

**CITY OF RICHMOND**  
**SINGLE AUDIT REPORT**  
**FOR THE YEAR ENDED JUNE 30, 2011**

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**SINGLE AUDIT REPORT**  
**For The Year Ended June 30, 2011**

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**CITY OF RICHMOND**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For The Year Ended June 30, 2011**

**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 that are not considered to be material weaknesses?  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 that are not considered to be material weaknesses?  X  Yes   None Reported

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?  X  Yes   No

Identification of major programs:

<u>CFDA#(s)</u>	<u>Name of Federal Program or Cluster</u>
12.612	Department of Defense- Community Base Reuse Plans, Project Grant/Cooperative Agreement – Naval Fuel Depot Point Molate Pollution Remediation Grant
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
17.274	Department of Labor - YouthBuild
17.258, 17.259, 17.260, 17.278 (Cluster)	Department of Labor – ARRA - Workforce Investment Act- Adult Program, Youth Activities and Dislocated Workers
16.710	Department of Justice – ARRA - Public Safety Partnership and Community Policing Grants
20.205	Department of Transportation – ARRA - Highway Planning and Construction

Dollar threshold used to distinguish between type A and type B programs: \$512,018

Auditee qualified as low-risk auditee?   Yes  X  No

## SECTION II – FINANCIAL STATEMENT FINDINGS

Our audit did disclose material weaknesses, significant deficiencies, 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 February 7, 2012 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 required to be reported in accordance with section 510(a) of OMB Circular A-133.

### **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.

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

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

**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.

**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.

### SECTION III – FEDERAL AWARD 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 III – FEDERAL AWARD 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.

**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.

**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.

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

**Finding 2011-04      Subrecipient Monitoring (Continued)**

**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.

**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.

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

**Finding 2011-05      Overpayment to Participants, Interns, and Vendors (Continued)**

**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.

**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.

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

**Finding 2011-06      Youth Low-Income Eligibility Documentation (Continued)**

**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.

**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.

**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.

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

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

**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.

**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.

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

**Finding 2011-08      Annual Filing of HUD 60002 Performance Report (Continued)**

**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.

**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.

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

#### **Finding 2011-09      Unallowable Payroll and Fringe Benefit Costs Charged to Grant (Continued)**

**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.

#### **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.

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

**Finding 2011-10      Accurate Preparation of Reimbursement Requests (Continued)**

**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.

**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.

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

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

**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.

**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.

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

**Finding 2011-12      Grant Award Documents (Continued)**

**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.

**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 February 7, 2012 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 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.

**SECTION IV - STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS (Continued) –**  
Prepared by Management

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

**Name of 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.

**Current Status:**

The City worked with the grantor. 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.

**Name of contact person:** Crispin Nunez, Accountant II - (510) 620-6596

**SECTION IV - STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS (Continued) –  
Prepared by Management**

**Finding 2010-02      Inventory of Capital Assets Acquired with Federal Funds (Continued)**

**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 3<sup>rd</sup> 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:**

Fixed Assets in the Munis system are not identified whether they are grant-funded or not. This type of information was not available, or if it was available, it was not required information to track. But going forward, the City will incorporate this information when setting up grant-funded assets in the Munis system. A process has been started where the Grant Manager will provide General Accounting with information when capital assets are acquired through grants. We are currently preparing a draft letter to be sent out to Department heads with a list of assets listed under their department. This letter instructs the department heads to identify whether the assets: a) Active – exists and in working condition; b) For Retirement or Disposal – specify if asset was sold, donated, damaged, missing or broken); c) Grant funded - If information is available, to indicate if asset was acquired through grants.

**Finding 2010-03      Grantor Approval for Sole Source Purchase**

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

**Criteria:** The Financial Clearance Memo for the Law Enforcement Technology Grant and Grant Condition #14 of the 2010 COPS Technology Program Grant Owner’s Manual require that grantees awarded a grant for the procurement of an item using a noncompetitive procurement process must provide a written sole source justification to the COPS Office for review and approval prior to obligating, expending, or drawing down grant funds for that item.

**Condition:** The City received a Law Enforcement Technology Grant that was used to expand the City’s ShotSpotter Gunshot Location System. The City’s original contract with the vendor was approved by City Council in fiscal year 2009 under a sole-source justification and procurement procedure in accordance with the City’s purchasing policy. The contract with the vendor was amended in the amount of \$600,000 to expand the system after the City received approval for the Law Enforcement Technology Grant. The contract amendment was again approved by City Council under the original sole source procurement justification. However, City staff was unable to provide documentation that the written sole source justification had been provided to and approved by the COPS Office.

**Effect:** It does not appear that the City is in compliance with the Sole Source Justification requirements of the Financial Clearance Memo and 2010 COPS Technology Program Grant Owner’s Manual.

**SECTION IV - STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS (Continued) –**  
Prepared by Management

**Finding 2010-03**            **Grantor Approval for Sole Source Purchase (Continued)**

**Cause:** Although City staff has indicated that they were in communication with the grantor regarding the purchase, City staff does not have documentation that the Sole Source Justification was provided to or approved by the COPS Office.

**Recommendation:** The City should obtain documentation of the required approval of the Sole Source Justification from the grantor. In the future, the City should review grant award documents to ensure that all required documentation is remitted to the grantor and the necessary approvals are obtained and retained in the City’s grant files.

**Name of contact person:** Lieutenant Charles Whitney, Richmond Police Department Administrative Services Division, (510) 620-6830

**Management’s Response:** The “ShotSpotter” was approved during the application process. However, there was some miscommunication. The sole source per City of Richmond purchasing procedures were followed and approved and it was believed that the federal sole source was not needed. As such, the form was not submitted. All communications were verbal so I can not supply any documents to support the misunderstanding between the involved parties.

There was a meeting with the grant monitor and staff accountant. The grant monitor was satisfied with the explanation and did not see this as a major concern. City staff spoke with the grantor in Washington DC and they’ve indicated that the system met their sole source requirements. The grantor will be supplying the City with a sole source request form to submit next week so that the documentation will be on file.

**Current Status:** The grantor did not supply the City with a sole source request form. The grant monitor verbally told Lt. Whitney that they were satisfied with the City’s sole source and no further contact has been made. The City agrees in the future they will review grant award documents to ensure that all required documentation is remitted to the grantor and the necessary approvals are obtained and retained in the City’s grant files.

**Finding 2010-04**            **Timely Submission of Grant Reimbursement Requests and Final Report of Expenditures**

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

**Criteria:** Special Covenant number 5 of the Program Supplement CML-5137(035) for the Richmond Greenway Phase II project and Program Supplement ESPL-5137(037) for the ARRA - funded Carlson Boulevard asphalt concrete overlay project requires 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. 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.

**SECTION IV - STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS (Continued) –**  
Prepared by Management

**Finding 2010-04**      **Timely Submission of Grant Reimbursement Requests and Final Report of Expenditures (Continued)**

In addition, Section 5 of the Program Supplement and the California Department of Transportation Local Assistance Procedures Manual Section 5.9 (LAPM) require that a “Final Report of Expenditures” be submitted to the District Local Assistance Engineer (DLAE) within 180 days of project completion. If the report is not filed timely, the State may impose sanctions in accordance with the current LAPM.

**Condition:** The City submitted the first invoice for the Richmond Greenway Phase II project on October 22, 2009 and did not submit another invoice until January 12, 2011. The City submitted the first invoice for the Carlson Boulevard asphalt concrete overlay project in April 2010 and did not submit another invoice until February 2, 2011. The City did not submit the required written explanations to the grantor. In addition, the Richmond Greenway Phase II Construction Project was completed on June, 30, 2010 and the City Council accepted the completed construction work on July 20, 2010. As of February 2, 2011 the Final Report of Expenditures has not been submitted to the DLAE.

**Effect:** The City is not in compliance with reimbursement request and Final Report of Expenditures filing requirements of the Program Supplements and the LAPM 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. In addition, the City should file the Final Report of Expenditures as soon as possible. In the future, the City should ensure that it complies with all filing deadlines or filing documentation specified in the grant award documents.

**Name of contact person:** Melissa Tigbao, Engineer I, (510) 412-2039

**Management’s Response:**

The Engineering Services Department went under a significant staff turnaround during the projects. Since October 2010, the City of Richmond has been under Federal-Aid Project Oversight by Caltrans District 4 Local Assistance and is working on a Standard Operating Procedure for the management of federally funded projects. This SOP will include the procedure to invoice at least once every six months, and to submit Final Expenditure Reports as soon as projects are accepted by the City Council. The City has already designated a Federal-Aid Project Coordinator to follow up on all federally funded projects being managed by the City to ensure all project managers are following the standards and procedures of the Local Assistance Procedures Manual.

**Current Status:**

The City completed a Standard Operating Procedure (SOP) for the management of federally funded projects in October. The City now tries to invoice at least once every six months and submit Final Expenditures Reports as soon as projects are accepted by the City Council.

**SECTION IV - STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS (Continued) –**  
Prepared by Management

**Finding 2010-05            Establish Subrecipient Agreement with the Richmond Museum Association**

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

**Criteria:** Circular A-133 section .400 (d)(2) requires that if a grant is passed through to a subrecipient, the City must advise the subrecipient of requirements imposed on them by federal laws, regulations, and the provisions of contracts or grant agreements, and any supplemental requirements imposed by the City, as well as ensure the subrecipient has complied with federal regulations including Circular A-133, *Audits of States, Local Governments and Non-profit Organizations*. This communication is usually in the form of a subrecipient agreement that contains the necessary requirements.

**Condition:** The City passes through one of the Department of Transportation grants to the Richmond Museum Association, to assist with the restoration of the Red Oak Victory ship, but did not enter into a subrecipient agreement with the Richmond Museum Association.

**Effect:** Although the City reviews the supporting documentation for the amounts passed through to the Richmond Museum Association in detail, the City is not in compliance with the pass-through entity requirements of OMB Circular A-133.

**Cause:** The City felt that its monitoring of the expenditures was sufficient, and the project was completed during the fiscal year, therefore a subrecipient agreement was not established.

**Recommendation:** The City should establish a subrecipient agreement with the Richmond Museum Association that includes the applicable compliance provisions. Also, if applicable, the City should review a copy of the subgrantee's Single Audit report to ensure the funds were expended in accordance with grant requirements and related rules and regulations. In the future, the City should ensure that it establishes a subrecipient agreement for all subgrants that clearly communicates the compliance responsibilities for the subgrantee, including monitoring procedures, in accordance with the provisions of Circular A-133 section .400 (d)(2).

**Contact person:**        Andy Yeung, Senior Civil Engineer, (510) 307-8108

**Management's Response:**

The Red Oak Victory Ship Project is completed and we have submitted the final package (Final Expenditure Report) to CalTrans. The project is now closed. A sub-recipient agreement is no longer needed.

**Current Status:**

This grant was closed in FY10, but there was one outstanding invoice that was paid and reimbursed in FY11.

**SECTION IV - STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS (Continued) –**  
Prepared by Management

**Finding 2010-06**                    **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 Agency Program Requirements, 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.

**Condition:** The City's PR26 for the program year 2009, which includes the activity for fiscal year 2010, reported a zero balance on line 01, Unexpended CDBG Funds at End of Previous Program Year, and a balance of \$475,968 on line 05, Current Year Program Income. However, the balances should have been \$447,506 and \$227,521, respectively. Both line 01 and line 05 feed into other calculations in the 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 along with their HUD representative 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 prior to finalization.

**Names of contact persons:** Patrick Lynch, RCRA Housing Division Director (510) 412 – 2053  
Ana Cortez, Community Development Program Manager (510) 231-3079  
Ted Ferrer, RCRA Senior Accountant (510) 307-8124

**Management's Response:**

Since the PR26 report is automatically generated in the IDIS internet system, the City of Richmond/Redevelopment Agency will continue to work with their HUD representative to improve on the accuracy of the reporting. The City of Richmond/Redevelopment Agency's Finance & Administration Manager will coordinate with the City of Richmond/Redevelopment Agency Community Development Program Manager to reconcile the reports filed with the reporting agency to the City of Richmond/Redevelopment Agency general ledger to ensure accuracy of the reports prior to the finalization.

**SECTION IV - STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS (Continued) –**  
Prepared by Management

**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.

**Finding 2010-07**      **Updating Employee Allocation Percentages on a Quarterly Basis**

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

**Criteria:** The OMB Circular A-87 Attachment B, Section 8(h), subsection (4) requires that payroll charges to grants be supported by personnel activity reports or equivalent documentation which meets the standards in subsection (5) unless a statistical sampling system or other substitute system has been approved by the cognizant Federal agency. In the absence of personnel activity reports, the use of budget estimates or other distribution percentages for interim accounting purposes for employee payroll charges to grants provided that 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 the budget estimates or other distribution percentages are revised at least quarterly, if necessary, to reflect changed circumstances.

**Condition:** The City uses percentage allocations to charge payroll costs of employees associated with the CDBG program based on an estimate of the time they spend on CDBG-related activities each pay period, but the allocation percentages are only updated annually to reflect the actual costs.

**Effect:** The City is not in compliance with the support of salaries and wages quarterly comparisons of actual costs to budgeted distributions requirements of OMB Circular A-87.

**Cause:** In fiscal year 2009-10 two City of Richmond/Redevelopment Agency CDBG employees retired from their positions. The City of Richmond/Redevelopment Agency did not backfill these positions. Employees that were already working on the CDBG program added these additional duties to their current CDBG work load. Because of their increased work load, a greater percentage of their payroll was charged to the CDBG program.

**Recommendation:** The City should revise its procedures to include the quarterly comparisons of actual costs to budgeted distributions and make adjustments quarterly, if required.

**SECTION IV - STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS (Continued) –**  
Prepared by Management

**Finding 2010-07      Updating Employee Allocation Percentages on a Quarterly Basis**  
**(Continued)**

**Names of contact persons:** Patrick Lynch, RCRA Housing Division Director (510) 412 – 2053  
Ted Ferrer, RCRA Senior Accountant (510) 307-8124

**Management’s Response:**

The City of Richmond/Redevelopment Agency will revise its procedure to include quarterly comparisons of actual costs to budgeted distributions and make adjustments quarterly if required.

**Current Status:**

Since June 30, 2011 the City of Richmond/ Redevelopment Agency staff has started to review payroll on a quarterly basis and make any adjustments if necessary.

**Finding 2010-08      Recording Grant Activities in the City’s General Ledger**

**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:** Grant funds received in advance and any associated expenditures should be recorded in the City’s general ledger when they occur. In addition, OMB Circular A-133 Subpart C Section 300, Auditee Responsibilities, requires the City to prepare appropriate financial statements for the fiscal year audited, including the schedule of expenditures of Federal awards.

**Condition:** The City received a grant from the Department of Defense, Department of the Navy, under the provisions of an Early Transfer Cooperative Agreement dated September 2008. The grant funds of \$28.5 million were advanced to the City in April 2010 and expenditures associated with the grant of \$4.9 million were made during April 2010. However, the grant advance and the related expenditures were not recorded on the City’s general ledger prior to the start of the year-end financial audit in November 2010.

During the planning for the City’s Single Audit, we noted that the City did not include the grant activities from the Department of Defense for the Point Molate Pollution Remediation grant on the Schedule of Expenditures of Federal Awards.

**Effect:** The City was not in compliance with requirements in OMB Circular A-133 Subpart C Section 300, since the grant was not initially included in the City’s financial statements or the City’s Schedule of Expenditures of Federal Awards.

**Cause:** The grant documentation and associated fiscal agent bank statements held by the City department responsible for the administration of the grant were not provided to the City’s Finance Department and the City’s Grants Manager.

**SECTION IV - STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS (Continued) –**  
Prepared by Management

**Finding 2010-08      Recording Grant Activities in the City’s General Ledger (Continued)**

**Recommendation:** Although the City has provided specific grant training to various City departments, all City departments should again be notified that they *must* communicate the receipt of all grant funding to the Finance Department and the Grants Manager to ensure centralized tracking of all grant programs for Single Audit reporting.

**Name of contact person:** Belinda Warner, Grants/Internal Audit Manager, (510) 621-1272

**Management’s Response:**

Meetings were held January – March 2011 with all City departments that currently have grants and were explained the process of managing grants. They were also given a Grant Checklist that detailed out all of the information that should be submitted to the Grant Manager to help ensure that all grants are incorporated on the City’s Schedule of Expenditures of Federal Awards.

**Current Status:**

The Grants Manager continues to meet with departments to explain the process of managing grants and how important is it to make sure all grant information is forwarded to the Finance department/Grant Manager.

**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.

**SECTION IV - STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS (Continued) –**  
Prepared by Management

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

**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.

**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 Wilson, 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.

**SECTION IV - STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS (Continued) –**  
Prepared by Management

**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.

*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 Finding 2010-05.

**SECTION IV - STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS (Continued) –**  
Prepared by Management

**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) –  
Prepared by Management**

**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) –**  
Prepared by Management

**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).

**SECTION IV - STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS (Continued) –**  
Prepared by Management

**Finding 08-03**                      **Cash Management and Vendor Payment after Grant Advance Deadline**

**CFDA Number:**                      97.056  
**CFDA Title:**                              Transportation Security Administration Port Security Grant Program  
**Federal Agency:**                      Department of Homeland Security

*Criteria:* The City should submit reimbursement requests for expenses incurred and paid during the course of the grant period authorized by the awarding agency. Section I, Method of Payment, of the grant agreement allows the City to request grant advances to cover “only expenses anticipated over the next 30 days”.

*Condition:* The City submitted a request for advance of \$258,280 in June 2008 for work performed in March 2008 and billed by the vendor in May 2008, but the City did not pay the vendor for the services until February 2009, which was well after the 30 day advance allowance.

*Effect:* The City could be required to return excess grant funding to the grantor, or pay the grantor for interest earned on the advanced funds, since the City had not paid the costs that were being charged to the grant within the 30 day limitation.

*Cause:* The City was told by the grantor that they had ninety days after the grant expiration date (March 8, 2008) to submit for reimbursement, but the vendor invoice was not processed for payment prior to submitting for reimbursement due to the change from one general ledger system to another.

*Recommendation:* The City should ensure that when grant advances are requested, the related program disbursements occur within the program time limitations. If the program expenditure deadline will not be met, the City should communicate with the grantor to determine the steps that should be taken to remain in compliance. In addition, the City should determine whether the interest earned on the unspent grant advance was used for grant purposes or work with the grantor to determine whether the interest earnings need to be returned to the grantor.

**Management’s Response:**

All the equipment was completely installed by March 1, 2008 however we did not receive all invoices prior to the date. We consulted with the granting agency prior to start work and were told that we had ninety days after the grant expiration date to submit for reimbursement. One of the invoices did not get processed prior to submitting for reimbursement due to the change over from SAP to MUNIS. We did not find out such discrepancy until later.

The Port received the final invoice from ADT in the amount of \$258,280.34 and submitted a reimbursement request to the Department of Homeland Security – Transportation Security Administration Port Security Grant Program on 6/3/2008. The final invoice was for all work completed by March 1, 2008 and was goods-receipted and submitted to finance on 6/2/2008. It was later identified that the invoice was lost in the process. The Port and Finance department made every effort to expedite payment in the new MUNIS system in order to comply with grant.

The new MUNIS system allows better reporting tools in order to monitor outstanding goods-receipts on a monthly basis.

**SECTION IV - STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS (Continued) –  
Prepared by Management**

**Finding 08-03                    Cash Management and Vendor Payment after Grant Advance Deadline  
(Continued)**

**Current Status:**

This grant is closed. The recommendation is implemented in other grants.

**Finding 08-05                    Segregation of Program/Project Expenditures by Grant and Detail of  
Program/Project Expenditures to Determine Allowable Costs**

**CFDA Number:** 97.056 and 97.008

**CFDA Title:** Transportation Security Administration Port Security Grant Program and Urban Areas Security Initiative Program (Pass Through Program)

**Federal Agency:** Department of Homeland Security

**Pass Through Agency:** State of California Office of Homeland Security

*Criteria:* Grant-funded expenditures must be made in accordance with the allowable cost principles of each grant agreement.

*Condition:* The City entered into a contract with ADT to provide for the installation of security cameras and lighting, including hardware and software, at the Port of Richmond. The July 2007 and February 2008 City Council approval documentation of the ADT contract indicated it was to be funded by both the Port Security Grant Program (PSG) and the Urban Areas Security Initiative Program (UASI). However, the contract with ADT indicates that it is funded only by the PSG Program. According to the individual grant agreements, the Point Potrero Marine Terminal Security Enhancement project was to be funded by the PSG Program, and the security cameras at Terminals 2 and 3 of the Port were to be funded by the UASI Program. The ADT contract included installation of security cameras for both of these projects.

We selected three ADT invoices for testing of allowability under the PSG Program and two ADT invoices for testing of allowability under the UASI Program. Of the five invoices tested, only one of the invoices indicated the specific location of the equipment on the invoice (one for the UASI Program). The other four invoices did not contain enough information for us to determine the period of service or whether they were for allowable project expenditures. City staff was unable to provide additional information for the invoices. However, after we reviewed the ADT contract we found that the invoices were based on a pre-determined billing percentage included in an Appendix of the original contract. The services detailed in the ADT contract and subsequent contract change orders appear to include allowable expenditures under the two grant programs, however the contract did not specifically itemize the equipment installed at Terminal 2 and Terminal 3 which was the only portion of the contract that was eligible to be charged to the UASI Program.

**SECTION IV - STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS (Continued) –**  
 Prepared by Management

**Finding 08-05                    Segregation of Program/Project Expenditures by Grant and Detail of  
Program/Project Expenditures to Determine Allowable Costs (Continued)**

The invoices from ADT were applied to the grants by the City as follows:

Invoice Date	Basis of Invoice Per Contract Appendix H	Charged to:		
		PSG	UASI	Total
12/21/2007	10% of Contract		\$239,281	\$239,281
1/29/2008	50% of Contract (A)	\$1,050,150		1,050,150
1/29/2008	50% of Contract - Term 2 and Term 3 (A)		146,253	146,253
5/21/2008	30% of Contract	889,647		889,647
5/21/2008	Final 10% of Contract	258,280		258,280
	<b>Total</b>	<u>\$2,198,077</u>	<u>\$385,534</u>	<u>\$2,583,611</u>

(A) Together, these invoices total 50% of the original ADT contract

Therefore, it appeared that the UASI Program paid for the initial 10% of the contract and not just the Terminal 2 and Terminal 3 costs. However, without ADT providing detail of the amounts included in each invoice, we were not able to determine the allocation of the contract costs between the Point Potrero Marine Terminal Security Enhancement project and the security cameras at Terminals 2 and 3.

In addition, the final contract total of \$2,583,611 included a provision for a “contingency allowance” of \$45,215, but we did not initially see a change order that applied this allowance to actual project costs, even though the entire contract amount was billed by ADT, paid by the City, and applied to the grants as noted in the table above.

Subsequent to our field work, City staff obtained a letter from ADT confirming that the first two contract billings were for work specifically at Terminal 2 and 3 related to the UASI grant that was performed within the grant period. However, that letter was not obtained and provided to us until May 2009. In addition, we were provided with copies of two change orders that did apply the contract contingency amount of \$45,215 to actual project costs related to the PSG Program, but the change orders were not provided to us until June 2009.

*Effect:* Without a detailed breakdown of the individual invoices, we were initially unable to determine if the costs are allowable under each individual grant, or if the work was performed within the grant periods. Based on the information obtained and provided to us by staff subsequent to our field work, the costs do appear to be allowable under each individual grant, but we are still unable to determine that all of the work for the PSG program was performed within the grant period.

*Cause:* The contractor, ADT, submitted invoices based on the payment schedule that did not identify a specific period or equipment/location.

**SECTION IV - STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS (Continued) –  
Prepared by Management**

**Finding 08-05                    Segregation of Program/Project Expenditures by Grant and Detail of  
Program/Project Expenditures to Determine Allowable Costs (Continued)**

*Recommendation:* The City should have determined the actual share of the ADT contract costs between Point Potrero Marine Terminal Security Enhancement project and security cameras at Terminals 2 and 3 by obtaining detailed information for each ADT invoice as they were received and retaining the documentation in the City’s files. In addition, when future projects are funded by multiple grants, costs should be properly accounted for and segregated by grant program to ensure only allowable costs are charged to each grant.

**Management’s Response:**

After the contract with ADT was executed, the Port recognized that the payment schedule did not provide enough billing details. To ensure the work and funding source apply to the corresponding site without amending the contract, the Port staff requested the work at Terminals 2 & 3 site be performed first as reflected in the second invoice. Although the description of the first invoice indicated Contract Execution and City Receipt of Site Data, it was actually for the equipment purchased and delivered at Terminal 2 & 3 site as verified by the subsequent letter from the Project Manager of ADT.

For future contracts funded by grants, the Port will make sure that the contract and invoices will clearly identify the funding source and work completed corresponding to each funding source.

**Current Status:**

This grant is closed. The recommendation is implemented in other grants.

**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.

**SECTION IV - STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS (Continued) –**  
Prepared by Management

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

*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.

**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.

**Finding 08-07                    Subrecipient Agreement with the Richmond Museum Association**

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

*Criteria:* Circular A-133 section .400 (d)(2) requires that if a grant is passed through to a subrecipient, the City must advise the subrecipient of requirements imposed on them by federal laws, regulations, and the provisions of contracts or grant agreements, and any supplemental requirements imposed by the City, as well as ensure the subrecipient has complied with federal regulations including Circular A-133, *Audits of States, Local Governments and Non-profit Organizations*. This communication is usually in the form of a subrecipient agreement that contains the necessary requirements.

*Condition:* The City passed through one of the Department of Transportation grants to the Richmond Museum Association, to assist with the restoration of the Red Oak Victory ship, but did not enter into a subrecipient agreement with the Richmond Museum Association.

**SECTION IV - STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS (Continued) –**  
Prepared by Management

**Finding 08-07                    Subrecipient Agreement with the Richmond Museum Association**  
**(Continued)**

*Effect:* The City is not in compliance with the pass-through entity requirements of OMB Circular A-133.

*Cause:* The City was unaware that a subrecipient agreement was not in place.

*Recommendation:* The City should establish a subrecipient agreement with the Richmond Museum Association and include the applicable compliance provisions. Also, if applicable, the City should review a copy of the subgrantee’s Single Audit report to ensure the funds were expended in accordance with grant requirements and related rules and regulations. In the future, the City should ensure that it establishes a subrecipient agreement for all subgrants that clearly communicates the compliance responsibilities for the subgrantee, including monitoring procedures, in accordance with the provisions of Circular A-133 section .400 (d)(2).

**Management’s Response:**

In the future, the Project Manager will make sure that all subrecipient agreements are in place.

**Current Status:**

Project Managers review their grant documents to see if subrecipient agreements are needed. A subrecipient agreement has not been established with the Richmond Museum Association.

See Finding 2010-05.

**CITY OF RICHMOND**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**For the Fiscal Year Ended June 30, 2011**

Federal Grantor/ Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Federal and Pass-Through Identifying Number	Federal Expenditures
<b>Department of Housing and Urban Development Direct Programs</b>			
<b>Community Development Block Grant Program Cluster</b>			
Community Development Block Grant/Entitlement Grant			
2007 Program expenditures	14.218	B-07-MC-0015	\$190,000
2008 Program expenditures	14.218	B-08-MC-0015	395,273
2009 Program expenditures	14.218	B-09-MC-0015	605,372
2008 Subgrants	14.218	B-08-MC-0015	418,735
2009 Subgrants	14.218	B-09-MC-0015	490,814
Loan program cash balance at the end of the year	14.218		1,003,644
Neighborhood Stabilization Program:			
Program expenditures	14.218	B-08-MN-060006	1,422,698
Community Development Block Grant- R			
ARRA - Program expenditures	14.253	B-09-MY-06-0015	329,457
Subtotal Community Development Block Grant Program Cluster			<u>4,855,993</u>
<b>Home Investment Partnerships Program</b>			
Program expenditures	14.239	M-05-MC-060209	177,354
Program expenditures	14.239	M-06-MC-060209	12,694
Program expenditures	14.239	M-07-MC-060209	399,899
Program expenditures	14.239	M-08-MC-060209	119,514
Program expenditures	14.239	M-09-MC-060209	62,297
Subtotal Home Investment Partnerships Program Grants			<u>771,758</u>
Community Development Block Grant- HPRP			
Program expenditures	14.257	S-09-MY-060015	262,076
<b>Total Department of Housing and Urban Development</b>			<u>5,889,827</u>
<b>Department of Labor, Employment Training Administration, Direct Programs</b>			
YouthBuild	17.274	YB-19119-09-60-A-6	<u>442,244</u>
<b>Department of Labor, Employment Training Administration, Pass-Through Programs From:</b>			
State of California Employment Development Department			
Workforce Investment Act -15% Pilot Special Project	17.261	R865477	<u>42,142</u>
<b>Workforce Investment Act Cluster</b>			
State of California Employment Development Department			
Workforce Investment Act			
Workforce Investment Act - ARRA Adult	17.258	R970555	53,495
Workforce Investment Act - ARRA 15% Adult Special Projects	17.258	K074159	100,000
Workforce Investment Act - ARRA 15% Adult Special Projects	17.258	K074159	55,080
Workforce Investment Act - ARRA 15% Adult Special Projects	17.258	K074159	461,191
Workforce Investment Act - 15% Adult Special Projects	17.258	K074159	1,933
Workforce Investment Act - ARRA 15% Adult Special Projects	17.258	K074159	2,117
Workforce Investment Act - Adult	17.258	K178678	447,269
Workforce Investment Act - Adult	17.258	K074159	92,721
Workforce Investment Act - ARRA Youth Bridges to Success	17.259	K074159	417,074
Workforce Investment Act - Youth	17.259	K178678	512,077
Workforce Investment Act - Youth	17.259	K074159	24,588
Workforce Investment Act - Youth	17.259	K282493	156,130
Workforce Investment Act - ARRA Youth	17.259	R970555	229,085
Workforce Investment Act - ARRA Dislocated Worker	17.260	R970555	138,688
Workforce Investment Act - ARRA Title I Nat'l Res. Emerg.	17.260	K074159	169,022
Workforce Investment Act - Dislocated Worker	17.260	K074159	39,543
Workforce Investment Act - ARRA Rapid Response	17.260	R970555	157,385
Workforce Investment Act - ARRA Rapid Response	17.260	K074159	88,763
Workforce Investment Act - ARRA 15% Adult Special Projects	17.260	R970555	165,201
Workforce Investment Act - Dislocated Worker	17.278	K178678	293,729
Workforce Investment Act - Rapid Response	17.278	K178678	125,826
Workforce Investment Act - Title I Rapid Response	17.278	K178678	37,216

**CITY OF RICHMOND**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**For the Fiscal Year Ended June 30, 2011**

Federal Grantor/ Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Federal and Pass-Through Identifying Number	Federal Expenditures
<i>Passed through Oakland Private Industry Council:</i>			
Workforce Investment Act - ARRA 15% Adult Special Projects	17.258	09-GRIP-Rich-1	40,000
<i>Passed through Peralta Community College District:</i>			
Workforce Investment Act - ARRA 15% Adult Special Projects	17.258	Not Available	30,000
Workforce Investment Act - ARRA 15% Adult Special Projects	17.258	Not Available	<u>120,000</u>
Subtotal Workforce Investment Act Cluster			<u>3,958,133</u>
<b>Total Department of Labor, Employment Training Administration</b>			<u>4,442,519</u>
Department of Health and Human Services <b>Pass-Through</b> Programs From:			
Contra Costa County Department of Employment & Human Services			
Community Services Block Grant			
ARRA - CSBH (Youth Corps)	93.710	38-933	<u>69,766</u>
Department of Energy <b>Direct</b> Programs			
Energy Efficiency and Conservation Block Grant Program	81.128	DE-SC0002135	<u>231,971</u>
Department of Energy <b>Pass-Through</b> Programs From:			
California Energy Commission			
State Energy Program			
ARRA - Clean Energy Workforce Category 2	81.041	K077122	<u>450,251</u>
<b>Total Department of Energy</b>			<u>682,222</u>
Environmental Protection Agency <b>Direct</b> Programs			
ARRA - Brownfields Job Training Cooperative Agreements	66.815	2J-T0032101	<u>247,137</u>
Brownfield Assessment and Cleanup Cooperative Agreements	66.818	BF-96988101	<u>186,663</u>
<b>Total Environmental Protection Agency Programs</b>			<u>433,800</u>
Department of Justice <b>Direct</b> Programs			
Public Safety Partnership and Community Policing Grants			
ARRA - COPS Hiring Recovery Program Grant - Hire 8 Police Officers	16.710	2009RKWX0094	<u>1,265,292</u>
Department of Justice <b>Pass-Through</b> Programs From:			
Contra Costa County Sheriff's Department			
Edward Byrne Memorial Justice Assistance Grant Program			
ARRA - Law Enforcement Programs- Recovery JAG	16.804	Not Available	<u>234,406</u>
State of California Office of Emergency Services			
Domestic Violence and Sexual Assault- Family Services	16.558	LE09027830	149,355
Domestic Violence and Sexual Assault- Family Services	16.558	LE10037830	<u>80,731</u>
Subtotal Department of Justice <b>Pass-Through</b> Programs			<u>464,492</u>
<b>Total Department of Justice</b>			<u>1,729,784</u>

**CITY OF RICHMOND**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**For the Fiscal Year Ended June 30, 2011**

Federal Grantor/ Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Federal and Pass-Through Identifying Number	Federal Expenditures
Department of Transportation <b>Pass-Through</b> Programs From:			
State of California Department of Transportation			
Highway Planning & Construction			
Red Oak Victory Ship	20.205	STPLEE-5137 (030)	8,619
Transportation for Livable Communities - Downtown Ped/Bicycle Enhancement	20.205	CML-025137(036)	1,145,432
Grade crossing at intersection of Wharf Street & BNSF Railway	20.205	STPLR-7500(122)	6,300
Richmond Greenway Phase II	20.205	CML-5137 (035)	9,063
ARRA - Carlson Blvd. Project	20.205	ESPL-5137(037)	<u>1,138,704</u>
<b>Total Department of Transportation</b>			<u>2,308,118</u>
Department of Homeland Security <b>Pass-Through</b> Programs From:			
City and County of San Francisco			
Bay Area Urban Area Security Initiative (UASI)	97.067	2009-0019	<u>73,400</u>
State of California Office of Emergency Services			
Emergency Management Performance Grant	97.042	13-000	<u>25,000</u>
<b>Total Department of Homeland Security</b>			<u>98,400</u>
Department of Commerce, Economic Development Administration, <b>Direct</b> Programs			
Economic Development Support for Planning Organizations - ARRA	11.302	07-87-06466	<u>15,650</u>
Economic Adjustment Assistance			
Program expenditures	11.307	07-39-2437.01	150,030
Loan program cash balance at end of year	11.307	07-39-2437.01	<u>260,462</u>
Subtotal Economic Adjustment Assistance			<u>410,492</u>
Department of Commerce, Economic Development Administration, <b>Pass Through</b> Programs From:			
State of California Office of Emergency Services			
BTOP Learner Web Partnership - ARRA	11.557	200RED240	<u>85,952</u>
<b>Total Department of Commerce, Economic Development Administration</b>			<u>512,094</u>
Institute of Museum and Library Services <b>Pass-Through</b> Program From:			
California State Library			
Grants to States			
Library Services and Technology Act	45.310	40-7316	23,919
Library Services and Technology Act	45.310	40-7663	5,000
Library Services and Technology Act	45.310	40-7785	<u>36,951</u>
<b>Total Institute of Museum and Library Services</b>			<u>65,870</u>
Department of Defense, Department of the Navy, <b>Direct</b> Programs			
Community Base Reuse Plans, Project Grant/Cooperative Agreement			
Naval Fuel Depot Point Molate Pollution Remediation	12.612	N62473-08-MD-V0020	<u>834,859</u>
<b>Total Expenditures of Federal Awards</b>			<u><u>\$17,067,259</u></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, 2011**

**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	\$909,549
14.218	Community Development Block Grant/Entitlement Grant - Neighborhood Stabilization Program	1,339,720
17.274	YouthBuild	107,237
17.258	Workforce Investment Act - Adult Programs	135,000
17.260	Workforce Investment Act - Dislocated Worker Programs	209,000
20.205	Highway Planning and Construction	9,063

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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, 2011, and have issued our report thereon dated February 7, 2012. The report included a special emphasis paragraph concerning proposed redevelopment dissolution and a paragraph discussing the implementation of Governmental Accounting Boards Statement Number 54 (GASB 54), *Fund Balance Reporting and Governmental Fund Type Definitions*. 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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. We have identified certain deficiencies we consider to be material weaknesses. These are listed in our separately issued Memorandum on Internal Control dated February 7, 2012.

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 February 7, 2012.

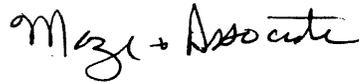
### ***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, which we have communicated in our separately issued Memorandum on Internal Control dated February 7, 2012.

We have also issued a separate Memorandum on Internal Control dated February 7, 2012 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 Memorandum on Internal Control. 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 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.



February 7, 2012

**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, 2011. 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 Richmond Housing Authority which received federal awards which are not included in the schedule during the year ended June 30, 2011. Our audit, described below, did not include the operations of the Richmond Housing Authority because it issues a separate Single Audit report.

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 the accompanying Schedule of Findings and Questioned Costs, the City did not comply with requirements regarding cash management that are applicable to its Neighborhood Stabilization Program and Community Development Block Grant program (2011-03) and Home Investment Partnerships program (2011-07), subrecipient monitoring that are applicable to the YouthBuild and Workforce Investment Act programs (2011-04) and eligibility that are applicable to the Workforce Investment Act Program (2011-06). 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, 2011. 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 2011-03, 2011-04, 2011-06 and 2011-07 to be material weaknesses.

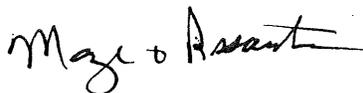
A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important 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 2011-05 to be significant deficiencies.

*Schedule of Expenditures of Federal Awards*

We have audited the financial statements of the City as of and for the year ended June 30, 2011, and have issued our report thereon dated February 7, 2012. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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.

A handwritten signature in black ink, appearing to read "Mage & Assant", with a horizontal line extending to the right.

March 23, 2012

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