of grant funds in April 2010 and deposited the funds in an escrow account. In April 2010, the City drew down from the escrow account the entire amount of the administrative costs allowable under the Remediation Agreement for the City of \$630,000 and \$170,000 for the developer. However, City staff was unable to provide documentation as to whether the amounts drawn down were reimbursement for costs incurred or, if they were for costs prior to the award date, whether the grantor had approved the costs.

SECTION IV - STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS (Continued)

Finding 2010-09 Supporting Documentation for Administrative Expenses Charged to the Grant (Continued)

Effect: The City does not appear to be in compliance with requirements in OMB Circular A-87 or the requirements of the Remediation Agreement.

Questioned Costs: We question the costs of \$800,000, because the City was unable to provide documentation supporting whether the costs were for reimbursement of eligible costs incurred or specifically approved by the grantor.

Cause: City staff drew down the funds in accordance with the amounts included in the Remediation Agreement, and was unable to locate documentation of whether these amounts were allowable under the ETCA.

Recommendation: The City should determine whether the grant funds drawn down for administrative costs were for reimbursement of costs incurred and whether they are allowable under the authorities listed in Section 802 of the ETCA, or if the grantor specifically approved the costs. If the City is unable to determine that the costs were in compliance with the items noted above, the City and the developer should return the \$800,000 to the escrow account. In the future, the City should only request reimbursements for actual costs incurred.

Name of contact person: LaShonda White, Management Analyst, (510) 620-6828

Management's Response: Staff will review the expenditures to ensure that the grant funds drawn down were allowable and will adjust the escrow account if necessary,

Current Status: Staff is continuing to pursue this issue. The City received \$630,000 as reimbursement for legal expenses, which totaled over \$670,000 and were incurred to help the City in facilitating the Navy's early transfer of Pt. Molate. City staff provided back-up documentation to the navy for review and asked the Navy to provide a response in writing stating that the expenses and reimbursements were allowable. City staff is currently awaiting a response from the Navy.

Finding 09-02 Accurate Preparation and Review of IDIS Financial Summary Report

CFDA Number: 14.218

CFDA Title: Community Development Block Grants / Entitlements Grants

Federal Agency: Department of Housing and Urban Development

Criteria: The City is required to file an annual Financial Summary Report (PR26) using the Housing and Urban Development's Integrated Disbursement and Information System (IDIS) that contains accurate financial information. In addition, in accordance with the OMB Circular A-133 compliance supplement, the PR26 is to be included in the annual performance and evaluation report that must be submitted for the CDBG entitlement program 90 days after the end of the program year.

SECTION IV - STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS (Continued)

Finding 09-02 Accurate Preparation and Review of IDIS Financial Summary Report (Continued)

Condition: The City's PR26 for the program year 2008, which includes the activity for fiscal year 2009, reported a zero balance on line 01, Unexpended CDBG Funds at End of Previous Program Year, and a zero balance on line 05, Current Year Program Income, however the balances should have been \$1.1 million and \$123 thousand, respectively. In addition, line 15 of the PR26, Total Expenditures, did not agree to the City's actual program year expenditures by \$62 thousand due to the coding of a program draw down as a prior year, rather than current year expenditure. Both line 01 and line 05 feed into other calculations in the PR26, and line 15 feeds into the calculation of the ending unexpended balance to be used on the subsequent year's PR26.

Effect: The City is not reporting complete and accurate information to the awarding agency which could impact future grant funding.

Cause: Due to attrition of CDBG/HOME staff and the IDIS system converting from a DOS based system to an internet based reporting and draw down system, current staff is still becoming familiar with the new system.

Recommendation: The City should ensure that all reports filed with the awarding agency are reviewed for accuracy and approved by someone other than the preparer. Those reports should be reconciled with the activity in the City's general ledger to further ensure accuracy.

Name of Contact person: Ted Ferrer, RCRA Senior Accountant (510) 307-8124

Management's Response: The City of Richmond/Redevelopment Agency has a HUD/IDIS consultant to train staff on the steps needed in the new system to properly generate all necessary HUD reports and to enhance the City of Richmond/Redevelopment Agency existing reports. The City of Richmond/Redevelopment Agency staff is in the process of developing more accurate drawdown schedules for faster drawdown of funds and staff is working with the consultant to develop better backup documentation for reporting requirements.

Current Status: RCRA staff is adhering to the process. Staff continues to work with the HUD/IDIS consultant and has enhanced the accuracy of the drawdown reports.

See also 2012-03.

SECTION IV - STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS (Continued)

Finding 09-04 **Certification of Accounting System**

CFDA Number: 11.307
CFDA Title: Economic Adjustment Assistance
Federal Agency: Department of Commerce – Economic Development Administration (EDA)

Criteria: Part II (C)(2)(a)(ii) of the Economic Adjustment Assistance Grant Agreement and the Loan Requirements section of the OMB Circular A-133 Compliance Supplement for the program require that within sixty days prior to the initial disbursement of EDA funds, the City certify to the EDA and to recipients of the grant funding that the City’s accounting system is adequate to identify, safeguard and account for all Revolving Loan Funds (RLF) capital, outstanding RLF loans and other RLF operations.

Condition: The City could not provide us with documentation showing that the certifications were sent to the EDA or to the recipients of the grant funding.

Effect: The City is not in compliance with the terms of the grant agreement and the Compliance Supplement.

Cause: The grant was originally awarded to the Greater Richmond Community Development Corporation (GRCDC). When this nonprofit went out of business, the City of Richmond/Redevelopment Agency continued the revolving loan fund program. A check along with the loan files were turned over to the City. The Department of Commerce – EDA was aware of the transition of the grant to the City of Richmond/Redevelopment Agency. The City of Richmond/Redevelopment Agency was not aware that they had to retain GRCDC documentation of certification or have documentation of certification for the City of Richmond/Redevelopment Agency.

Recommendation: Although the City was not the initial recipient of the funding, when the City receives grant funding the grant requirements should be read in detail to ensure that the City is in compliance with all applicable requirements. Any requirements that are not applicable should be documented and retained in the grant file. The City should determine whether the certifications were filed with the EDA and recipients of the grant funding. In the future, the City should also retain all documentation required by an awarding agency to show that the City is in compliance with the terms of the grant agreement and the Compliance Supplement.

Name of Contact person: Ted Ferrer, RCRA Senior Accountant (510) 307-8124

Management’s Response: The City of Richmond/Redevelopment Agency has contacted the Department of Commerce-EDA to obtain the necessary steps to receive the certification. Also, the Department of Commerce-EDA suggested that the City of Richmond/Redevelopment Agency contact other cities in the area that have a similar program to obtain the information on the audit firms these cities used to receive their certification.

SECTION IV - STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS (Continued)

Finding 09-04 Certification of Accounting System (Continued)

Current Status: Staff spoke with Elizabeth Delgado, EDA-RLF manger at the City of Berkeley regarding audit firms used to receive their certification. Ms. Delgado informed us that to her knowledge the City of Berkeley is not required to submit a certification that the City’s accounting system is adequate to identify, safeguard and account for all Revolving Loan Funds (RLF) capital, outstanding RLF loans and other RLF operations. Ms. Delgado stated that the City of Berkeley EDA-RLF s audited each year as part of the city audit. A copy of the audit is submitted to the Department of Commerce – Economic Development Administration.

Finding 09-05 Fidelity Bond Coverage for Employees

CFDA Number: 11.307
CFDA Title: Economic Adjustment Assistance
Federal Agency: Department of Commerce – Economic Development Administration (EDA)

Criteria: Part II (C)(2)(a)(i) of the Economic Adjustment Assistance Grant Agreement states the City should have “fidelity bond coverage for persons authorized to handle funds under this Award in an amount sufficient to protect the interest of EDA and the RLF.” This coverage is to exist at all times during the duration of the Revolving Loan Fund’s (RLF) operation.

Condition: The City was unable to provide evidence that the City has the proper fidelity bond coverage for employees handling the grant funds associated with the RLF program.

Effect: The City is not in compliance with the grant program and is not protecting the assets of the awarding agency.

Cause: The grant was originally awarded to the Greater Richmond Community Development Corporation (GRCDC). When this nonprofit went out of business, the City of Richmond/Redevelopment Agency continued the revolving loan fund program. A check along with the loan files were turned over to the City. The Department of Commerce – EDA was aware of the transition of the grant to the City of Richmond/Redevelopment Agency. The City of Richmond/Redevelopment Agency was not aware that they had to obtain fidelity bond coverage for all employees involved with the RLF program.

Recommendation: Although the City was not the initial recipient of the funding, when the City receives grant funding the grant requirements should be read in detail to ensure that the City is in compliance with all applicable requirements. The City should purchase the required fidelity bond coverage policies for applicable employees involved with the RLF program. In the future, the City should review all grant award documents and applicable federal regulations to ensure that it maintains compliance with all requirements.

SECTION IV - STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS (Continued)

Finding 09-05 Fidelity Bond Coverage for Employees (Continued)

Name of Contact person: Ted Ferrer, RCRA Senior Accountant (510) 307-8124

Management's Response: The City of Richmond/Redevelopment Agency has contacted the Department of Commerce-EDA to take the necessary steps to obtain fidelity bond coverage. Also, the Department of Commerce-EDA stated that the City of Richmond/Redevelopment Agency attorney(s) should know how to obtain fidelity bond coverage. The City of Richmond/Redevelopment Agency staff and attorney(s) are in the process of obtaining the fidelity bond coverage.

Current Status: Staff discussed this finding with Linda O'Rourke, Project Manager Department of Commerce – Economic Development Administration. Ms. O'Rourke is not aware of the requirement for a Fidelity Bond from any cities with EDA-RLF grants. In addition, Staff spoke with the Elizabeth Delgado, EDA-RLF at the City of Berkeley regarding the requirement for a Fidelity Bond. The City of Berkeley is not required to carry a Fidelity Bond. They suggested that the requirement for a Fidelity Bond and certification for accounting system certification were requirements for the former grantee, Greater Richmond Community Development Corporation (GRCDC).

Finding 08-06 Inventory of Capital Assets Acquired with Federal Funds

CFDA Number: 97.056 and 97.044

CFDA Title: Transportation Security Administration Port Security Grant Program and Department of Homeland Security Assistance to Firefighters

Federal Agency: Department of Homeland Security

Criteria: Common Rule A-102 requires that federally funded equipment records be maintained, a physical inventory of equipment be taken at least every two years and reconciled to equipment records, an appropriate control system be used to safeguard equipment, and equipment be adequately maintained.

Condition: The City has not performed a physical inventory of federally funded capital assets in the past two years.

Effect: The City is not in compliance with the equipment management requirements of Common Rule A-102.

Cause: City staff was not aware of the biennial requirement for a physical inventory of federally funded equipment.

Recommendation: The City should establish procedures to account for federally funded capital assets including the completion of a physical inventory at least every two years and earmarking of assets purchased with Federal funds. The City should also reconcile the federally funded capital asset inventory to the City's equipment records.

SECTION IV - STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS (Continued)

Finding 08-06 Inventory of Capital Assets Acquired with Federal Funds (Continued)

Management's Response: In order to aid Grant staff with the tracking and disposal of Fixed Assets purchased with Federal Grants funds, the AIF (Asset Information Form) will be revised to indicate a Grant source of funding code. Departmental staff will be responsible for indicating on the form before submitting to the Finance Accounting staff that an asset has been purchased using Federal \$\$\$. In order to facilitate Grant staff with reporting requirements; user defined codes will be set-up in the fixed assets module to identify those particular assets as indicated on the form. Once disposed of, the Department staff will be responsible for notifying the accounting staff and Grant staff that the equipment has been disposed of. The City has appropriated monies in the 09/10 budget for a City-wide inventory.

Current Status: The AIF (Asset Information Form) has been revised to indicate a Grant source of funding code for Capital Assets. Departments are responsible for filling out AIF and submitting it to the Fixed Asset Accountant. However, the required physical inventories have not taken place.

See Finding 2010-02.

CITY OF RICHMOND
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2012

Federal Grantor/ Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Federal and Pass-Through Identifying Number	Federal Expenditures
Department of Housing and Urban Development Direct Programs			
Community Development Block Grant Entitlement Grants Cluster			
Community Development Block Grants/Entitlement Grants			
Program expenditures	14.218	B-09-MC-0015	\$209,581
Program expenditures	14.218	B-10-MC-0015	1,307,975
Loan program cash balance at the end of the year	14.218	B-10-MC-0015	884,343
Neighborhood Stabilization Program:			
Program expenditures	14.218	B-08-MN-060015	819,904
Community Development Block Grant ARRA Entitlement Grants (CDBG-R)			
ARRA - Program expenditures	14.253	B-09-MY-06-0015	<u>14,152</u>
Subtotal Community Development Block Grant Entitlement Grants Cluster			<u>3,235,955</u>
HOME Investment Partnerships Program			
Program expenditures	14.239	M-12-MC-060209	577,799
Cash balance at year end	14.239	M-12-MC-060209	<u>470,077</u>
Subtotal HOME Investment Partnerships Program Grants			<u>1,047,876</u>
Homelessness Prevention and Rapid Re-Housing Program (HPRP)			
ARRA - Program expenditures	14.257	S-09-MY-060015	<u>146,050</u>
Total Department of Housing and Urban Development			<u>4,429,881</u>
Department of Labor, Employment Training Administration			
Direct Program			
YouthBuild	17.274	YB-19119-09-60-A-6	<u>19,424</u>
Workforce Investment Act - Pilots, Demonstrations and Research Projects			
Direct Program			
George Miller Earmark	17.261	EA-21333-11-60-A-6	520,084
Pass-Through Program From:			
City of Emeryville			
Green Corridor Earmark	17.261	EA-21469-11-60-A	<u>117,795</u>
Subtotal Workforce Investment Act - Pilots, Demonstrations and Research Projects			<u>637,879</u>
Workforce Investment Act Cluster			
Pass-Through Programs From:			
State of California Employment Development Department			
Workforce Investment Act - Adult	17.258	K282493	336,112
Workforce Investment Act - Adult	17.258	K178678	63,937
Workforce Investment Act - Youth	17.259	K282493	305,116
Workforce Investment Act - Youth	17.259	K386315	92,595
Workforce Investment Act - Dislocated Worker	17.278	K178678	65,829
Workforce Investment Act - Dislocated Worker	17.278	K282493	246,469
Workforce Investment Act - Dislocated Worker Rapid Response	17.278	K282493	108,891
Workforce Investment Act - Dislocated Worker Title I Rapid Response	17.278	K178678	546,417
Workforce Investment Act - 15% Adult Special Projects	17.258	K178678	5,625
ARRA - Workforce Investment Act - Title I Nat'l Emergency Grants - ARRA OJT	17.260	K074159	31,366
Workforce Investment Act - Dislocated Worker Title I Nat'l Res. Emergency DOL Funded OJT	17.278	K282493	208,213
Workforce Investment Act - Adult Green Jobs Innovation 15%	17.258	K178678	206,152
Workforce Investment Act - Adult CTE 61.60	17.258	K178678	192,219
Oakland Private Industry Council			
Workforce Investment Act - 5% Adult Special Projects	17.258	11-GRIP-Rich	26,067
South Bay Workforce Investment Board			
Workforce Investment Act - Title I NEG OJT (Multi-Sector)	17.278	none	<u>127,303</u>
Subtotal Workforce Investment Act Cluster			<u>2,562,311</u>
Total Department of Labor, Employment Training Administration			<u>3,219,614</u>

(Continued)

CITY OF RICHMOND
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2012

Federal Grantor/ Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Federal and Pass-Through Identifying Number	Federal Expenditures
Department of Energy Direct Programs			
ARRA - Energy Efficiency and Conservation Block Grant Program	81.128	DE-SC0002135	391,756
Department of Energy Pass-Through Programs From:			
California Energy Commission			
State Energy Program			
ARRA - Clean Energy Workforce Category 2	81.041	K284532-156	<u>301,874</u>
Total Department of Energy			<u>693,630</u>
Environmental Protection Agency Direct Programs			
Environmental Workforce Development and Job Training Cooperative Agreements			
ARRA - Brownfields Job Training Cooperative Agreements	66.815	2J-T0032101	149,326
Environmental Workforce Development and Job Training Cooperative Agreements	66.815	JT-00T63301-0	<u>112,798</u>
Subtotal Environmental Workforce Development and Job Training Cooperative Agreements			<u>262,124</u>
Brownfield Assessment and Cleanup Cooperative Agreements			
Brownfields Cleanup Cooperative Agreement	66.818	BF-96988101	308,517
Brownfields Revolving Loan Fund	66.818	BF-96917201	<u>597,660</u>
Subtotal Brownfield Assessment and Cleanup Cooperative Agreements			<u>906,177</u>
Total Environmental Protection Agency			<u>1,168,301</u>
Department of Justice Direct Programs			
Public Safety Partnership and Community Policing Grants			
ARRA - COPS Hiring Recovery Program Grant - Hire 8 Police Officers	16.710	2009RK WX0094	<u>1,325,784</u>
Department of Justice Pass-Through Programs From:			
Contra Costa County Sheriff's Department			
Edward Byrne Memorial Justice Assistance Grant Program			
2009 JAG Grant	16.804	2009DJBX0348	124,241
ARRA - Law Enforcement Programs- Recovery JAG	16.804	2009SBB92404	67,908
2010 JAG Grant	16.804	2010DJBX0341	<u>21,768</u>
Subtotal Edward Byrne Memorial Justice Assistance Grant Program			<u>213,917</u>
State of California Office of Emergency Services			
Violence Against Women Formula Grants			
ARRA - Domestic Violence and Sexual Assault- Family Services III	16.588	LE09027830	95,487
ARRA - Family Services IV	16.588	LE11047830	<u>95,079</u>
Subtotal Violence Against Women Formula Grants			<u>190,566</u>
Total Department of Justice			<u>1,730,267</u>
Department of Transportation Direct Programs			
Capital Assistance Program for Elderly Persons and Persons with Disabilities			
Federal Transportation Administration's Elderly & Disabled Specialized Transit Program	20.513	55-3G046	<u>289,603</u>
Department of Transportation Pass-Through Programs From:			
State of California Department of Transportation			
Highway Planning and Construction			
Nevin Pedestrian Plaza	20.205	CML-5137 (036)	167,559
ARRA - Carlson Blvd. Project	20.205	ESPL-5137(037)	154,113
Wharf Street Quiet Zone	20.205	STPLR 7500(122)	59,935
Greenway Phase II - FY11 Expenditures	20.205	CML-5137 (035)	<u>58,675</u>
Subtotal Highway Planning and Construction			<u>440,282</u>

(Continued)

CITY OF RICHMOND
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2012

Federal Grantor/ Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Federal and Pass-Through Identifying Number	Federal Expenditures
Department of Transportation Pass-Through Programs From:			
State of California Office of Traffic Safety			
Minimum Penalties for Repeat Offenders for Driving While Intoxicated Sobriety Checkpoint Mini-Grant Program	20.608	SC12343	<u>6,750</u>
San Francisco Bay Area Rapid Transit District			
Federal Transit Cluster			
Federal Transit - Capital Investment Grants			
Metrowalk - FY2012 Expenditures	20.500	CA-04-0043-00, CA-04-0126-00	2,699,931
Metrowalk - FY2011 Expenditures	20.500	CA-04-0043-00	1,139,801
Metrowalk - FY2010 Expenditures	20.500	CA-04-0043-00	330,653
Federal Transit - Formula Grants (Urbanized Area Formula Program)			
CMAQ Metrowalk - FY2012 Expenditures	20.507	CA-95-X095-00	4,063,769
CMAQ Metrowalk - FY2011 Expenditures	20.507	CA-95-X095-00	<u>256,231</u>
Subtotal Federal Transit Cluster			<u>8,490,385</u>
Total Department of Transportation			<u>9,227,020</u>
Department of Homeland Security Pass-Through Programs From:			
State of California Office of Emergency Services			
Homeland Security Grant Program			
Bay Area Urban Area Security Initiative (UASI)	97.067	2009-0019	72,190
Bay Area Urban Area Security Initiative (UASI)	97.067	2009-0019	<u>18,000</u>
Subtotal Homeland Security Grant Program			<u>90,190</u>
Emergency Management Performance Grant (EMPG)	97.042	13-000	<u>45,000</u>
Port Security Grant Program			
ARRA - Port- Fiber Optic Network	97.116	2009-PU-RI-0215	<u>303,186</u>
Total Department of Homeland Security			<u>438,376</u>
Department of Commerce, Economic Development Administration, Direct Programs			
Economic Adjustment Assistance			
Program expenditures	11.307	07-39-2437.01	204,766
Loan program cash balance at end of year	11.307	07-39-2437.01	<u>166,362</u>
Subtotal Economic Adjustment Assistance			<u>371,128</u>
Department of Commerce, Economic Development Administration, Pass Through Programs From:			
State of California Office of Emergency Services			
Broadband Technology Opportunities Program			
Learner Web Partnership - ARRA	11.557	200RED240	<u>145,161</u>
Total Department of Commerce, Economic Development Administration			<u>516,289</u>
Institute of Museum and Library Services Pass-Through Program From:			
California State Library			
Grants to States			
Library Services and Technology Act	45.310	40-7316	28,000
Library Services and Technology Act	45.310	40-7663	31,049
Library Services and Technology Act	45.310	40-7785	<u>1,242</u>
Total Institute of Museum and Library Services			<u>60,291</u>
Department of Defense, Department of the Navy, Direct Program			
Community Base Reuse Plans, Project Grant/Cooperative Agreement			
Naval Fuel Depot Point Molate Pollution Remediation	12.612	N62473-08-MD-V0020	<u>1,846,185</u>
Total Expenditures of Federal Awards			<u>\$23,329,854</u>

See Accompanying Notes to Schedule of Expenditures of Federal Awards

CITY OF RICHMOND

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended June 30, 2012**

NOTE 1-REPORTING ENTITY

The Schedule of Expenditure of Federal Awards (the Schedule) includes expenditures of federal awards for the City of Richmond, California and its component units as disclosed in the notes to the Basic Financial Statements, except for federal awards of the Richmond Housing Authority.

The Richmond Housing Authority issues a separate Single Audit Report. Accordingly federal awards for the Richmond Housing Authority have been excluded from the scope of this Single Audit Report.

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.

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 of Federal award programs when they occur.

NOTE 4 - SUBRECEIPIENTS

Of the federal expenditures presented in the Schedule, the City provided federal awards to subrecipients as follows:

<u>CFDA Number</u>	<u>Program Name</u>	<u>Amount Provided to Subrecipients</u>
14.218	Community Development Block Grant/Entitlement Grant	\$576,914
14.218	Community Development Block Grant/Entitlement Grant - Neighborhood Stabilization Program	723,086
14.239	HOME Investment Partnerships Program	36,507
17.258	Workforce Investment Act - Adult Programs CTE 61.60	16,670
17.278	Workforce Investment Act - Title I Rapid Response	154,500
17.278	Workforce Investment Act - Title I Nat'l Res Emergency	108,500
81.128	ARRA - Energy Efficiency and Conservation Block Grant Progra	94,578
81.041	ARRA - State Energy Program	58,000

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

Honorable Mayor and City Council
of the City of Richmond, California

We have audited the financial statements of the City of Richmond as of and for the year ended June 30, 2012, and have issued our report thereon dated April 5, 2013. The report includes paragraphs concerning a restatement of net assets, special emphasis on the dissolution of the Redevelopment Agency, and special emphasis on the ability of the Richmond Housing Authority to continue as a going concern. 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

Management of the City of Richmond is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the Schedule of Findings and Questioned Costs to be material weaknesses. These are listed in our separately issued Memorandum on Internal Control dated April 5, 2013.

A significant deficiency is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We have identified certain deficiencies we consider to be significant deficiencies in internal control over financial reporting. These are listed as items in our separately issued Memorandum on Internal Control dated April 5, 2013.

Compliance and Other Matters

As part of obtaining reasonable assurance about the whether City 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 did not disclose instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We have also issued a separate Memorandum on Internal Control dated April 5, 2013 which is an integral part of our audits and should be read in conjunction with this report.

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of City Council, the finance committee, 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.

Mane & Associates

April 5, 2013

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL
EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Honorable Mayor and City Council
of the City of Richmond, California

Compliance

We have audited City of Richmond's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2012. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

City of Richmond's basic financial statements include the operations of the Housing Authority which received federal awards which are not included in the schedule during the year ended June 30, 2012. Our audit, described below, did not include the operations of the Richmond Housing Authority.

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. 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'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 of the City's compliance with those requirements.

As described in item 2012-01 in the accompanying schedule of findings and questioned costs, the City did not comply with requirements regarding reporting that are applicable to its Community Development Block Grant Entitlement Grants Cluster, including ARRA-funded CDBG-R, HOME Investment Partnerships Program, ARRA - Homelessness Prevention and Rapid Re-Housing Program (HPRP), Environmental Workforce Development and Job Training Cooperative Agreements, Brownfield Assessment and Cleanup Cooperative Agreements, ARRA - Public Safety Partnership and Community Policing Grants, ARRA - Violence Against Women Formula Grants, ARRA - Port Security Grant Program, Capital Assistance Program for Elderly Persons and Persons with Disabilities, ARRA - Highway Planning and Construction, Federal Transit - Capital Investment Grants, Federal Transit - Formula Grants (Urbanized Area Formula Program), and Economic Adjustment Assistance programs. As described in item 2012-10 in the accompanying schedule of findings and questioned costs, the City did not comply with requirements regarding allowable costs and cost principles that are applicable to its Workforce Investment Act-Pilots, Demonstrations and Research Projects program. Compliance with such requirements is necessary, in our opinion, for the City to comply with the requirements applicable to those programs.

In our opinion, except for the noncompliance described in the preceding paragraph, the City complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs.

Internal Control Over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2012-01 and 2012-10 to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2012-02, 2012-05, 2012-06 and 2012-08 to be significant deficiencies.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the of the City as of and for the year ended June 30, 2012, and have issued our report thereon dated April 5, 2013 which contained an unqualified opinion on those financial statements. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise the City's financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain other procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City's responses and, accordingly, we express no opinion on the responses

This report is intended solely for the information and use of management, City Council, the finance committee, 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.

Mayer & Associates

May 1, 2013

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