

CITY OF RICHMOND
SINGLE AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2007

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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

We have audited the basic financial statements of the City of Richmond, California, for the year ended June 30, 2007 and have issued our unqualified report thereon dated February 22, 2008. These basic financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

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

Section I—Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? X yes no
- Significant deficiency(ies) identified that are not considered to be material weaknesses? X yes none reported

Noncompliance material to financial statements noted? yes X no

Federal Awards

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

Qualified

Internal control over major programs:

- Material weakness(es) identified? X yes no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? X yes none reported

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

X yes no

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
<u>14.218</u>	<u>HUD – Community Development Block Grant Program</u>
<u>17.258, 17.259 and 17.260 (Cluster)</u>	<u>Department of Labor Workforce Investment Act – Adult Program, Youth Activities, and Dislocated Workers</u>
<u>17.261</u>	<u>Department of Labor – H-1B Visa Program</u>
<u>20.205</u>	<u>Department of Transportation – Highway Planning and Construction</u>
<u>84.287</u>	<u>Department of Education – 21st Century Learning Centers</u>
<u>93.550</u>	<u>Department of Health and Human Services – Transitional Living</u>

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

\$ 300,000

Auditee qualified as low-risk auditee?

yes X no

Section II – Financial Statement Findings

Our audit did disclose material weaknesses and significant deficiencies, but no instances of noncompliance material to the basic financial statements. We communicated these material weaknesses, significant deficiencies and other matters to the City Council in our separate Memorandum on Internal Controls dated February 22, 2008 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

Current Year Findings and Questioned Costs

Finding 07-01: Unsigned Timesheet

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

Pursuant to Circular A-87 Attachment B, Section 8, and City policy, payroll charges should be supported by signed timesheets. We selected six employee timesheets for testing of payroll charged to the CDBG grant. Although this employee's compensation is fully allocable to the CDBG program, one of the timesheets was not signed by the employee. Our tests of the payroll system conducted as part of the financial statement audit included additional samples of employee timesheets which were signed and properly approved in accordance with City policy. All timesheets should be reviewed by the appropriate personnel and signed to verify hours worked are properly chargeable to specific activities.

Management's Response:

Currently the procedure for processing timecards is as follows: time cards are signed by the employee and their supervisor and then submitted to the Redevelopment Administrative Services Manager for delivery to the Payroll Division. The Redevelopment Administrative Services Manager is to ensure all signatures are in place prior to delivering the timecards to the Payroll Division. Immediately, the Redevelopment Administrative Services Manager will review the timecards with the Redevelopment Finance Manager to ensure all signatures are in place prior to delivering the timecards to the Payroll Division.

Section III – Federal Award Findings and Questioned Costs

Current Year Findings and Questioned Costs (Continued)

Finding 07-02: Reimbursement Request Review and Approval

Programs Affected: Department of Labor - H-1B Visa Program, CFDA #17.261 and the Department of Health and Human Services – Transitional Living Program, CFDA #93.550

Prudent management practices dictate that claims for federal awards be reviewed and approved by a responsible official. The Senior Accountant prepares reimbursement requests for the H-1B Visa Program and the Transitional Living Program, however they are not reviewed by another employee prior to submission. There should be a separation of duties for this process where one employee prepares the reimbursement request and a responsible official approves the request to make sure that expenditures submitted for reimbursement comply with the grant agreement.

Management's Response:

The current process for submitting reimbursement requests is as follows:

The Senior Budget Analyst prepares the reimbursement request. The reimbursement request is reviewed by the Employment & Training Director prior to submission. After review by the Employment & Training Director, the Senior Budget Analyst submits the reimbursement request.

Finding 07-03: Subrecipient Monitoring and Audit Reports

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

OMB Circular A-110 requires that auditees adequately monitor subrecipients. The City had three commercial partners participating in the H-1B Visa Program, and we understand that the City performed monitoring visits during the fiscal year. However, City staff was unable to locate the results of those visits and whether Single Audits had been received for these partners. The City should retain all monitoring visit information to ensure compliance with the OMB Circular A-110 subrecipient monitoring requirements.

Management's Response:

The current process for maintaining records of monitoring visits is as follows:

Copies of all monitoring reports and related documentation are retained in a folder on a shared network drive. Additionally, in this folder, the department also maintains a Single Audit Report Log for each fiscal year, which includes information on the contractor, contact person, program, contract value, contract period, date of receipt of Single Audit Report, auditor, initial determination (disallowed costs), final determination (disallowed costs), and documentation of findings/comments. Hard copies of audit reports received are maintained in a master file in the fiscal services unit. This process was designed to prevent the loss of documentation in the event of staff turnover.

Section III – Federal Award Findings and Questioned Costs

Current Year Findings and Questioned Costs (Continued)

Finding 07-04: Budget Line Item Expenditure Controls

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

The grant agreement #AH-13436-03-60 for the H1B Visa Program allows flexibility within the grant budget, except wages, salaries and fringe benefits, 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 must receive prior written approval from the Grant Officer (grantor). Cumulative expenditures for the grant through the grant end date of June 30, 2007 exceeded the budgeted amounts in the wages, fringe benefits and other categories, but prior written approval from the grantor was not obtained. The City filed a request for a modification of the line-item budget on April 22, 2008. The City's program managers should monitor grant expenditures by budget line-item when there are such limitations in the grant agreement to ensure that the City remains in compliance with the grant requirements.

Management's Response:

The department is in discussions with the Department of Labor regarding the request for budget modification. Although the H-1B program has been completed, the department has taken steps to ensure that grant expenses of other federal programs are in consistent with approved budgets. Any anticipated deviation from an approved budget will be communicated with the grantor agency in a timely manner.

Section III – Federal Award Findings and Questioned Costs

Current Year Findings and Questioned Costs (Continued)

Finding 07-05: Preparation of Financial Status Reports

Programs Affected: Department of Labor - H-1B Visa Program, CFDA #17.261 and the Department of Health and Human Services – Transitional Living Program, CFDA #93.550

The H-1B Visa Program grant agreement #AH-13436-03-60 requires the City to file quarterly Financial Status Reports (SF-269) and the Transitional Living Program grant agreement #09CX5027/04 requires the City to file semi-annual Financial Status Reports. During our testing of the final Financial Status Reports (FSR) for each of these grants we noted the following:

- The H-1B Visa FSR for the period ending June 30, 2007 originally filed on September 28, 2007 was revised on April 22, 2008 to correct the third-party in-kind contributions which had been overstated.
- The revised H-1B Visa FSR for the period ending June 30, 2007 contained a typographical error in the “This Period” column for the line “Total Recipient Share of Net Outlays”.
- The revised H-1B Visa FSR included the wrong grant agreement number.
- The City’s share of program outlays for the Transitional Living Program FSR for the period ending June 30, 2007 were reported on the “Third party (in kind) contributions” line, rather than the “All other recipient outlays...” line.

Although these errors and misclassifications did not affect the federal share of net outlays for each program, all data reported in the FSR’s should be reviewed to ensure it is properly supported and reported. The City should take more care in preparing these FSR’s to ensure that they do not include any errors, misstatements, or oversights.

Management’s Response:

FSRs will be reviewed and approved by a responsible official prior to submission to grantor agency.

Finding 07-06: Miscoded Expenditures

Program Affected: Department of Labor-WIA Youth Foster Care Program, CFDA #17.259

Pursuant to OMB Circular A-87, program costs must be adequately supported and properly chargeable to federal programs. We selected a sample of charges for this cluster totaling approximately \$140,000 to for testing of compliance with Program guidelines and found that one of the charges in the amount of \$3,527 was incorrectly charged to the Youth Foster Care Program. This amount has been included in the program expenditures reported on the Schedule of Expenditures of Federal Awards. We understand that the City corrected the error during fiscal year 2008. However, the program managers should review all detailed expenditure reports for the WIA programs on a monthly basis to ensure that errors are caught and corrected in a timely manner.

Management’s Response:

Currently program managers review detailed expenditure reports on a monthly basis. It should be noted, however, that the grant period for the Youth Foster Care Program did not end until mid-year 2008, and the program was still operating during fiscal year 2008 when the error was discovered and the correction was made.

Section III – Federal Award Findings and Questioned Costs

Current Year Findings and Questioned Costs (Continued)

Finding 07-07: Quarterly Expenditure Reports, Program Expenditures and Cash Management

Program Affected: California Department of Education – 21st Century Community Learning Centers (CCLC), CFDA #84.287

Cash Management - CCLC grant funds are provided to the City on an advanced basis. OMB Circular A-102 requires that the City minimize the time elapsing between receipt of federal awards and their use. In fiscal 2006-07, the City received \$994,088 in CCLC funds, but had only claimed \$134,893. The City should not request advances unless there is a need. Interest earned on these unexpended awards should be returned to the State. The final amount of unused funds has not yet been determined due to potentially reimbursable unclaimed costs discussed below.

Reporting - The Grant Award Notification for the CCLC program requires the City to submit expenditure reports to the California Department of Education (CDE) on a quarterly basis. The City's expenditure reports for the 2nd quarter of fiscal year 2006-2007 were not filed until March 8, 2007.

The City established a separate general ledger fund to account for this program; however nonfederal revenues and expenditures associated with the program are included in that fund. Although general ledger expenditures for fiscal year 2007 exceeded the expenditures reported to the CDE, City staff was unable to determine specifically which general ledger expenditures were included in the 2nd quarter reports. In addition, expenditure reports were not submitted for the 1st, 3rd or 4th quarters of fiscal year 2006-2007 and potentially reimbursable expenditures of up to \$325,916 were not claimed and have not been included in the Schedule of Expenditures of Federal Awards.

The City should analyze program activity and determine all eligible costs of the program. Then, the City should work with the CDE to determine whether late expenditure reports will be accepted, and if grant revenues in excess of eligible program expenditures to date need to be returned to the CDE. In the future, the City should ensure that it is in compliance with OMB cash management, and grant reporting requirements to ensure funding is not jeopardized.

Management's Response:

Quarterly reports were only completed through December 2006. Quarters 3 & 4 are in dispute due to the information received from the State switching the fiscal agent responsibility from the City of Richmond to the School District for FY2007. The City is working with the California Department of Education (CDE) to resolve this matter as quickly as possible, and the CDE has indicated that the City will be allowed to submit invoices for past eligible expenditures.

Section III – Federal Award Findings and Questioned Costs

Current Year Findings and Questioned Costs (Continued)

Finding 07-08: Cost Allowability Management

Program Affected: California Department of Education – 21st Century Community Learning Centers (CCLC), CFDA #84.287

The City's Senior Accountant responsible for preparing reimbursement requests for the CCLC Program did not have a copy of OMB Circular A-87. City staff in charge of determining eligible costs for federal grant programs should keep all applicable cost circulars available for review to ensure grant funds are expended accordingly.

Management's Response:

The Senior Accountant has obtained a copy of the cost circular.

Finding 07-09: Payroll Certifications

Program Affected: California Department of Education – 21st Century Community Learning Centers (CCLC), CFDA #84.287

As required by OMB Cost Circular A-87, 11.h (3), where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications are to be prepared at least semi-annually and signed by the employee or supervisory official having first hand knowledge of the work performed by the employee. We understand that the Administrative Trainee works solely on the CCLC Program and his salary was fully allocated to the CCLC program for fiscal year 2007. However, the City has not prepared the required certification. The City should complete the required certification and review other Federal award programs in which personnel are fully allocated to the programs to determine whether certifications are necessary.

Management's Response:

The City has now prepared the certification and future certifications will be prepared timely.

Section III – Federal Award Findings and Questioned Costs

Current Year Findings and Questioned Costs (Continued)

Finding 07-10: Indirect Cost Limitations

Program Affected: California Department of Education – 21st Century Community Learning Centers (CCLC), CFDA #84.287

The Grant Award Notification for the CCLC program limits administrative costs to 15% of grant funds. The administrative costs include indirect costs equal to the California Department of Education (CDE) approved indirect cost rate or 5%, whichever is less. The CCLC quarterly expenditure report forms provided by the CDE indicate that indirect costs are to be 5% or less. The second quarter expenditure report for the DeJean Middle School grant program (Grant ID# 07-2002-CCLC-007) reported indirect costs of 14.6% of quarterly expenditures. Since the City has not submitted additional expenditure reports to the grantor, we were unable to determine whether the indirect costs for the grant in total were less than the 5% limitation. The City should ensure that indirect costs do not exceed the 5% grant limitation. Administrative costs in excess of the limitation amounted to \$1,560.

Management's Response:

The City's old Grants Manager miscalculated the indirect cost on an invoice. The City's new Grants Manager will verify the indirect cost on future invoices to insure this doesn't happen again.

Finding 07-11: Authorization to Proceed and Reimbursement Ratio

Program Affected: U.S. Department of Transportation – Highway Planning and Construction Transportation for Livable Communities, CFDA #20.205

The City received a two-phase grant from the U.S. Department of Transportation, passed through the California Department of Transportation, for the Richmond Transit Station. The City is allowed to incur expenditures for U.S. Department of Transportation Grants after receipt of the Authorization to Proceed (FNM-76). The first phase of the grant (Q400) was funded by Congestion Management funds and reimbursed 27.73% of applicable project expenditures as noted on the Authorization to Proceed. The second phase of the grant (H400) was funded by Transportation for Livable Communities (TLC) funds. The City requested reimbursement from the second phase of the grant in the amount of 42.78%, however City staff was unable to locate the amended Authorization to Proceed that included the TLC portion of the grant funding. Therefore, we were unable to verify the reimbursement ratio of 42.78% of program expenditures for the TLC portion of the project. The City should ensure that all grant approval/authorization documentation is retained and readily available during the project.

Management's Response:

Immediately, staff will verify that the Authorization to Proceed (FNM-76) includes all reimbursement percentages for all grant funds. In instances where there are multiple phases and multiple grant funds and the Authorization to Proceed (FNM-76) delineates the reimbursement percentage for one grant fund for phase one, prior to the end of phase one and the beginning of the next phase, staff will request an updated Authorization to Proceed (FNM-76) that will include reimbursement percentages for the remaining grant funds and phases.

Section IV - Status of Prior Year Findings and Questioned Costs

Prepared by Management

Finding 06-01: Timesheets

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

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

Current Status:

The Senior Budget Analyst assures that all time sheets are signed prior to processing. Any unsigned timesheets received by the Senior Budget Analyst are returned to the responsible Program Manager before processing.

Finding 06-02: Contribution Matching Requirements

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

Part II – Budget Information, Section B – Cost Sharing/Match Summary of the grant agreement indicated that Cash and In-Kind Contributions total cost sharing/Match rate is 256%. However, of the 14 original participants, 12 of them are no longer available to participate in the project due to company mergers, closures and lay-offs. These participants are major contributors of the In-Kind Contributors per the original agreement. We noted during the review of the agreement that the City made a verbal agreement with the Department of Labor to change the total cost sharing/match rate to 50% for any participants currently contracted with the City. There has been no official written modification approving the change.

Current Status:

All cost sharing/match has been submitted and accepted by the Department of Labor. The H-1B Visa program has been completed.

Section IV - Status of Prior Year Findings and Questioned Costs (Continued)

Prepared by Management

Finding 06-03: Grant Agreement Modification

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

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

Current Status:

The H-1B Visa program has been completed. Going forward, the department will ensure that modification requests are submitted to funding agencies in a timely manner.

Finding 06-04: Procurement Policies and Procedures

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

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

Current Status:

Subsequent to the FY2006 Single Audit, it was discovered that this contract was approved by the City Council on January 4, 2005.

Finding 06-05: Report Compliance

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

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

Current Status:

Reports are currently filed timely, and the final closeout was filed within 90 days as required by the Department of Labor.

Section IV - Status of Prior Year Findings and Questioned Costs (Continued)

Prepared by Management

Finding 06-06: Reimbursement Requests

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

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

Current Status:

The Agency's accounting staff continues to coordinate with the program staff to ensure all documentation for programmatic and accounting requirements is received and verified prior to draw down of funds from CDBG.

Finding 06-07: Community Development Block Grant Action Plan

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

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

Current Status:

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

Section IV - Status of Prior Year Findings and Questioned Costs (Continued)

Prepared by Management

Finding 06-8: Disposition of Real Property

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

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

Current Status:

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

Finding 06-9: Public Service Expenditures

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

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

Current Status:

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

Section IV - Status of Prior Year Findings and Questioned Costs (Continued)

Prepared by Management

Finding 06-10: Quarterly Reports

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

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

Current Status:

The City has requested the timely submission of invoices from West Contra Costa so that the City's new Grants Manager can conform to grantor reporting requirements, as well as the timely invoicing of grantors for expenses incurred on a quarterly basis henceforward.

Finding 06-11: Reimbursements Follow up

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

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

Current Status:

The new Grants Manager will access the Grant Administration and Payment System Activity Report (GAPAR) to confirm receipt of award payments.

Section IV - Status of Prior Year Findings and Questioned Costs (Continued)

Prepared by Management

Finding 05-04: Low-Income Eligibility Earmarking Requirement

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

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

Current Status:

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

2007 Update: The status is unchanged.

Finding 05-07: Subrecipient Monitoring

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

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

Current Status:

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

2007 Update: The status is unchanged.

CITY OF RICHMOND, CALIFORNIA
Schedule of Expenditures of Federal Awards
For the year ended June 30, 2007

Federal Grantor/Pass Through Grantor Program Title	Catalog of Federal Domestic Assistance Number	Grantor/ Pass-Through Entity Grant Number	Program Expenditures
U. S. Department of Housing and Urban Development			
Community Development Block Grant/Entitlement Grant	14.218	B-05/B-06/B-07-MC-06-0015	
Program expenditures			\$1,124,213
Subgrants			815,830
Loan program cash balance at end of year			1,319,296
Total Community Development Block Grants			3,259,339
Home Investment Partnership Program 07	14.239	M-06-MC-060209	420,164
Youth Build	14.243	Y-02-IM-CA-0095	149,724
Section 108 Loan (3.0)	14.248		312,679
Section 108 BEDI Grant (1.0)	14.246		600,000
Section 108 BEDI Grant (1.5)	14.246		812,679
			1,412,679
<i>Total Department of Housing and Urban Development</i>			5,554,585
U. S. Department of Labor			
H-1B Visa Program #2	17.261	AH-13436-03-60	1,243,874
(Passed through the State of California)			
Workforce Investment Act - Adult	17.258	R760341	241,225
Workforce Investment Act - Adult	17.258	R692493	141,846
Workforce Investment Act - Adult Special Projects	17.258	R760341	87,628
Workforce Investment Act - Youth	17.259	R760341	418,056
Workforce Investment Act - Youth	17.259	R692493	119,023
Workforce Investment Act - Youth Foster Care	17.259	R760341	77,732
Workforce Investment Act - Dislocated Worker	17.260	R760341	293,661
Workforce Investment Act - Dislocated Worker	17.260	R692493	99,144
Workforce Investment Act - Rapid Response	17.260	R865477	118,470
Workforce Investment Act - Rapid Response Special Projects	17.260	R760341	80,905
Total Workforce Investment Act Programs			1,677,690
<i>Total U. S. Department of Labor</i>			2,921,564
U. S. Department of Health and Human Services			
Transitional Living	93.550	09CX5027	180,780
<i>Total U. S. Department of Health and Human Services</i>			180,780
U. S. Department of Education			
(Passed through the State of California)			
21st Learning Centers			
Richmond & Kennedy High Schools	84.287	07-2002-CCLC-003	61,662
DeJean Middle School	84.287	07-2002-CCLC-007	15,374
Richmond High expansion	84.287	07-2002-CCLC-242	13,581
King & Lincoln Middle Schools	84.287	07-2002-CCLC-51	20,875
21st Learning Centers - One Time Funding	84.287		23,401
<i>Total U. S. Department of Education</i>			134,893
U. S. Department of Justice:			
Local Law Enforcement Block Grant			
Frontline VII	16.592		1,561
<i>Total U. S. Department of Justice</i>			1,561
U.S. Department of Transportation			
(Passed through the State of California, Department of Transportation)			
Highway Planning and Construction			
Congestion Management - Richmond Transit Station	20.205	CML-5137(027)	96,047
Transportation for Livable Communities - Richmond Transit Station	20.205	CML-5137(027)	520,178
<i>Total U. S. Department of Transportation</i>			616,225
U.S. Department of Homeland Security			
(Passed through the State of California)			
FEMA	97.036	FEMA-1628-DR-CA	132,828
<i>Total U.S. Department of Homeland Security</i>			132,828
Total Expenditures of Federal Awards			\$9,542,436

See Notes to Schedule of Expenditures of Federal Awards

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

Note 1-Reporting Entity

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

The Richmond Housing Authority and RHA Properties issue a separate Single Audit Report. Accordingly, Federal awards for the Richmond Housing Authority and RHA Properties have been excluded from the scope of this Single Audit Report.

Note 2-Basis of Accounting

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

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

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

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

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

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

Honorable Mayor and City Council
City of Richmond, California

We have audited the basic financial statements of the City of Richmond as of and for the year ended June 30, 2007, and have issued our report thereon dated February 22, 2008. We conducted our audit in accordance with generally accepted auditing standards in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, or prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did identify deficiencies in internal control over financial reporting that we consider to be material weaknesses and significant deficiencies, as defined above. We communicated these deficiencies to City Council in our separate Memorandum on Internal Controls dated February 22, 2008.

Compliance and Other Matters

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

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

Mayer and Associates

February 22, 2008

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

Honorable Mayor and City Council
City of Richmond, California

Compliance

We have audited the compliance of the City of Richmond with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2007. The City's major federal programs are identified in Section I - Summary of Auditor's Results included on the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

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

As described in item 07-07 in Section III – Federal Award Findings and Questioned Costs, the City did not comply with the requirements regarding reporting and cash management that are applicable to its California Department of Education – 21st Century Community Learning Centers program. Compliance with such requirements is necessary, in our opinion, for the City to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in Section III – Federal Award Findings and Questioned Costs.

Internal Control over Compliance

The management of the City is responsible for establishing and maintaining effective internal controls over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 City's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the City's internal control that might be significant deficiencies or material weaknesses defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies and other that we consider to be material weaknesses.

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in Section III – Federal Award Findings and Questioned Costs as items 07-07 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. Of the significant deficiencies in internal control over compliance described in Section III – Federal Award Findings and Questioned Costs, we consider item 07-07 to be a material weakness.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City as of and for the year ended June 30, 2007, and have issued our report thereon dated February 22, 2008. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

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

Mame and Associates

April 29, 2008

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