

**CITY OF RICHMOND
SINGLE AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2008**

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SINGLE AUDIT REPORT
For The Year Ended June 30, 2008**

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CITY OF RICHMOND
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2008

SECTION I—SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of auditor’s report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? X Yes No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? X Yes None Reported

Noncompliance material to financial statements noted? Yes X No

Federal Awards

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

Internal control over major programs:

- Material weakness(es) identified? X Yes No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? X Yes None Reported

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

Identification of major programs:

<u>CFDA #(s)</u>	<u>Name of Federal Program or Cluster</u>
11.307	Department of Commerce, Economic Development Administration – Economic Adjustment Assistance
14.218	Department of Housing and Urban Development – Community Development Block Grant
17.258, 17.259, and 17.260 (Cluster)	Department of Labor – Workforce Investment Act – Adult Program, Youth Activities, and Dislocated Workers
20.205	Department of Transportation – Highway Planning and Construction
97.008	Department of Homeland Security – Urban Areas Security Initiative Program
97.044	Department of Homeland Security – Assistance to Firefighters
97.056	Department of Homeland Security – Transportation Security Administration Port Security Grant Program

Dollar threshold used to distinguish between type A and type B programs: \$343,197

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 have also issued a separate Memorandum on Internal Control dated December 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 08-01: Planning and Administrative Expenditure Limitation (Earmarking)

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

Criteria: The OMB Circular A-133 Compliance Supplement, Agency Compliance Requirements, for this program require that funds obligated for planning and administrative costs during the program year must not exceed 20% of the grant money received plus 20% of the program income received during the program year.

Condition: The IDIS C04PR26 Financial Summary report and reconciliation report provided by City staff indicated that the funds obligated for planning and administrative costs during the program year were 23.83%.

Effect: The City is not in compliance with the Compliance Supplement.

Cause: The IDIS C04PR26 Financial Summary report shows the cumulative obligations of funds for current and prior years. This report is being reconciled to reflect carry over administrative funds from prior years (“unliquidated obligations”) instead appearing in one program year.

Recommendation: The City should review program expenditures to ensure the composition of expenditures is in compliance with Program requirements and limitations. In addition, when financial and program reports are prepared and submitted to the grantor, the City should ensure that all data is correct, reconciled to underlying records, and in compliance with Program limitations.

Management’s Response:

Currently the IDIS C04PR26 Financial Summary report is being reconciled to reflect administrative costs in prior years (“unliquidated obligations”). In the report reviewed by Maze & Associates, the reconciliation was not made. The City of Richmond/Redevelopment Agency is submitting a revised report with unliquidated obligations of \$213,585.47 which will equate to a planning & administrative obligation of 16.67%.

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

Finding 08-02: Subrecipient Disbursement to Incorrect Vendor Name

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

Criteria: Disbursements under the CDBG program should be made only to program vendors and subrecipients awarded contracts under the grant program.

Condition: We selected 11 subrecipient disbursements for testing of supporting documentation and found that one disbursement related to the subrecipient for the Richmond We Care Program was paid to the name of a company owner (Donald Hasan), rather than being paid to the company with which the City had the subrecipient agreement (Hasan Painting and Decorating).

Effect: Payments to the incorrect vendor could result in incorrect reporting of program expenditures and compliance issues with the subrecipient agreement.

Cause: The Purchase requisition for the subrecipient agreement was encumbered under the wrong vendor number in the Accounts Payable system (the owner's vendor number, rather than the company/subrecipient).

Recommendation: Program staff should ensure that all disbursements are made to the correct vendor. Encumbrances of program funding should be reviewed by a second employee to ensure that the encumbrance is for the correct program vendor.

Management's Response:

The City recognizes the fact that it has a subrecipient agreement with Hasan Painting and Decorating associated with the Richmond We Care Program and as such, disbursements paid under this agreement have always been made payable to Hasan Painting and Decorating since 2003. Unfortunately, an honest mistake was committed when the purchase requisition was encumbered under the vendor number Donald Hasan, rather than Hasan Painting and Decorating and all payments during fiscal year 2007-2008 were made to the incorrect vendor number. For fiscal year 2008-2009 the funds were encumbered under the correct vendor number and checks are being made payable to Hasan Painting and Decorating. A request has been made to cancel the incorrect vendor number to prevent any mistakes in the future. Currently, the vendor number is assigned when a purchase requisition is created in the system by the Redevelopment Specialist. After the purchase requisition is created, the Finance Manager reviews all of the information and releases the purchase requisition for assignment to a Purchase Order. The Contract Administrator reviews all information and then assigns a Purchase Order number.

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

Finding 08-03: Cash Management and Vendor Payment After Grant Advance Deadline

Program Affected: Department of Homeland Security – Transportation Security Administration Port Security Grant Program, CFDA # 97.056

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

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

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

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

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

Management’s Response:

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

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

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

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

Finding 08-04: Timely Filing of Quarterly, Performance, Financial Status and Final Reports

Program Affected: Department of Homeland Security – Transportation Security Administration Port Security Grant Program, CFDA # 97.056, Urban Areas Security Initiative Program (Passed through the State of California Office of Homeland Security), CFDA # 97.008, and the Department of Homeland Security Assistance to Firefighters Grant, CFDA # 97.044

Criteria: Section M, Reporting Requirements, of the Port Security Grant Agreement requires that the City electronically submit quarterly performance (technical) reports on the last day of the month following the completion of the quarter, and submit the final Financial Status Report (SF-269-A) and the final Performance (Technical) Report within 90 days after completion of the project. The Notification of Subgrantee Application Approval for the Urban Areas Security Initiative Program requires that semi-annual performance reports be filed for the grant. Article VII, Financial Reporting, of the Assistance to Firefighters Grant requires the filing of a Final Financial Status Report within 90 days of the performance period.

Condition: The quarterly reports for the Port Security Grant Agreement appear to have been filed electronically, but the City could not provide documentation of the dates filed. And, the project was completed on March 1, 2008, but the City did not file the final Financial Status Report or Performance Report with the grantor until November 7, 2008, well after the required time period required by the grant.

City staff indicated that the quarterly reports for the Urban Areas Security Initiative Program were not filed, and only the final report was filed. However, City staff was not able to provide a copy of the final report and documentation that the report filing was timely.

The final report for the Assistance to Firefighters Grant was due on July 31, 2008, but the report was not filed until November 18, 2008, well beyond the 90 day limit.

Effect: The City is not in compliance with the grant requirements, which could jeopardize grant funding.

Cause: Port Security - The Final Status report was completed on-line on July 2008, but the system didn't save the report, therefore the City's grantor helped them complete the Final Report on November 2008. Urban Areas Security Initiative Program – The Port accountant did not retain documentation of the report filings.

Assistance to Firefighters – The Project Manager did not monitor report filing deadlines.

Recommendation: The City should establish procedures to monitor all grant requirements to ensure the City is in compliance with all aspects of the grant agreements. In addition, documentation of filing dates should be retained in the grant files to ensure the City can demonstrate compliance with the requirements.

Management's Response:

Port Security - The Port accountant will monitor the grant financial reports for future grants.

Urban Areas Security Initiative Program – The Port accountant will monitor the grant financial reports for future grants.

Assistance to Firefighters – The Project Manager will monitor the grant financial reports for future grants to insure financial reports are delivered on time in the future.

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

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

Programs Affected: Department of Homeland Security – Transportation Security Administration Port Security Grant Program, CFDA # 97.056 and Urban Areas Security Initiative Program (Passed through the State of California Office of Homeland Security), CFDA # 97.008

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Management’s Response:

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

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

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

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

Programs Affected: Department of Homeland Security – Transportation Security Administration Port Security Grant Program, CFDA # 97.056 and Department of Homeland Security Assistance to Firefighters, CFDA # 97.044

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.

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.

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

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

Program Affected: Department of Transportation Highway Planning and Construction (passed through the California Department of Transportation) – Red Oak Victory Project, CFDA #20.205

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

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

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

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

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

Management's Response:

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

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

Finding 08-08: Certification of Accounting System

Program Affected: Department of Commerce – Economic Development Administration (EDA)
Economic Adjustment Assistance, CFDA # 11.307

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.

Management's Response:

The City of Richmond/Redevelopment Agency will contact the Department of Commerce – EDA to determine if the Department of Commerce – EDA has documentation of the certification. If there is documentation of certification, the City of Richmond/Redevelopment Agency will get a copy of the certification. If there is not documentation of certification, the City of Richmond/Redevelopment Agency will follow the necessary steps to obtain the certification.

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

Finding 08-09: Fidelity Bond Coverage for Employees

Program Affected: Department of Commerce – Economic Development Administration (EDA)
Economic Adjustment Assistance, CFDA # 11.307

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.

Management’s Response:

The City of Richmond/Redevelopment Agency will contact the Department of Commerce – EDA to determine the necessary steps to take to obtain fidelity bond coverage for all persons authorized to handle funds for this grant. The City of Richmond/Redevelopment Agency will review all grant award documentation and regulations to ensure compliance with all requirements.

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

Finding 08-10: Accurate Preparation of Special Reports

Program Affected: Department of Commerce – Economic Development Administration (EDA)
Economic Adjustment Assistance, CFDA # 11.307

Criteria: Part II H of the Economic Adjustment Assistance Grant Agreement and the OMB Circular A-133 Compliance Supplement require the City to submit a semi annual report (ED-209S) to the EDA.

Condition: We reviewed the financial and loan information included in the City's ED-209S report for the period ending September 30, 2008 and reconciliations of the activity reported to the City's June 30, 2008 general ledger and found that it contained a number of errors as follows:

1. Line 1-A-6 indicated 13 active loans, but the City had 15 active loans at September 30, 2008 and 14 active loans at June 30, 2008.
2. Section III A, lines 3 and 4 (RLF Funding Status) did not include interest income and bank deposits totaling \$49,949.
3. Section III B, line 7 (Program Income Earned to Date) did not include one loan origination fee in the amount of \$600.
4. Section III C, line 14 (Status of RLF Capital) did not include the bank balance of \$224,784.
5. Section III D, line 19 (Current Balance Available for New Loans) did not include the bank balance of \$224,784.
6. Section III D, line 20 (Current Balance Available as a Percent of RLF Base Capital) was reported as zero but should have been 29%, because the base capital amount on line 19 did not include the bank balance, as noted above.

In addition, the Program Supplement indicated the presence of a Section V in the semi-annual report which includes reporting of program income activity, but the City's September 30, 2008 report did not contain such a section, because the City was using an outdated form.

Effect: The City is reporting inaccurate information to the awarding agency which could impact future grant funding.

Cause: The current City of Richmond/Redevelopment Agency program manager for this grant was instructed by the prior Finance Director for the City of Richmond to prepare the ED-209S. The instructions did not include reconciliation with the finance division of the City of Richmond/Redevelopment Agency.

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. In addition, the City should ensure that it is always using the current version of required reporting forms.

Management's Response:

Effective immediately, there will be a reconciliation involving the program manager that prepares the ED-209S and the finance division of the City of Richmond/Redevelopment Agency. This will increase the accuracy of the ED-209S and the SF272 reporting requirements to the Department of Commerce – EDA. In the future, the Department of Commerce – EDA will require online reporting for the ED-209S and the SF272 on their website. Since the reporting will be online, we will be using the most current version of the reports. Please note: The City of Richmond/Redevelopment Agency has been sent a letter from the Department of Commerce - EDA stating that the September 30, 2009 date may be the date for online reporting. The City of Richmond/Redevelopment Agency will also be checking the Department of Commerce – EDA website for updated reports and when the online reporting will take effect.

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

Finding 08-11: Accurate Preparation of the Schedule of Expenditures of Federal Awards

Programs Affected: Department of Transportation Highway Planning and Construction (passed through the California Department of Transportation) – Red Oak Victory Project, CFDA #20.205, the Department of Commerce – Economic Development Administration (EDA) Economic Adjustment Assistance, CFDA # 11.307, and the Department of Homeland Security Assistance to Firefighters, CFDA # 97.044

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.

Condition: The City did not report expenditures of Federal awards for the Highway Planning and Construction Program's Red Oak Victory Project for fiscal years 2006 and 2007 in those SEFA's. The City did not report expenditures of Federal awards for the Assistance to Firefighters grant for fiscal year 2007 on that SEFA. The program expenditures from 2006 and 2007 for these two programs are being reported in the June 30, 2008 SEFA.

The City did not include the Economic Development Administration Economic Adjustment Assistance Revolving Loan Fund program grant in the prior year or current year SEFA until it was notified by the U.S. Department of Commerce in March 2009 that the program had been excluded from the prior year SEFA.

Effect: Excluding annual program expenditures from the SEFA not only misstates the balance of the SEFA, it results in the City being out of compliance with the requirements of individual grant agreements and OMB Circular A-133. As a result, future federal funding could be affected.

Cause: The Grants Manager was unaware of the prior year grant expenditures.

Recommendation: The City should develop procedures and policies to centralize the preparation of the SEFA to ensure that annual expenditures for all grant programs are included on the SEFA. In addition, all City departments should be notified that they must communicate the receipt of all grant funding to the Finance Department to ensure centralized tracking of all grant programs for Single Audit Reporting.

Management's Response:

The City's Grant Manager is working with the Finance Director to develop procedures and policies to centralize the preparation of the SEFA. Currently, the Grants Manager is meeting with all departments to communicate the importance of notifying Finance of all grant funding for tracking and reporting purposes.

SECTION IV - STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

Prepared by Management

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.

Current Status:

The above process is currently being adhered to by the Agency.

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

Prepared by Management

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.

Current Status:

The department is continuing to follow the review and approval procedure as outlined above.

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.

Current Status:

The department is continuing to follow the procedure as outlined above.

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

Prepared by Management

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 City is in discussions with the Department of Labor regarding the request for budget modification. Although the H-1B program has been completed, the City 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.

Current Status:

The City of Richmond received a final determination notice from the Department of Labor dated April 29, 2009 indicating that this finding is corrected.

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

Prepared by Management

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.

Current Status:

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

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

Prepared by Management

Finding 07-06: Miscoded Expenditures

Program Affected: Department of Labor (passed through the State of California 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.

Current Status:

The WIA Youth Foster Care Program has been completed and closed out. The \$3,527 charged in error was returned to the awarding agency. Program managers continue to review detailed expenditure reports on a monthly basis for current programs.

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

Prepared by Management

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

Program Affected: Department of Education (passed through the 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.

Current Status:

The City has resolved the dispute between the State and the School District. The invoices for 3rd and 4th quarter of FY2007 were paid in November 2008 to the School District and the Quarterly reports are being prepared.

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

Prepared by Management

Finding 07-08: Cost Allowability Management

Program Affected: Department of Education (passed through the 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 and Current Status:

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

Finding 07-09: Payroll Certifications

Program Affected: Department of Education (passed through the 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.

Current Status:

Certifications are now prepared timely.

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

Prepared by Management

Finding 07-10: Indirect Cost Limitations

Program Affected: Department of Education (passed through the 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, which represent questioned costs.

Management's Response:

The City's prior 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.

Current Status:

The Grants Manager reviews the indirect cost on invoices before submitting for payment.

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

Prepared by Management

Finding 07-11: Authorization to Proceed and Reimbursement Ratio

Program Affected: U.S. Department of Transportation (passed through the State of California 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. Although the City filed claims totaling \$520,178 using the 42.78% reimbursement ratio and the California Department of Transportation reimbursed the City at the 42.78% level, 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.

Current Status:

The above process is currently being adhered to by the Agency. The Agency also continues to contact grantors for the status of grant funds availability.

CITY OF RICHMOND, CALIFORNIA
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2008

<u>Federal Grantor/Pass Through Grantor Program Title</u>	<u>Catalog of Federal Domestic Assistance Number</u>	<u>Grantor/ Pass-Through Entity Grant Number</u>	<u>Program Expenditures</u>
U. S. Department of Housing and Urban Development			
Community Development Block Grant/Entitlement Grant	14.218	MC-06-0015	
Program expenditures			\$918,735
Subgrants			999,268
Loan program cash balance at end of year			<u>1,857,353</u>
Total Community Development Block Grants	14.218		<u>3,775,356</u>
Home Investment Partnership Program	14.239	M-06-MC-060209	<u>1,463,143</u>
Youth Build	14.243	Y-02-IM-CA-0095	<u>203,595</u>
<i>Total Department of Housing and Urban Development</i>			<u>5,442,094</u>
U. S. Department of Labor			
(Passed through the State of California Employment Development Department)			
Workforce Investment Act - Adult	17.258	R760341	249,931
Workforce Investment Act - Adult	17.258	R865477	404,001
Workforce Investment Act - Adult Special Projects	17.260	R760341	236,802
Workforce Investment Act - Incentive Award	17.260	R760341	3,158
Workforce Investment Act - Youth	17.259	R760341	73,948
Workforce Investment Act - Youth	17.259	R865477	435,900
Workforce Investment Act - Youth Foster Care	17.259	R760341	26,944
Workforce Investment Act - Title 1 15% Pilot Special Project	17.260	R865477	52,550
Workforce Investment Act - Dislocated Workers	17.260	R760341	133,786
Workforce Investment Act - Dislocated Workers	17.260	R865477	239,328
Workforce Investment Act - Rapid Response	17.260	R865477	88,586
Workforce Investment Act - Rapid Response Special Projects	17.260	R760341	<u>38,395</u>
<i>Total U. S. Department of Labor</i>			<u>1,983,329</u>
U. S. Department of Health and Human Services			
Transitional Living	93.550	09CX5027	<u>78,018</u>
<i>Total U. S. Department of Health and Human Services</i>			<u>78,018</u>
U.S. Department of Transportation			
(Passed through the State of California, Department of Transportation)			
Highway Planning and Construction			
Red Oak Victory Ship	20.205	STPLEE-5137 (030)	546,376
Highway Planning and Construction			
Congestion Management - Richmond Transit Station	20.205	CML-5137(027)	<u>6,949</u>
<i>Total U. S. Department of Transportation</i>			<u>553,325</u>
U.S. Department of Homeland Security			
Assistance to Firefighters	97.044	EMW-2005-FG-08036	279,225
Transportation Security Administration Port Security Grant Program	97.056	HST04-04-G-GPS333	2,198,077
(Passed through the State of California Office of Homeland Security)			
Urban Areas Security Initiative Program	97.008	FEMA-1628-DR-CA	393,560
(Passed through the State of California Office of Emergency Services)			
Emergency Management Performance Grant (EMPG)	97.042	2007-0008	<u>32,500</u>
<i>Total U.S. Department of Homeland Security</i>			<u>2,903,362</u>
U.S. Department of Commerce			
Economic Development Administration			
Economic Adjustment Assistance			
Program expenditures	11.307	07-39-2437.01	255,000
Loan program cash balance at end of year	11.307	07-39-2437.01	<u>224,784</u>
<i>Total U.S. Department of Commerce</i>			<u>479,784</u>
Total Expenditures of Federal Awards			<u>\$11,439,912</u>

See 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, 2008

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 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.

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
of the City of Richmond, California

We have audited the financial statements of the City of Richmond as of and for the year ended June 30, 2008, and have issued our report thereon dated December 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.

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

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, to 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. We have identified certain deficiencies we consider to be significant deficiencies in internal control over financial reporting. These are listed as items in our separately issued Memorandum on Internal Controls dated December 22, 2008.

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 the 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 the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we have identified certain deficiencies we consider to be material weaknesses. These are listed as items in our separately issued Memorandum on Internal Controls dated December 22, 2008.

Compliance and Other Matters

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

We have also issued a separate Memorandum on Internal Control dated December 22, 2008 which is an integral part of our audits and should be read in conjunction with this report.

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

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

Mane & Associates

December 22, 2008

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

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

Compliance

We have audited the compliance of the City of Richmond with the types of compliance requirements described in the OMB Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. The City's major federal programs are identified in Section I - Summary of Auditor's Results included in 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'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 items 08-02, 08-03, 08-05, and 08-10 in Section III – Federal Award Findings and Questioned Costs in the accompanying schedule of findings and questioned costs, the City did not comply with the requirements regarding allowable costs, cash management, allowable costs, and reporting, respectively, that are applicable to its Department of Housing and Urban Development – Community Development Block Grant Program, Department of Homeland Security – Transportation Security Administration Port Security Grant Program, Department of Homeland Security – Transportation Security Administration Port Security Grant Program and Urban Areas Security Initiative Program, and Department of Commerce – Economic Development Administration (EDA) Economic Adjustment Assistance, respectively. Compliance with such requirements is necessary, in our opinion, for the City to comply with the requirements applicable to those programs.

In our opinion, except for the noncompliance described in the preceding paragraph, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008. 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 as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies and others that are consider to be material weaknesses.

A *control deficiency* in a City'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 City'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 City's internal control. We consider certain deficiencies to be significant deficiencies in internal control over compliance. These are listed as items 08-02, 08-03, 08-05 and 08-10 in Section III – Federal Award Findings and Questioned Costs included in the accompanying Schedule of Findings and Questioned Costs.

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 City's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying schedule of findings and questions costs, we consider item 08-05 to be a material weakness.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the City as of and for the year ended June 30, 2008, and have issued our report thereon dated December 22, 2008. Our audit was performed for the purpose of forming opinions on the 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 financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the 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 City Council, the audit committee, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Mage & Associates

April 16, 2009