

CITY OF RICHMOND
SINGLE AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2013

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SINGLE AUDIT REPORT
For The Year Ended June 30, 2013

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CITY OF RICHMOND

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2013**

SECTION I—SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of auditor’s report issued: Unmodified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted? Yes X No

Federal Awards

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

Internal control over major programs:

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

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

Identification of major programs:

<u>CFDA#(s)</u>	<u>Name of Federal Program or Cluster</u>
<u>17.258, 17.259, 17.260, 17.278</u>	<u>ARRA – Workforce Investment Act (WIA) Cluster</u>
<u>14.218</u>	<u>Community Development Block Grants/Entitlement Grants</u>
<u>20.507</u>	<u>Federal Transit Formula Grants (Urbanized Area Formula Program)</u>
<u>20.205</u>	<u>Highway Planning and Construction (Federal-Aid Highway Program)</u>
<u>12.612</u>	<u>Community Base Reuse Plans, Project Grant/Cooperative Agreement</u>
<u>97.116</u>	<u>ARRA – Port Security Grant Program – Fiber Optic Network</u>

Dollar threshold used to distinguish between type A and type B programs: \$452,900

Auditee qualified as low-risk auditee? Yes X No

SECTION II – FINANCIAL STATEMENT FINDINGS

Our audit disclosed significant deficiencies and material weaknesses, but no instances of noncompliance material to the basic financial statements. We have also issued a separate Memorandum on Internal Control dated March 18, 2014, which is an integral part of our audits and should be read in conjunction with this report.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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

Finding SA2013-01 **Supporting Documentation for Payroll Expenditures**

CFDA number: 20.205

CFDA Title: Highway Planning and Construction

Federal Agency: Department of Transportation

Pass-Through Entity: State of California Department of Transportation

Criteria: Attachment B of OMB Circular A-87 indicates that compensation for personnel services includes all remuneration, paid currently or accrued, for services rendered during the period of performance under federal awards, including but not necessarily limited to wages, salaries, and fringe benefits. The costs of such compensation are allowable to the extent that they satisfy the specific requirements of the Circular, and that the total compensation for individual employees is determined and supported.

Condition: We selected a sample of payroll expenditures charged to the Safe Route to School Project (SRTS-5137 (041)) consisting of two employees for the pay periods ending May 15, 2013 and June 15, 2013. We noted that the payroll costs were based on a flat hourly rate of \$200 for one employee and \$140 for the other employee. However, the hourly rates that were supported by the Personnel Action Forms (PAF) were \$52.49 and \$36.17, respectively. The City claimed that the difference between the pay rates per PAF and rates charged to the grants are fringe benefits. However, the City could not provide documentation supporting how it arrived at the higher rates.

During the current year, payroll costs charged the grant totaled \$62,860 for these two employees. City staff estimated that if the City were to charge the grant based on the pay rates supported by each PAF, only \$16,393 would have been charged, creating a difference of \$46,467.

Questioned cost: We question the costs of \$46,467.

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

Cause: City staff stated that the hourly rates used to calculate payroll charges applicable to the grant were established a few years ago by an employee who no longer works for the City.

Recommendation: Payroll expenditures being charged to the grant should be supported by salaries and benefits rate calculations to ensure that the City is in compliance with the compensation requirements of OMB Circular A-87. The City should maintain documentation supporting eligible payroll benefit costs in excess of the hourly rate in the PAF, and the City should either reduce the next grant reimbursement by the ineligible costs or return the funds to the grantor.

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

Finding SA2013-01 Supporting Documentation for Payroll Expenditures (Continued)

View of Responsible Officials and Planned Corrective Actions

Contact person: Alan Wolken, Director, Engineering Department

Corrective action: City staff will be instructed to use actual costs in charging grant related expenditures.

Finding SA2013-02 Financial Reporting

CFDA number: 14.218

CFDA Title: Community Development Block Grants/Entitlement Grants

Federal Agency: Department of Housing and Urban Development

Criteria: The OMB Circular A-133 Compliance Supplement for the Community Development Block Grant program requires the SF-425 Federal Financial Report and the C04PR26 – CDBG Financial Summary to be completed annually.

In addition, the Funding Approval and Grant Agreement, for the third round of Neighborhood Stabilization Program (NSP3) grant funds allocated to the City, requires the City to post quarterly performance reports to its website concurrent with the submission to the Department of Housing and Urban Development (HUD). The Grant Agreement further requires that the City submit information on performance measurements for activities undertaken with NSP grant funds.

Condition: The City failed to complete and submit the required reports above for fiscal year 2013.

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

Cause: The Finance Department is aware that they failed to submit the reports and is currently working with HUD to resolve the issue.

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

View of Responsible Officials and Planned Corrective Actions

Contact persons: Patrick Lynch, Housing and Community Development Director

Corrective action: The Department of Finance and Budget and the Department of Housing implemented policies and procedures consistent with U.S. Department of Housing and Urban Development and identified key staff as responsible parties to ensure financial and performance reports are filed on an annual basis.

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

Finding SA2013-03 Timely Submission of Grant Award Package

CFDA Number: 20.205

CFDA Title: Highway Planning and Construction

Federal Agency: Department of Transportation

Pass-Through Entity: State of California Department of Transportation

Criteria: The Special Covenants of the Program Supplement SRTS-5137 (041) for the Safe Route to School project and the Program Supplement STPL-5137 (042) for the Dornan Drive Tunnel project require that award information for construction contracts is to be submitted to the District Local Assistance Engineer (DLAE) within 60 days of project contract award.

Condition: The City awarded the construction contract for the Safe Route to School project on January 24, 2013, and awarded the construction contract for the Dornan Drive Tunnel project on December 18, 2012. The award packages for these construction contracts were submitted to the DLAE on April 5, 2013 and March 20, 2013, respectively, which were each after the 60 day timeframe.

Effect: The City is not in compliance with the Special Covenant requirements of the respective Program Supplements.

Cause: Due to staff turnover, the timely submissions of the award packages were not achieved.

Recommendation: The City should ensure that it complies with the Special Covenants of the grant requirements by submitting the award information to the DLAE within 60 days of project contract award.

View of Responsible Officials and Planned Corrective Actions:

Contact person: Andy Yeung, Senior Civil Engineer

Corrective action: The project manager will put two reminders on his/her outlook calendar to submit the grant award package. The reminders will be set as follows:
 First reminder 20 days before the due date
 2nd reminder 10 days before the due date

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

Finding SA2013-04 Compliance with Grant Survey Provisions

CFDA Number: 20.205

CFDA Title: Highway Planning and Construction

Federal Agency: Department of Transportation

Pass-Through Entity: State of California Department of Transportation

Criteria: Special Covenants of Program Supplement SRTS-5137 (041) for the Safe Route to School project require that the City complete a Student Tally and Parent Survey within two months of beginning the project and within two months after completing the project.

Condition: The City did not complete the Student Tally and Parent Survey that was required to be completed within two months of beginning of the project, but they did complete the Survey within two months of completing the project.

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

Cause: The staff was not aware that the survey needed to be completed prior to the beginning of the project.

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

View of Responsible Officials and Planned Corrective Actions:

Contact persons: Joel Camacho, Associate Civil Engineer

Corrective action: Staff was not aware of this requirement. The main school of this project, Nystrom, was temporarily closed for the construction. This school is still closed up to now, March 27, 2014.

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

Finding SA2013-05 **American Recovery and Reinvestment Act of 2009 Reporting Requirements**

CFDA number: 97.116

CFDA Title: ARRA – Port Security Grant – Fiber Optic Network

Federal Agency: Department of Homeland Security

Criteria: Under the Special Conditions section of the American Recovery and Reinvestment Act-funded (ARRA) grant agreement for the Port Security Grant (2009-PU-R1-0215), the City is required report on the use of ARRA funds throughout the award period. The reports are due no later than ten calendar days after each calendar quarter in which the City receives the award funded in whole or in part by ARRA.

In addition, the City is required to file SF-425 reports quarterly.

Condition: We requested copies of the above reports for testing, but City staff could not locate the current year reports or provide proof that they had been submitted to the grantor timely.

Effect: There is no evidence that these reports were submitted and, therefore, pertinent information may not have been reported to the Department of Homeland Security.

Cause: City personnel responsible for filing the reports could not locate the reports.

Recommendation: We recommend that the City submit the above reports within the required timeframes and retain copies of the reports and evidence they were submitted timely.

View of Responsible Officials and Planned Corrective Actions

Contact person: Michael Williams, Development Project Manager

Corrective action: The City shall cause all required reports to be submitted in a timely manner and shall retain accessible copies of said reports.

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 March 18, 2014, 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 2012-01 SEFA Preparation

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

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

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

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

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

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

Prepared by Management

Finding 2012-01 SEFA Preparation (Continued)

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

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

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

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

Prepared by Management

Finding 2012-01 SEFA Preparation (Continued)

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

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

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

View of Responsible Officials and Planned Corrective Actions:

- Contact person:** Connie Valentine, Sr. Budget Analyst/Grant Manager (510) 620-6701
- Corrective action:** The City's grant policy was submitted on May 3, 2013 to the Finance Committee and distributed to all project managers. This included the City's procedure in handling grants. Training has started by the Grant Manager for different departments to show how MUNIS GL System can be used in effectively monitoring and reporting grants.
- Current status:** The City grant policy was established on May 3, 2013 and included procedures to ensure compliance to government regulations. A grant information form was developed and is now being used to establish the important data in the grant such as the grant scope, amount of grant, name of grantor, CFDA number, match needed, account string, etc. Procedures in preparing SEFA, and handling/recording of capital assets were also instituted. The Grant Manager informed the auditors that prior years' expenditures spent on Metrowalk were not included in the fiscal year 2010 and fiscal year 2011 SEFA, that is why the amount of SEFA changed so much.

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

Prepared by Management

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

CFDA Number: 17.258, 17.259, 17.260, 17.278
CFDA Title: ARRA - Workforce Investment Act Cluster
Federal Agency: Department of Labor
Pass-Through Entity: State of California Employment Development Department

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

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

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

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

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

View of Responsible Officials and Planned Corrective Actions:

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

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

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

Current status: The City's response to Compliance Review Office's (CRO) request for corrective action demonstrated ongoing development and implementation of procedures to improve its internal controls over participant files. CRO is satisfied that the City has sufficiently addressed the finding. The City received communication from the grantor on January 12, 2014 that the issue is considered corrected.

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

Prepared by Management

Finding 2012-03 Accurate Preparation of IDIS Financial Summary Report

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

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

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

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

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

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

View of Responsible Officials and Planned Corrective Actions:

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

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

Current status: City staff is working with the HUD representative to correct the PR26 reports for prior years. A request for training has been made to HUD in this area. City staff has the goal of having accurate PR26 reports by the end of fiscal year 2014.

See also Current Year finding SA2013-02.

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

Prepared by Management

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

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

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

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

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

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

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

View of Responsible Officials and Planned Corrective Actions:

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

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

Current status: The City has recently adopted new systems to review invoices and make draws that institute two levels of review. This check and balance is expected to provide additional controls and impede premature draws.

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

Prepared by Management

Finding 2012-07 Annual Filing of HUD 60002 Performance Report

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

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

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

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

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

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

View of Responsible Officials and Planned Corrective Actions:

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

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

Current status: The Housing Department has adopted new protocols including a new review and implementation of Section 3 requirements. Although the City did not have any applicable projects that required filing the HUD 60002 in fiscal year 2013, notices to Project Managers alerting them about the preparation and submission of the HUD 60002 report have already been submitted as of October 25, 2013.

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

Prepared by Management

Finding 2012-08

Payroll Costs Charged to Grant Should be Based on Actual Time

CFDA Number: 14.239

CFDA Title: Home Investment Partnerships Program

Federal Agency: Department of Housing and Urban Development

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

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

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

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

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

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

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

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

Prepared by Management

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

View of Responsible Officials and Planned Corrective Actions:

- Contact persons:** Patrick Lynch, Housing and Community Development Director
(510) 412-2053
- Corrective action:** During fiscal year 2012 the actual time was not used to charge the grants and instead percentage allocations were used, but City staff has since implemented an “actual time” allocation system starting in July 2012.
- Current status:** The City has requested a cost allocation plan from HUD to better categorize and keep track of salaries and other admin expenses.

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

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

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

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

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

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

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

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

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

Prepared by Management

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

View of Responsible Officials and Planned Corrective Actions:

- Contact persons:** Latha Ravinder, Accounting Manager (510) 620-6739
- Corrective action:** The fiscal year 2012-13 Grant Management Policy was recently presented and accepted by the Finance Committee on May 3, 2013. The City plans on adding a section on “sub recipient monitoring” to the fiscal year 2013-14 Grant Management Policy. This section will address the audit requirements of OMB Circular A-133 as it relates to determining who is a sub recipient, the receipt and maintenance of agreements and compliance with the terms of the agreement among other requirements.
- Current status:** The City of Richmond is receiving technical assistance from Training and Development Associates (TDA). HUD is overseeing the training conducted by TDA in the areas of grant and financial management as it relates to Community Development Block Grants (CDBG) and entitlement grants. The training is expected to be completed by July/August 2014.

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

- CFDA Number:** 17.261
CFDA Title: Workforce Investment Act – Pilots, Demonstrations and Research Projects
Federal Agency: Department of Labor
Pass-Through Entity: City of Emeryville

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

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

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

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

Prepared by Management

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

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

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

(A) Based on 52% of salary and includes medical, dental, vision, retirement, short and long-term disability, worker's compensation, MediCal, and unemployment.

(B) The budget indicates "all administrative functions for the project will be paid for by other non-Department of Labor funds."

(C) Based on our testing of the pay periods included in the months of September 2011 and May 2012, the City charged 100% and 50%, respectively, of the Program Manager's salary, which average to 75%. We did not test additional pay periods.

(D) The general ledger does not break down the payroll by employee and between salaries and fringe benefits. However, total direct labor and fringe benefits charged to the grant do not appear to exceed the budget. See also (C).

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

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

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

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

Prepared by Management

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

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

View of Responsible Officials and Planned Corrective Actions:

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

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

Current status: The City has put in place policies and procedures in regard to reviewing the Grant Budget.

The City worked with the grantor during fiscal year 2013 to provide documentation substantiating supplies and time/attendance records covering \$199,877 of the total questioned costs and the grantor provided a one-time exception to the City to have "stand-in" costs cover a portion of the questioned costs. The City was not required to return funds to the grantor, and the City received communication from the grantor on January 12, 2014 that the issue is considered corrected.

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

Prepared by Management

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 Entity: State of California Employment Development Department

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

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

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

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

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

View of Responsible Officials and Planned Corrective Actions:

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

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

Current status: Procedures were established in Employment & Training to verify eligibility. The City received communication from the grantor on January 12, 2014 that the issue is considered corrected.

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

Prepared by Management

Finding 2011-10 Accurate Preparation of Reimbursement Requests

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

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

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

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

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

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

View of Responsible Officials and Planned Corrective Actions:

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

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

Current status: The City will follow the Standard Operation Procedures in preparing accurate reimbursement requests.

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

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

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

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

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

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

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

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

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

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

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

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

Prepared by Management

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

Current status: The City of Richmond Finance Department has developed policies and procedures for proper financial reporting in the IDIS system.

See also Finding 2012-03 and Current Year finding 2013-02.

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

CFDA Number: 12.612

CFDA Title: Community Base Reuse Plans, Project Grant/Cooperative Agreement – Naval Fuel Depot Point Molate Pollution Remediation Grant

Federal Agency: Department of Defense, Department of the Navy

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

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

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

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

Prepared by Management

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

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

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

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

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

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

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

Current status: The City provided additional supporting documentation to the grantor and received confirmation from the grantor in March 2014 that the costs were allowable and approved.

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

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

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

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

Prepared by Management

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

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

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

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

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

Name of contact person: Ted Ferrer, 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: City of Richmond Finance Dept has developed policies and procedures for proper financial reporting in the IDIS system.

See also Finding 2012-03 and Current Year finding 2013-02.

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, 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 manager 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, 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: The City obtained a Government Crime Policy for the period December 8, 2012 to December 8, 2013, and the Policy has the U.S. Department of Commerce Economic Development Administration as the certificate holder.

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

CFDA Number: 97.056 and 97.044

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

Federal Agency: Department of Homeland Security

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

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

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

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

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

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

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

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

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

See Finding 2010-02.

CITY OF RICHMOND
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For the Fiscal Year Ended June 30, 2013

Federal Grantor/ Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Grant or Pass-Through Identifying Number	Federal Expenditures
Department of Housing and Urban Development Direct Programs			
Community Development Block Grants/Entitlement Grants			
Program expenditures	14.218		\$483,937
Program expenditures	14.218		140,765
Loan program cash balance at the end of the year	14.218		352,703
Neighborhood Stabilization Program 1:			
Program expenditures	14.218		469,092
Neighborhood Stabilization Program 3:			
Program expenditures	14.218		664,194
Program Subtotal			<u>2,110,691</u>
HOME Investment Partnerships Program			
Program expenditures	14.239		<u>149,471</u>
Total Department of Housing and Urban Development			<u>2,260,162</u>
Department of Labor, Employment Training Administration Direct Programs			
Workforce Investment Act - Pilots, Demonstrations and Research Projects			
Reintegration of Ex-Offenders	17.270		<u>532</u>
RichmondBuild Green Careers Academy Earmark			
	17.261		137,775
Department of Labor Pass-Through Programs From:			
City of Emeryville			
Green Corridor Earmark	17.261	EA-21469-11-60-A	<u>55,549</u>
Program Subtotal			<u>193,324</u>
Workforce Investment Act Cluster			
Pass-Through Programs From:			
State of California Employment Development Department			
Workforce Investment Act - Adult Program	17.258	K282493	347,997
Workforce Investment Act - Youth Activities	17.259	K282493	579,796
Workforce Investment Act - Dislocated Worker Formula Grants	17.278	K178678	311,770
Workforce Investment Act - Dislocated Worker Rapid Response	17.278	K282493	156,454
Workforce Investment Act - Dislocated Worker Title I Rapid Response	17.278	K178678	639,435
ARRA - Workforce Investment Act - Title I National Emergency Grants	17.260	K074159	150,755
Workforce Investment Act - Dislocated Worker Title I National Response Emergency	17.278	K282493	191,787
Workforce Investment Act - Adult Green Jobs Innovation 15%	17.258	K178678	393,848
Workforce Investment Act - Adult CTE 61.60	17.258	K178678	307,781
Oakland Private Industry Council			
Workforce Investment Act - 5% Adult Special Projects	17.258	11-GRIP-Rich	25,434
South Bay Workforce Investment Board			
Workforce Investment Act - Title I National Emergency Grants (Multi-Sector)	17.278	Not available	<u>11,997</u>
Program Subtotal			<u>3,117,054</u>
Total Department of Labor, Employment Training Administration			<u>3,310,910</u>
Department of Energy Direct Programs			
ARRA - Energy Efficiency and Conservation Block Grant Program			
	81.128		<u>270,224</u>
Environmental Protection Agency Direct Programs			
Environmental Workforce Development and Job Training Cooperative Agreements			
	66.815		<u>171,129</u>

(Continued)

CITY OF RICHMOND
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2013

Federal Grantor/ Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Grant or Pass-Through Identifying Number	Federal Expenditures
Department of Justice Direct Programs:			
Office of Juvenile Justice and Delinquency Prevention East Bay Mentoring Partnership	16.726	2012-JU-FX-28	<u>96,017</u>
Public Safety Partnership and Community Policing Grants ARRA - COPS Hiring Recovery Program Grant	16.710	2009RKWX0094	<u>396,575</u>
Department of Justice Pass-Through Programs From:			
Contra Costa County Sheriff's Department			
Edward Byrne Memorial Justice Assistance Grant Program			
2009 JAG Grant	16.738	2009SBB92404	205,824
2011 JAG Grant	16.738	2011DJ-BX-3372	9,998
2012 JAG Grant	16.738	2012DJ-BX-0671	81,710
ARRA - 2009 JAG Grant	16.804	2009DJBX0348	<u>1,322</u>
Program Subtotal			<u>298,854</u>
State of California Office of Emergency Services			
Violence Against Women Formula Grants			
ARRA - Domestic Violence and Sexual Assault- Family Services III	16.588	LE11047830	83,899
ARRA - Family Services IV	16.588	LE12057830	<u>89,701</u>
Program Subtotal			<u>173,600</u>
Total Department of Justice			<u>965,046</u>
Department of Transportation Direct Program			
Federal Transit - Formula Grants (Urbanized Area Formula Program) CMAQ Metrowalk	20.507	CA-95-X095-00	<u>856,647</u>
Department of Transportation Pass-Through Programs From:			
Highway Planning and Construction (Federal-Aid Highway Program)			
State of California Department of Transportation			
Dornan Drive	20.205	STPL-5137(042)	320,900
Safe Route to School - Nystrom	20.205	SRTS-5137(041)	300,200
Dornan Drive - Tunnel	20.205	STPL-5137(042)	81,296
Metropolitan Transportation Commission			
South Richmond Specific Plan & Program EIR	20.205	STPL 6084 (146).	<u>106,197</u>
Program Subtotal			<u>808,593</u>
State of California Office of Traffic Safety			
Minimum Penalties for Repeat Offenders for Driving While Intoxicated Sobriety Checkpoint Mini-Grant Program	20.608	SC12343	20,917
Regents of the University of California			
Minimum Penalties for Repeat Offenders for Driving While Intoxicated Sobriety Checkpoint Mini-Grant Program II	20.608	SC13343	<u>17,973</u>
Program Subtotal			<u>38,890</u>
Total Department of Transportation			<u>1,704,130</u>

(Continued)

CITY OF RICHMOND
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For the Fiscal Year Ended June 30, 2013

Federal Grantor/ Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Grant or Pass-Through Identifying Number	Federal Expenditures
Department of Homeland Security Direct Programs			
Disaster Grants-Public Assistance (Presidentially Declared Disasters) - West Contra Costa County USAR	97.036		<u>154,897</u>
Equipment			
ARRA - Port Security Grant - Fiber Optic Network	97.116		<u>3,973,972</u>
Department of Homeland Security Pass-Through Programs From:			
State of California Office of Emergency Services			
Homeland Security Grant Program - Bay Area Urban Area Security Initiative (UASI)	97.067	2009-0019	<u>172,175</u>
Marine Exchange of San Francisco Bay			
Port Security Grant Program			
Fireboat	97.056	EMW-2011-PU-K00351	<u>273,143</u>
Total Department of Homeland Security			<u>4,574,187</u>
Department of Health and Human Services Direct Program:			
Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances	93.104		<u>158,829</u>
Department of Commerce, Economic Development Administration Pass-Through Programs From:			
State of California Office of Emergency Services			
Broadband Technology Opportunities Program			
ARRA - Learner Web Partnership	11.557	200RED240	<u>165,546</u>
Institute of Museum and Library Services Pass-Through Program From:			
California State Library			
Grants to States			
Library Services and Technology Act	45.310	40-7938	20,845
Summer Reading Camp	45.310	40-7972	<u>10,423</u>
Total Institute of Museum and Library Services			<u>31,268</u>
Department of Defense, Department of the Navy Direct Program:			
Community Base Reuse Plans, Project Grant/Cooperative Agreement			
Naval Fuel Depot Point Molate Pollution Remediation	12.612		<u>1,485,225</u>
Total Expenditures of Federal Awards			<u>\$15,096,656</u>

See Accompanying Notes to Schedule of Expenditures of Federal Awards

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CITY OF RICHMOND

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended June 30, 2013**

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. Federal awards expended by the Richmond Housing Authority, if any, are excluded from the Schedule and are subject to a separate Single Audit performed by other auditors.

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	\$106,423
14.218	Community Development Block Grant/Entitlement Grant - Neighborhood Stabilization Program 1	467,352
14.218	Community Development Block Grant/Entitlement Grant - Neighborhood Stabilization Program 3	599,400
17.258	Workforce Investment Act - Adult Program	123,458
17.260	ARRA - Workforce Investment Act - Title I Nat'l Emergency Gra	8,500
17.278	Workforce Investment Act - Dislocated Worker Formula Grants	97,179
17.278	Workforce Investment Act - Title I Rapid Response	98,550
17.278	Workforce Investment Act - Title I Nat'l Res Emergency	24,500

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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 Members of the City Council
City of Richmond, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the basic financial statements of the City of Richmond as of and for the year ended June 30, 2013, and the related notes to the financial statements, and have issued our report thereon dated March 18, 2014. Our report included an emphasis of a matter paragraphs disclosing the implementation of new accounting principles, a discussion of transactions related to the dissolution of the Redevelopment Agency, the going concern of a discretely presented component unit and the restatement of loans receivable. Our report includes a reference to other auditors who audited the financial statements of the Richmond Housing Authority and Richmond Housing Authority Properties as described in our report on the City's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City's internal control. Accordingly, we do not express an opinion on the effectiveness of City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, we identified certain deficiencies that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. We identified certain deficiencies in internal control we consider to be material weaknesses as listed on the Schedule of Material Weaknesses included as part of our separately issued Memorandum of Internal Control dated March 18, 2014, which is an integral part of our audits and should be read in conjunction with this report.

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 identified certain deficiencies in internal control, we consider to be significant deficiencies as listed on the Schedule of Significant Deficiencies included as part of our separately issued Memorandum on Internal Control dated March 18, 2014, which is an integral part of our audits and should be read in conjunction with this report.

Compliance and Other Matters

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

City's Response to Findings

The City's response to the findings identified in our audit are described in our separately issued Memorandum on Internal Control dated March 18, 2014, which is an integral part of our audits and should be read in conjunction with this report. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Mane & Associates

Pleasant Hill, California
March 18, 2014

**INDEPENDENT AUDITOR'S REPORT ON
COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM;
REPORT ON INTERNAL CONTROL OVER COMPLIANCE;
AND REPORT ON THE SCHEDULE OF EXPENDITURES OF
FEDERAL AWARDS REQUIRED BY OMB CIRCULAR A-133**

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

Report on Compliance for Each Major Federal Program

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, 2013. 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.

The City of Richmonds' basic financial statements include the operations of the Richmond Housing Authority, which received federal awards not included in the accompanying Schedule of Federal Awards during the year ended June 30, 2013. Our audit, described below, did not include the operations of the Richmond Housing Authority, because it engaged other auditors to perform an audit in accordance with OMB Circular A-133.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

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

Basis for Qualified Opinion on CFDA 20.205 Highway Planning and Construction

As described in the accompanying schedule of findings and questioned costs, the City did not comply with the Allowable Costs requirements for the Highway Planning and Construction Program (CFDA 20.205) as described in finding number SA2013-01. Compliance with such requirements is necessary, in our opinion, for the City to comply with the requirements applicable to that program.

Qualified Opinion on CFDA 20.205 Highway Planning and Construction

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Highway Planning and Construction Program for the year ended June 30, 2013.

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended June 30, 2013.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, 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 as items SA2013-02 through SA2013-05. Our opinion on each major federal program is not modified with respect to these matters.

City's Response to Findings

The City's response to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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 material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and 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 item SA2013-01 to be a material weakness.

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 SA2013-02 and SA2013-05 to be significant deficiencies.

The City's response to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the basic financial statements of the City as of and for the year ended June 30, 2013, and have issued our report thereon dated March 18, 2014, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. 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 financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.



Pleasant Hill, California
March 28, 2014

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