

# City of Richmond

Richmond, California

*Single Audit Reports*

*For the year ended June 30, 2004*

**C&L**  
Caporicci & Larson  
Certified Public Accountants



**City of Richmond**  
**Single Audit Reports**  
**For the year ended June 30, 2004**

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

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Richmond, California (City) as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements and have issued our report thereon dated October 7, 2005. We did not express an opinion on the City's basic financial statements because the City did not maintain adequate internal controls and accounting records for the year ended June 30, 2004. Except as discussed in the preceding sentence, we conducted our audit in accordance with generally accepted auditing standards in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. We did not audit the financial statements of the Richmond Housing Authority Proprietary Fund, including its component unit RHA Properties, which represents assets of \$87,997,000 and revenues of \$34,123,000. Those financial statements were audited by other auditors whose qualified report thereon has been furnished to us, and our opinion on those financial statements, insofar as it relates to the amounts included for the Richmond Housing Authority Proprietary Fund, was based solely on the qualified report of the other auditors. Further, our report on the basic financial statements included an explanatory paragraph describing conditions, discussed in the notes to the basic financial statements, that raised substantial doubt about the City's ability to continue as a going concern.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the basic financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City's ability to record, process, summarize, and report financial data consistent with the assertions of management in the basic financial statements. Reportable conditions are described in the accompanying Schedules of Findings and Questioned Costs as **2. Findings - Financial Statements Audit**, items 2004-1 through 2004-3, and **3. Findings and Questioned Costs - Major Federal Award Programs Audit**, items 04-1 through 04-17.

Toll Free Ph: (877) 862-2200

Toll Free Fax: (866) 436-0927

**Oakland**

180 Grand Ave., Suite 1365  
Oakland, California 94612

**Orange County**

3184-D Airway Avenue  
Costa Mesa, California 92626

**Sacramento**

777 Campus Commons Rd., Suite 200  
Sacramento, California 95825

**San Diego**

4858 Mercury, Suite 106  
San Diego, California 92111

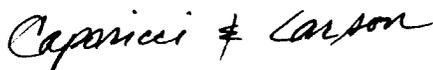
A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider the accompanying Schedules of Findings and Questioned Costs as **2. Findings – Financial Statements Audit**, items 2004-1 through 2004-3, and **3. Findings and Questioned Costs – Major Federal Award Programs Audit**, items 04-1 through 04-17 to be material weaknesses.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's basic 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 basic financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedules of Findings and Questioned Costs as **3. Findings and Questioned Costs – Major Federal Award Program Audit**, items 04-1 through 04-17.

We also noted certain other matters that we reported to management of the City in a separate letter dated October 7, 2005.

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



Oakland, California  
October 7, 2005



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

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

**Compliance**

We have audited the compliance of the City of Richmond, California (City) 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, 2004. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of 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 generally accepted auditing standards in the United States; 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 of the City's compliance with those requirements.

As described in **3. Findings and Questioned Costs - Major Federal Award Program Audit**, items 04-1 through 04-17 in the accompanying Schedules of Findings and Questioned Costs, the City did not comply with certain compliance requirements that are applicable to its major federal programs. Compliance with such requirements is necessary, in our opinion, for the City to comply with the requirements applicable to that program.

In our opinion, because of the effects of the noncompliance described in the preceding paragraph, the City did not comply, in all material respects, with the requirements referred to above that are applicable to the major federal programs as described in the accompanying Schedules of Findings and Questioned Costs, **3. Findings and Questioned Costs - Major Federal Award Programs Audit**, items 04-1 through 04-17.

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### Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with 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 and to test and report on internal control over compliance in accordance with OMB Circular A-133. We considered items **2. Findings - Financial Statements Audit**, items 2004-1 through 2004-3 to be material weaknesses in internal control.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the City's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as **2. Findings - Financial Statements Audit**, items 2004-1 through 2004-3, and **3. Findings and Questioned Costs - Major Federal Award Programs Audit**, items 04-1 through 04-17.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions, and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider all items to be material weaknesses.

### Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of and for the year ended June 30, 2004, and have issued our report thereon dated October 7, 2005. 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 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, because the scope of our work was not sufficient to enable us to express, and we do not express an opinion on the City's basic financial statements, we also do not express an opinion on the accompanying Schedule of Expenditures of Federal Awards.

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



Oakland, California  
October 7, 2005

**City of Richmond**  
**Schedule of Expenditures of Federal Awards**  
**For the year ended June 30, 2004**

Federal Grantor/Pass-Through Grantor Program Title	Federal CFDA Number	Agency or Pass-Through Number	Federal Expenditures
<b>U.S. Department of Housing and Urban Development:</b>			
<i>Direct Programs:</i>			
Community Development Block Grant	14.218	B-06-MC-06-0015	\$ 2,445,788
Home Investment Partnership Program	14.239 *	M02-MC060209	77,097
Home Investment Partnership Program	14.239 *	M03-MC060209	1,250,012
Youth Build	14.243 *	Y-02-IM-CA-0095	537,325
<b>Total U.S. Department of Housing and Urban Development</b>			<u>4,310,222</u>
<b>U.S. Department of Labor:</b>			
<i>Direct Programs:</i>			
H-1B Visa Program	17.261	AH-11952-02-60	809,116
H-1B Visa Program	17.261	AH-13436-03-60	44,118
Total Direct Programs			<u>853,234</u>
<i>Passed through State of California, Employment Development Department (WIA Clustered):</i>			
WIA - Adult	17.258 *	R485296	383,649
WIA - Youth Participants	17.259 *	R485296	346,517
WIA - Dislocated Worker	17.260 *	R485296	364,674
WIA - Rapid Reponse	17.260 *	R485296	35,493
WIA - Nurses Workforce Initiative	17.260 *	R485296	264,426
Total WIA Clustered			<u>1,394,759</u>
<b>Total U.S. Department of Labor</b>			<u>2,247,993</u>
<b>U.S. Department of Justice:</b>			
<i>Direct Programs:</i>			
Local Law Enforcement Block Grant	16.592	2001-LB-BX-2521	126,030
Local Law Enforcement Block Grant	16.592	2002-LB-BX-2239	144,000
Local Law Enforcement Block Grant	16.592	2003-LB-BX-2285	102,734
COPS in School	16.710	2002-SH-WX-0226	210,000
Total U.S. Department of Justice			<u>582,764</u>
Sub-total			<u>\$ 7,140,979</u>

See accompanying Notes to the Schedule of Expenditures of Federal Awards.

**City of Richmond**  
**Schedule of Expenditures of Federal Awards, Continued**  
**For the year ended June 30, 2004**

Federal Grantor/Pass-Through Grantor Program Title	Federal CFDA Number	Agency or Pass-Through Number	Federal Expenditures
Sub-total from previous page			<u>\$ 7,140,979</u>
<b>U.S. Department of Homeland Security:</b>			
<i>Direct Programs:</i>			
Port Security Grant Program	97.056 *	DTSA20-03-G-011	79,000
Asistance to Firefighters Grant	97.044 *	EMW-2002-FG-17607	160,684
Emergency Management Performance Grant	97.042		<u>32,500</u>
<b>Total U.S. Homeland Security</b>			<u><u>272,184</u></u>
<b>U.S. Department of Education:</b>			
<i>Direct Programs:</i>			
Community Technology Center Program	84.341 *	V341A030179	<u>246,206</u>
<b>U.S. Department of Health and Human Services:</b>			
<i>Direct Programs:</i>			
Transitional Living	93.550 *	O9CX5027	<u>200,000</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<u><u>\$ 7,859,369</u></u>

\*Denotes major program

See accompanying Notes to the Schedule of Expenditures of Federal Awards.

# City of Richmond

## Notes to the Schedule of Expenditures of Federal Awards

For the year ended June 30, 2004

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### 1. REPORTING ENTITY

The City of Richmond (City) was incorporated in 1905 under the laws of the State of California and adopted its charter in 1909. The City operates under a Council-Manager form of government. The financial reporting entity consists of (a) the primary government, the City and (b) its component units, entities for which the primary government is financially accountable. The following entities are component units of the City:

- Richmond Redevelopment Agency
- Richmond Housing Authority
- Richmond Joint Powers Financing Authority
- Richmond Parking Authority

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### A. *Basis of Accounting*

Funds received under the various grant programs have been recorded within general, special revenue, capital projects, and enterprise funds of the City. The City utilizes the modified accrual method of accounting for the general, special revenue and capital projects funds. The accrual basis of accounting is used for the enterprise funds. The accompanying Schedule of Expenditures of Federal Awards (Schedule) has been prepared accordingly.

#### B. *Schedule of Expenditures of Federal Awards*

The accompanying Schedule presents the activity of all Federal financial assistance programs of the City. Federal financial assistance received directly from Federal agencies as well as Federal financial assistance passed through the State of California are included in the Schedule.

The Schedule was prepared only from the accounts of various grant programs and, therefore, does not present the financial position or results of operations of the City.

**City of Richmond**  
**Schedule of Findings and Questioned Costs**  
**For the year ended June 30, 2004**

**1. SUMMARY OF AUDIT RESULTS**

- A. The auditors' report expresses a disclaimer of opinion on the basic financial statements of the City of Richmond (City).
- B. Reportable conditions relating to the audit of the financial statements are reported in the basic financial statements.
- C. Instances of noncompliance material to the financial statements of the City were disclosed during the audit.
- D. Reportable conditions relating to the audit of the major Federal Award Programs is reported in the basic financial statements.
- E. The auditors' report on compliance for the major Federal Award Programs for the City expresses a disclaimer of opinion.
- F. Audit findings relative to the major Federal Award Programs for the City are reported in this Schedule, parts 2 and 3.
- G. The programs tested as major programs:

<u>Major Programs</u>	<u>Federal Expenditures</u>
Home Investment Partnership Program	\$ 77,097
Home Investment Partnership Program	1,250,012
Youth Build	537,325
WIA - Adult	383,649
WIA - Youth	346,517
WIA - Dislocated Worker	364,674
WIA - Rapid Response	35,493
WIA - Nurses Workforce Initiative	264,426
Port Security Grant Program	79,000
Assistance to Firefighters Grant	160,684
Community Technology Center Program	246,206
Transitional Living	200,000
<b>Total Major Program Expenditures</b>	<b>\$ 3,945,083</b>
<b>Total Federal Award Expenditures</b>	<b>\$ 7,859,369</b>
<b>Percentage of Total Federal Award Expenditures</b>	<b>50.20%</b>

- H. The threshold for distinguishing Types A and B programs was \$300,000.
- I. The City was determined to be a high risk auditee. Consequently, the major programs tested were required to be in the aggregate at least 50% of total federal awards expended.

**City of Richmond**  
**Schedule of Findings and Questioned Costs, Continued**  
**For the year ended June 30, 2004**

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**2. FINDINGS - FINANCIAL STATEMENTS AUDIT**

**2004-1**

***Condition:***

The City has not maintained adequate internal controls and accounting records for the year ended June 30, 2004. These internal control and accounting deficiencies were not adequate in the following areas:

- Control Environment
- Risk Assessment
- Control Activities
- Information and Communication Systems
- Monitoring

***Criteria:***

Internal control is a process – effected by the City’s City Council, management, and other personnel – designed to provide reasonable assurance regarding the achievement of objectives in the following categories: (1) reliability of financial reporting, (b) effectiveness and efficiency of operations, and (c) compliance with applicable laws and regulations.

Internal control consists of five interrelated components:

- a. *Control environment* sets the tone of an organization, influencing the control consciousness of its people. It is the foundation for all other components of internal control, providing discipline and structure.
- b. *Risk assessment* is the entity’s identification and analysis of relevant risks to achievement of its objectives, forming a basis for determining how the risks should be managed.
- c. *Control activities* are the policies and procedures that help ensure that management directives are carried out.
- d. *Information and communication* systems support the identification, capture, and exchange of information in a form and time frame that enable people to carry out their responsibilities.
- e. *Monitoring* is a process that assesses the quality of internal control performance over time.

***Effect:***

Because of the significance of the City not maintaining adequate internal controls and accounting records, major and nonmajor federal programs may have had incorrect expenditures charged to these federal programs and these federal programs may not have been in compliance with federal program requirements.

As a result, we are not able to express, and we do not express, opinions on the City’s basic financial statements. We also do not express an opinion on the accompanying Schedule of Expenditures of Federal Awards.

***Recommendation:***

The City should improve its internal controls and accounting records to strengthen its financial reporting, operations and compliance with applicable laws and regulations.

**City of Richmond**  
**Schedule of Findings and Questioned Costs, Continued**  
**For the year ended June 30, 2004**

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**2. FINDINGS - FINANCIAL STATEMENTS AUDIT, Continued**

These internal controls need to include the following components and the related factors as follows:

**Control Environment** - The control environment sets the tone of an organization, influencing the control consciousness of its people. It is the foundation for all other components of internal control, providing discipline and structure. Control environment factors include the following:

- a. Integrity and ethical values
- b. Commitment to competence
- c. Board of directors or audit committee participation
- d. Management's philosophy and operating style
- e. Organizational structure
- f. Assignment of authority and responsibility
- g. Human resource policies and practices

**Risk Assessment** - An entity's risk assessment for financial reporting purposes is its identification, analysis, and management of risks relevant to the preparation of financial statements that are fairly presented in conformity with generally accepted accounting principles. For example, risk assessment may address how the entity considers the possibility of unrecorded transactions or identifies and analyzes significant estimates recorded in the financial statements. Risks relevant to reliable financial reporting also relate to specific events or transactions.

Risks relevant to financial reporting include external and internal events and circumstances that may occur and adversely affect an entity's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. Risks can arise or change due to circumstances such as the following:

- Changes in operating environment
- New personnel
- New or revamped information systems
- Rapid growth
- New technology
- New business models or activities
- New accounting pronouncements

**Control Activities** - Control activities are the policies and procedures that help ensure that management directives are carried out. They help ensure that necessary actions are taken to address risks to achieve the entity's objectives. Control activities, whether automated or manual, have various objectives and are applied at various organizational and functional levels. Generally, control activities that may be relevant to an audit may be categorized as policies and procedures that pertain to the following:

- Performance reviews
- Information processing
- Physical controls
- Segregation of duties

**City of Richmond**  
**Schedule of Findings and Questioned Costs, Continued**  
**For the year ended June 30, 2004**

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**2. FINDINGS - FINANCIAL STATEMENTS AUDIT, Continued**

These internal controls need to include the following components and the related factors as follows, Continued:

**Information and Communication** - The information system relevant to financial reporting objectives, which includes the accounting system, consists of the procedures, whether automated or manual, and records established to initiate, record, process, and report entity transactions (as well as events and conditions) and to maintain accountability for the related assets, liabilities, and equity. The quality of system-generated information affects management's ability to make appropriate decisions in controlling the entity's activities and to prepare reliable financial reports.

Communication involves providing an understanding of individual roles and responsibilities pertaining to internal control over financial reporting.

**Monitoring** - An important management responsibility is to establish and maintain internal controls. Management monitors controls to consider whether they are operating as intended and that they are modified as appropriate for changes in conditions.

Monitoring is a process that assesses the quality of internal control performance over time. It involves assessing the design and operation of controls on a timely basis and taking necessary corrective actions. This process is accomplished through ongoing activities, separate evaluations, or a combination of the two. In many entities, internal auditors or personnel performing similar functions contribute to the monitoring of an entity's activities. Monitoring activities may include using information from communications from external parties such as customer complaints and regulator comments that may indicate problems or highlight areas in need of improvement. In many entities, much of the information used in monitoring may be produced by the entity's information system. If management assumes that data used for monitoring are accurate without having a basis for that assumption, errors may exist in the information, potentially leading management to incorrect conclusions from its monitoring activities.

**City of Richmond**  
**Schedule of Findings and Questioned Costs, Continued**  
**For the year ended June 30, 2004**

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**2. FINDINGS - FINANCIAL STATEMENTS AUDIT, Continued**

*Management's Response:*

This audit covers the period of time (July 2003 through June 2004) during which the City was making significant corrective actions to remedy a significant budget deficit. There were massive layoffs and those that remained were often relocated to other responsibilities within the City. The City lost continuity in many functions. It was during this transition period that control activities, maintenance of the information systems, communications and monitoring all waned.

However, since that time, the City has:

- Brought in new, vigorous management, including a new City Manager, Finance Director, Deputy Finance Director and other new financial and management staff with decades of experience;
- implemented tighter controls, including restoration of a centralized Purchasing Division, Finance Director review of all purchases in excess of \$1,000, reviewed and instituted proper segregation of duties where needed to ensure proper financial controls;
- Improved documentation of financial system processes by using Infopak software;
- Installing Business Warehouse to facilitate customization of reports to provide more meaningful data to management;
- Instituted position control;
- Initiating a study to update the City's Cost Allocation Plan;
- Initiating an upgrade to government-specific financial system;
- Instituted positive pay through the bank so no unauthorized checks will be cashed;
- Installed new budget software that is utilized to provide more timely variance reporting on a monthly basis, that includes review and comment by respective cost center managers;
- Instituted scanning of support documents so they can be appended electronically to the face document, e.g. purchase orders and journal vouchers;
- Timely employee performance reviews have been re-instituted;
- Training of financial personnel throughout the City has been instituted included workshops conducted by the outside auditors, attendance at trainings by the Government Finance Officers Association and the California State Municipal Finance Officers Association, as well as numerous other trainings pertinent to financial professionals; and
- Initializations of a monitoring system to ensure all requisite reports to federal and state authorities are produced timely.

The City believes that all of these actions initiated since the conclusion of the audit period address the deficiencies noted by the auditor.

**City of Richmond**  
**Schedule of Findings and Questioned Costs, Continued**  
**For the year ended June 30, 2004**

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**2. FINDINGS - FINANCIAL STATEMENTS AUDIT, Continued**

2004-2

***Condition:***

Payroll is being allocated to various programs without adequate support for amounts being allocated or methods being used.

***Criteria:***

Internal controls should be in place to provide reasonable assurance that an individual's time is being charged to the correct program and is supported by valid time sheets or supporting schedules.

***Effect:***

Because of the failure to maintain or require time sheets which support the amount charged to a program, a program may be incorrectly charged for payroll expenses.

***Recommendation:***

The City should establish and then monitor for compliance its policies and procedures covering the preparation and review of time sheets and payroll batch processing programs. This will ensure that time charged to programs is properly supported by functional time sheets and these time sheets in total support the payroll expense charged to the programs. These time sheets should also be maintained in a manner which permits them to be readily available for review by program monitors and auditors.

***Management's Response:***

The lack of adequate support for amounts allocated appears to be directly attributable to the inability to find one period of functional time cards. Although the missing time cards were subsequently located, the condition did exist.

The following procedures were enacted by The City of Richmond Employment & Training Department in FY 2005 to ensure that the condition does not occur in the future. The City of Richmond Employment & Training Department is funded by grants from several different Federal, State and Local Agencies. The regulations attached to these grants require that all costs be identified as either Direct or Indirect. In the case of salaries and benefits costs, it is only possible to identify direct costs for those employees who work directly with the clients served under the specific grants. Salary and benefit costs for all other employees must be allocated between all grants in a fair and equitable manner.

The City of Richmond Employment & Training Department utilizes a "Labor Cost Pool" to collect all payroll costs. When an employee of The City of Richmond Employment & Training Department submits a timesheet all salaries and benefits are recorded in the Labor Cost Pool. At the same time an employee of The City of Richmond Employment & Training Department submits a timesheet, they also submit a functional timesheet detailing what grants they have directly worked on for that pay period. The payroll costs for The City of Richmond Employment & Training Department are charged to the respective grants based on these records. Salaries and benefit costs of employees that do not directly work with clients are then allocated to each grant based upon the percentage of direct time for each grant.

**City of Richmond**  
**Schedule of Findings and Questioned Costs, Continued**  
**For the year ended June 30, 2004**

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**2. FINDINGS - FINANCIAL STATEMENTS AUDIT, Continued**

*Management's Response, Continued:*

Upon completion of each pay period, the City of Richmond Employment & Training Department timesheets and the functional timesheets are reviewed and signed by the Director of the Department. The Senior Accountant for the City of Richmond Employment & Training Department reviews and processes the functional timesheets to arrive at the percentage of direct time for each grant. The salaries and benefits for each employee are entered and multiplied by the percentage of direct time for each grant. The Director of the Department and the Senior Accountant then review the percentages and the calculated dollars of salaries and benefits for each grant. This data is then entered into SAP via Journal Entry out of the Labor Cost Pool. The Journal Entry is then submitted to the City of Richmond Finance Department for posting.

2004-3

*Condition:*

The City is unable to readily provide documentation to support expenditure amounts recorded in the financial system records.

*Criteria:*

Internal controls should be in place to provide reasonable assurance that all expenditure amounts are properly supported and coded correctly.

*Effect:*

Because of the failure to readily maintain adequate supporting documentation, the amounts charged to a program may be unsupported or include incorrectly coded expenditures resulting in potential misstatement of expenditures across programs.

*Recommendation:*

The City should establish and then monitor for compliance its policies and procedures covering the preparation and review of vendor payment requests and their coding which will ensure that expenditures charged to grant programs are properly supported and documented. This documentation should also be maintained in a manner which permits them to be readily available for review by program monitors and auditors.

*Management's Response:*

First and foremost, tightened expenditure controls have been in place since FY 2005 requiring senior management sign-off on any purchase in excess of \$1,000. That review includes the review for inclusion of all requisite support documentation. Just recently, that process was improved by adding the functional ability to append electronic copies of support documentation within the City's financial system. In FY 2006, the City re-established a central Purchasing Division to enhance monitoring. As to how the costs are allocated with respect to the City of Richmond Employment and Training Department upon which most of this finding is based, the following is provided.

**City of Richmond**  
**Schedule of Findings and Questioned Costs, Continued**  
**For the year ended June 30, 2004**

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**2. FINDINGS - FINANCIAL STATEMENTS AUDIT, Continued**

*Management's Response, Continued:*

Costs of specific supplies, equipment and other operating costs directly related to staff assigned to work on a specific grant or any other specifically identifiable cost shall be directly charged to the grant. All other costs are indirect costs. Indirect costs are incurred for a common or joint purpose benefiting more than one cost objective. Indirect costs are then allocated to each grant based on the percentage of direct time for each grant. The following WBS elements are operating expense cost collectors:

<u>Cost Collector</u>	<u>WBS Element</u>
RichmondWorks Interim Cost Pool	T-9-99999.01
Youth Interim Cost Pool	T-9-99999.02
Overhead Interim Cost Pool	T-9-99999.03

RichmondWorks Interim cost pool will allocate costs to the following grants:

- WIA Adult Program
- WIA Dislocated Worker Program
- WIA Rapid Response Program,
- Nurses Workforce Initiative
- Alameda County Dislocated Worker Program
- YouthBUILD Program
- H1B (1 and 2)

Examples of operating costs for the RichmondWorks Interim cost pool are copier charges, postage, supplies.

Youth Interim cost pool will allocate costs to the following grants:

- WIA Youth Program
- Transitional Living Grant

Examples of costs for the Youth Interim cost pool are charges for Youth council meetings, copier charges, mileage.

Overhead Interim cost pool will allocate costs to all grants. These costs benefit the entire department and are not readily identifiable as the cost of any one program. Examples of these costs are supplies, subscriptions, building maintenance.

**City of Richmond**  
**Schedule of Findings and Questioned Costs, Continued**  
**For the year ended June 30, 2004**

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**3. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAM AUDIT**

- 04-1 U.S. Department of Homeland Security, Assistance to Firefighters Grant, (CFDA Number 97.044) – Reporting Administered by the City’s Fire Department.
- Criteria: In accordance with OMB Circular A-133, grantees are required to abide by the reporting requirements as documented in the individual grant agreements of the respective programs. Per grant agreement #EMW-2002-FG-17607, the City’s expenditure match amount should be 30%.
- Condition: During the performance of our audit, we noted that the match amount used by the City was 25% instead of 30% as disclosed in the grant award document.
- Questioned Costs: The City used an incorrect percentage rate for the expenditure match portion of the Grant. This resulted in the federal portion of the federal expenditures being over claim by \$10,712 for the period.
- Context and Effect: The City’s match used on the fiscal report submitted to the granting authority should be the same as the amount disclosed in the grant award document. By reporting the incorrect match amount for the Assistance to Firefighters Grant, the federal portion of the expenses would be overstated.
- Recommendation: We recommend that the City strengthen its controls governing the financial report review submission process to ensure that it is performed in accordance with the grant award documentation.
- Management’s Response: The City acknowledges the error. Training of financial staff has been enhanced to avoid a similar mistake in the future.
- 04-2 U.S. Department of Homeland Security, Port Security Grant Program, (CFDA Number 97.056) – Reporting Administered by the City’s Port Authority.
- Criteria: In accordance with OMB Circular A-133, grantees are required to abide by the reporting requirements as documented in the individual grant agreements of the respective programs. The amount reported for expenditures should represent charges for actual costs, not budgeted or projected amounts.
- Condition: During the performance of our audit, we noted that reported expenditure amounts reported were based on budgeted amounts. When comparing the actual timing of the expenditures to claim forms, we noted that the first claim form was overstated by \$100 while the second and final claim form was understated by \$100.

**City of Richmond**  
**Schedule of Findings and Questioned Costs, Continued**  
**For the year ended June 30, 2004**

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**3. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAM AUDIT, Continued**

Questioned Costs: No Questioned costs were noted for the period.

Context and Effect: Reporting expenditures at actual costs, instead of budgeted or projected amounts would ensure that the Port Security Grant Program assistance is being reimbursed in the correct amounts.

Recommendation: We recommend that the City strengthen its controls over cost accounting and financial reporting.

Management's Response: This was a mistake as to when the expense was incurred as opposed to when it was paid. Revised reporting procedures put into place should preclude this instance in the future.

04-3 U.S. Department of Education, Community Technology Center Program, (CFDA Number 84.341) - Allowable Costs/Cost Principles Administered by the City's Employment and Training Department.

Criteria: In accordance with the Basic Guidelines section of OMB's cost principles circulars, expenditures should be supported by appropriate documentation.

Condition: During the performance of the audit, it was noted that direct labor amounts charged to this grant program were not supported by functional time cards. Since indirect labor costs are based on direct labor amounts, indirect labor costs charged to this program could be over or understated.

Questioned Costs: The direct labor amounts claimed on the grant not supported by functional time cards was \$66,416. In addition, the indirect labor costs claimed would be questioned since it was allocated using the direct labor amounts claimed on the grant. The amount of indirect labor charged to the grant for the period was \$98,517.

Context and Effect: Retaining adequate supporting documentation for expenditures would ensure that the Community Technology Center Program assistance is being funded in the correct amount.

Recommendation: We recommend that the City retain adequate documentation to support its expenditures.

Management's Response: The above finding and Questioned Cost relate to one specific condition that occurred in FY 2004. The condition is that "during the performance of the audit, it was noted that direct labor amounts charged to this grant program were not supported by functional time cards, which were subsequently located. Since indirect labor costs are based on direct labor amounts, indirect labor costs charged to this program could be over or understated."

**City of Richmond**  
**Schedule of Findings and Questioned Costs, Continued**  
**For the year ended June 30, 2004**

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**3. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAM AUDIT,**  
**Continued**

Management's Response, Continued:

The following procedures have been enacted by The City of Richmond Employment & Training Department since FY 2005 to ensure that the above Findings - Financial Statements Audit and Findings and Questioned Cost - Major Federal Award Program Audit does not occur in the future. The City of Richmond Employment & Training Department is funded by grants from several different Federal, State and Local Agencies. The regulations attached to these grants require that all costs be identified as either Direct or Indirect.

In the case of salaries and benefits costs, it is only possible to identify direct costs for those employees who work directly with the clients served under the specific grants. Salary and benefit costs for all other employees must be allocated between all grants in a fair and equitable manner.

The City of Richmond Employment & Training Department utilizes a "Labor Cost Pool" to collect all payroll costs. When an employee of The City of Richmond Employment & Training Department submits a timesheet all salaries and benefits are recorded in the Labor Cost Pool. At the same time an employee of The City of Richmond Employment & Training Department submits a timesheet, they also submit a functional timesheet detailing what grants they have directly worked on for that pay period. The payroll costs for The City of Richmond Employment & Training Department are charged to the respective grants based on these records. Salaries and benefit costs of employees that do not directly work with clients are then allocated to each grant based upon the percentage of direct time for each grant.

Upon completion of each pay period, the City of Richmond Employment & Training Department timesheets and the functional timesheets are reviewed and signed by the Director of the Department. The Senior Accountant for the City of Richmond Employment & Training Department reviews and processes the functional timesheets to arrive at the percentage of direct time for each grant. The salaries and benefits for each employee are entered and multiplied by the percentage of direct time for each grant. The Director of the Department and the Senior Accountant then review the percentages and the calculated dollars of salaries and benefits for each grant. This data is then entered into SAP via Journal Entry out of the Labor Cost Pool. The Journal Entry is then submitted to the City of Richmond Finance Department for posting.

**City of Richmond**  
**Schedule of Findings and Questioned Costs, Continued**  
**For the year ended June 30, 2004**

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**3. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAM AUDIT, Continued**

04-4 U.S. Department of Labor, Employment and Training Administration WIA - Adult, (CFDA Number 17.258) - Allowable Costs/Cost Principles Administered by the City's Employment and Training Department.

Criteria: In accordance with the Basic Guidelines section of OMB's cost principles circulars, expenditures should be supported by appropriate documentation.

Condition: During the performance of the audit, it was noted that direct labor amounts charged to this grant program were not supported by functional time cards. Since indirect labor costs are based on direct labor amounts, indirect labor costs charged to this program could be over or understated.

Questioned Costs: The amount of direct labor costs charged to the grant which were not supported by functional time cards were \$111,879. In addition, the amount of indirect labor costs in the amount of \$75,223 is also questioned since it was allocated using the direct labor cost charges to the grant.

Context and Effect: Retaining adequate supporting documentation for expenditures would ensure that the WIA - Adult Program assistance is being funded in the correct amount.

Recommendation: We recommend that the City retain adequate documentation to support its expenditures.

Management's Response: The above finding and Questioned Cost relate to one specific condition that occurred in FY 2004. The condition is that "during the performance of the audit, it was noted that direct labor amounts charged to this grant program were not supported by functional time cards, which were subsequently located. Since indirect labor costs are based on direct labor amounts, indirect labor costs charged to this program could be over or understated."

The following procedures have been enacted by The City of Richmond Employment & Training Department since FY 2005 to ensure that the above Findings - Financial Statements Audit and Findings and Questioned Cost - Major Federal Award Program Audit does not occur in the future. The City of Richmond Employment & Training Department is funded by grants from several different Federal, State and Local Agencies. The regulations attached to these grants require that all costs be identified as either Direct or Indirect. In the case of salaries and benefits costs, it is only possible to identify direct costs for those employees who work directly with the clients served under the specific grants. Salary and benefit costs for all other employees must be allocated between all grants in a fair and equitable manner.

**City of Richmond**  
**Schedule of Findings and Questioned Costs, Continued**  
**For the year ended June 30, 2004**

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**3. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAM AUDIT,**  
**Continued**

Management's Response, Continued:

The City of Richmond Employment & Training Department utilizes a "Labor Cost Pool" to collect all payroll costs. When an employee of The City of Richmond Employment & Training Department submits a timesheet all salaries and benefits are recorded in the Labor Cost Pool. At the same time an employee of The City of Richmond Employment & Training Department submits a timesheet, they also submit a functional timesheet detailing what grants they have directly worked on for that pay period. The payroll costs for The City of Richmond Employment & Training Department are charged to the respective grants based on these records. Salaries and benefit costs of employees that do not directly work with clients are then allocated to each grant based upon the percentage of direct time for each grant.

Upon completion of each pay period, the City of Richmond Employment & Training Department timesheets and the functional timesheets are reviewed and signed by the Director of the Department. The Senior Accountant for the City of Richmond Employment & Training Department reviews and processes the functional timesheets to arrive at the percentage of direct time for each grant. The salaries and benefits for each employee are entered and multiplied by the percentage of direct time for each grant. The Director of the Department and the Senior Accountant then review the percentages and the calculated dollars of salaries and benefits for each grant. This data is then entered into SAP via Journal Entry out of the Labor Cost Pool. The Journal Entry is then submitted to the City of Richmond Finance Department for posting.

04-5 U.S. Department of Labor, Employment and Training Administration WIA - Rapid Response, (CFDA Number 17.260) - Allowable Costs/Cost Principles Administered by the City's Employment and Training Department.

Criteria: In accordance with the Basic Guidelines section of OMB's cost principles circulars, expenditures should be supported by appropriate documentation.

Condition: During the performance of the audit, it was noted that direct labor amounts charged to this grant program were not supported by functional time cards. Since indirect labor costs are based on direct labor amounts, indirect labor costs charged to this program could be over or understated.

Questioned Costs: The amount of direct labor costs charged to the grant which were not supported by functional time cards were \$11,371. In addition, the amount of indirect labor costs in the amount of \$2,935 is also questioned since it was allocated using the direct labor cost charges to the grant.

**City of Richmond**  
**Schedule of Findings and Questioned Costs, Continued**  
**For the year ended June 30, 2004**

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**3. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAM AUDIT, Continued**

Context and Effect: Retaining adequate supporting documentation for expenditures would ensure that the WIA - Rapid Response Program assistance is being funded in the correct amount.

Recommendation: We recommend that the City retain adequate documentation to support its expenditures.

Management's Response: The above finding and Questioned Cost relate to one specific condition that occurred in FY 2004. The condition is that "during the performance of the audit, it was noted that direct labor amounts charged to this grant program were not supported by functional time cards, which were subsequently located. Since indirect labor costs are based on direct labor amounts, indirect labor costs charged to this program could be over or understated."

The following procedures have been enacted by The City of Richmond Employment & Training Department since FY 2005 to ensure that the above Findings - Financial Statements Audit and Findings and Questioned Cost - Major Federal Award Program Audit does not occur in the future. The City of Richmond Employment & Training Department is funded by grants from several different Federal, State and Local Agencies. The regulations attached to these grants require that all costs be identified as either Direct or Indirect.

In the case of salaries and benefits costs, it is only possible to identify direct costs for those employees who work directly with the clients served under the specific grants. Salary and benefit costs for all other employees must be allocated between all grants in a fair and equitable manner.

The City of Richmond Employment & Training Department utilizes a "Labor Cost Pool" to collect all payroll costs. When an employee of The City of Richmond Employment & Training Department submits a timesheet all salaries and benefits are recorded in the Labor Cost Pool. At the same time an employee of The City of Richmond Employment & Training Department submits a timesheet, they also submit a functional timesheet detailing what grants they have directly worked on for that pay period. The payroll costs for The City of Richmond Employment & Training Department are charged to the respective grants based on these records. Salaries and benefit costs of employees that do not directly work with clients are then allocated to each grant based upon the percentage of direct time for each grant.

**City of Richmond**  
**Schedule of Findings and Questioned Costs, Continued**  
**For the year ended June 30, 2004**

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**3. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAM AUDIT,**  
**Continued**

Management's Response, Continued:

Upon completion of each pay period, the City of Richmond Employment & Training Department timesheets and the functional timesheets are reviewed and signed by the Director of the Department. The Senior Accountant for the City of Richmond Employment & Training Department reviews and processes the functional timesheets to arrive at the percentage of direct time for each grant. The salaries and benefits for each employee are entered and multiplied by the percentage of direct time for each grant. The Director of the Department and the Senior Accountant then review the percentages and the calculated dollars of salaries and benefits for each grant. This data is then entered into SAP via Journal Entry out of the Labor Cost Pool. The Journal Entry is then submitted to the City of Richmond Finance Department for posting.

04-6 U.S. Department of Housing and Urban Development, Youthbuild (CFDA Number 14.243) - Allowable Costs/Cost Principles Administered by the City's Employment and Training Department.

Criteria: In accordance with the Basic Guidelines section of OMB's cost principles circulars, expenditures should be supported by appropriate documentation.

Condition: During the performance of the audit, it was noted that direct labor amounts charged to this grant program were not supported by functional time cards. Since indirect labor costs are based on direct labor amounts, indirect labor costs charged to this program could be over or understated.

Questioned Costs: The amount of direct labor costs charged to the grant which were not supported by functional time cards were \$45,220. In addition, the amount of indirect labor costs in the amount of \$11,361 is also questioned since it was allocated using the direct labor cost charges to the grant.

Context and Effect: Retaining adequate supporting documentation for expenditures would ensure that the Youth Build Program assistance is being funded in the correct amount.

Recommendation: We recommend that the City retain adequate documentation to support its expenditures.

**City of Richmond**  
**Schedule of Findings and Questioned Costs, Continued**  
**For the year ended June 30, 2004**

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**3. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAM AUDIT,**  
**Continued**

Managements Response:      The above finding and Questioned Cost relate to one specific condition that occurred in FY 2004. The condition is that “during the performance of the audit, it was noted that direct labor amounts charged to this grant program were not supported by functional time cards, which were subsequently located. Since indirect labor costs are based on direct labor amounts, indirect labor costs charged to this program could be over or understated.”

The following procedures have been enacted by The City of Richmond Employment & Training Department since FY 2005 to ensure that the above Findings – Financial Statements Audit and Findings and Questioned Cost – Major Federal Award Program Audit does not occur in the future. The City of Richmond Employment & Training Department is funded by grants from several different Federal, State and Local Agencies. The regulations attached to these grants require that all costs be identified as either Direct or Indirect. In the case of salaries and benefits costs, it is only possible to identify direct costs for those employees who work directly with the clients served under the specific grants. Salary and benefit costs for all other employees must be allocated between all grants in a fair and equitable manner.

The City of Richmond Employment & Training Department utilizes a “Labor Cost Pool” to collect all payroll costs. When an employee of The City of Richmond Employment & Training Department submits a timesheet all salaries and benefits are recorded in the Labor Cost Pool. At the same time an employee of The City of Richmond Employment & Training Department submits a timesheet, they also submit a functional timesheet detailing what grants they have directly worked on for that pay period. The payroll costs for The City of Richmond Employment & Training Department are charged to the respective grants based on these records. Salaries and benefit costs of employees that do not directly work with clients are then allocated to each grant based upon the percentage of direct time for each grant.

Upon completion of each pay period, the City of Richmond Employment & Training Department timesheets and the functional timesheets are reviewed and signed by the Director of the Department. The Senior Accountant for the City of Richmond Employment & Training Department reviews and processes the functional timesheets to arrive at the percentage of direct time for each grant. The salaries and benefits for each employee are entered and multiplied by the percentage of direct time for each grant. The Director of the Department and the Senior Accountant then review the percentages and the calculated dollars of salaries and benefits for each grant. This data is then entered into SAP via Journal Entry out of the Labor Cost Pool. The Journal Entry is then submitted to the City of Richmond Finance Department for posting.

**City of Richmond**  
**Schedule of Findings and Questioned Costs, Continued**  
**For the year ended June 30, 2004**

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**3. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAM AUDIT,**  
**Continued**

04-7 U.S. Department of Housing and Urban Development, Youth Build, (CFDA Number 14.243) - Allowable Costs/Cost Principles Administered by the City's Employment and Training Department.

Criteria: In accordance with the Basic Guidelines section of OMB's cost principles circulars, expenditures should be supported by appropriate documentation.

Condition: During the performance of the audit, it was noted that the program was charged for disability time off under a workers' compensation claim. The grant should not be charged for this because the City is reimbursed by their insurance provider. Charging the grant could result in a double reimbursement by the City. Additionally, since indirect labor costs are based on direct labor amounts, indirect labor costs charged to this program could be over or understated.

Questioned Costs: The amount of the compensation claim charge to the grant as direct labor was \$4,622. The amount of indirect labor questioned could not be determined.

Context and Effect: Reviewing expenditures charged to the grant program to confirm that they are proper in nature and eligible for reimbursement will assure that the Youth Build Program assistance is being funded in the correct amounts.

Recommendation: We recommend that the City retain adequate documentation to support its expenditures.

Management's Response: The City has reviewed its handling of workers' compensation claims. A new process has been implemented whereby actual reimbursable workers' compensation labor costs are transferred via journal voucher to a separate liability fund/account. Because indirect costs such as health care, disability insurance, and other employee benefits are individual specific (not based on paid salary), they would still need to be charged to the employee's default coding. The City is upgrading its financial management system, at which time, moving the indirect costs to the liability fund will be further reviewed.

04-8 U.S. Department of Housing and Urban Development, Youth Build, (CFDA Number 14.243) - Reporting Administered by the City's Employment and Training Department.

Criteria: In accordance with OMB Circular A-133, grantees are required to abide by the reporting requirements as documented in the individual grant agreements of the respective programs. The fiscal filing reports should be prepared in a timely manner and submitted to the granting authority.

**City of Richmond**  
**Schedule of Findings and Questioned Costs, Continued**  
**For the year ended June 30, 2004**

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**3. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAM AUDIT, Continued**

Condition: During the performance of the audit, it was noted that the City did not submit fiscal filing reports to the granting authority in a timely manner.

Questioned Costs: No questioned costs were noted for the period.

Context and Effect: Reporting program expenditures and retaining adequate supporting documentation for those expenditures would permit timely reimbursements for the program and substantiate that WIA - Youthbuild Program assistance is being funded in the correct amounts.

Recommendation: We recommend that the City report on the program in a timely manner as outlined in the grant documents and retain adequate documentation to support expenditures.

Management's Response: The City's failure to file fiscal reports timely is attributed to the high employee turnover at the time. Since that time, a very competent Senior Accountant has been hired who has documented grant and fiscal policies within the City of Richmond Employment & Training Department, has organized the filing of their supporting documents, and has brought the Department into compliance, supported by several favorable grantor audits.

04-9 U.S. Department of Labor, Employment and Training Administration WIA - Dislocated Worker, (CFDA Number 17.260) - Allowable Costs/Cost Principles Administered by the City's Employment and Training Department.

Criteria: In accordance with the Basic Guidelines section of OMB's cost principles circulars, expenditures should be supported by appropriate documentation.

Condition: During the performance of the audit, it was noted that direct labor amounts charged to this grant program were not supported by functional time cards. Since indirect labor costs are based on direct labor amounts, indirect labor costs charged to this program could be over or understated.

Questioned Costs: The amount of direct labor costs charged to the grant which were not supported by functional time cards were \$6,802. In addition, the amount of indirect labor costs in the amount of \$2,173 is also questioned since it was allocated using the direct labor cost charges to the grant.

Context and Effect: Retaining adequate supporting documentation for expenditures would ensure that the WIA - Dislocated Worker Program assistance is being funded in the correct amount.

**City of Richmond**  
**Schedule of Findings and Questioned Costs, Continued**  
**For the year ended June 30, 2004**

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**3. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAM AUDIT,**  
**Continued**

Recommendation: We recommend that the City retain adequate documentation to support its expenditures.

Management's Response: The above findings and Questioned Costs relate to one specific condition that occurred in FY 2004. The condition is that "during the performance of the audit, it was noted that direct labor amounts charged to this grant program were not supported by functional time cards, which were subsequently located. Since indirect labor costs are based on direct labor amounts, indirect labor costs charged to this program could be over or understated."

The following procedures have been enacted by The City of Richmond Employment & Training Department since FY 2005 to ensure that the above Findings - Financial Statements Audit and Findings and Questioned Cost - Major Federal Award Program Audit does not occur in the future. The City of Richmond Employment & Training Department is funded by grants from several different Federal, State and Local Agencies. The regulations attached to these grants require that all costs be identified as either Direct or Indirect. In the case of salaries and benefits costs, it is only possible to identify direct costs for those employees who work directly with the clients served under the specific grants. Salary and benefit costs for all other employees must be allocated between all grants in a fair and equitable manner.

The City of Richmond Employment & Training Department utilizes a "Labor Cost Pool" to collect all payroll costs. When an employee of The City of Richmond Employment & Training Department submits a timesheet all salaries and benefits are recorded in the Labor Cost Pool. At the same time an employee of The City of Richmond Employment & Training Department submits a timesheet, they also submit a functional timesheet detailing what grants they have directly worked on for that pay period. The payroll costs for The City of Richmond Employment & Training Department are charged to the respective grants based on these records. Salaries and benefit costs of employees that do not directly work with clients are then allocated to each grant based upon the percentage of direct time for each grant.

Upon completion of each pay period, the City of Richmond Employment & Training Department timesheets and the functional timesheets are reviewed and signed by the Director of the Department. The Senior Accountant for the City of Richmond Employment & Training Department reviews and processes the functional timesheets to arrive at the percentage of direct time for each grant. The salaries and benefits for each employee are entered and multiplied by the percentage of direct time for each grant. The Director of the Department and the Senior Accountant then review the percentages and the calculated dollars of salaries and benefits for each grant. This data is then entered into SAP via Journal Entry out of the Labor Cost Pool. The Journal Entry is then submitted to the City of Richmond Finance Department for posting.

**City of Richmond**  
**Schedule of Findings and Questioned Costs, Continued**  
**For the year ended June 30, 2004**

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**3. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAM AUDIT, Continued**

04-10	U.S. Department of Labor, Employment and Training Administration WIA – Dislocated Worker, (CFDA Number 17.260) – Eligibility Administered by the City’s Employment and Training Department.
Criteria:	In accordance with the Basic Guidelines section of OMB’s eligibility principles circulars, expenditures should be supported by appropriate documentation.
Condition:	During the performance of the audit, it was noted that payments charged to the program were made to individuals who were not participants in the program.
Questioned Costs:	The amount for questioned costs could not be determined.
Context and Effect:	A review process of participant payments needs to be initiated to ensure that eligible participants are receiving payments and that adequate supporting documentation for expenditures is retained to substantiate that the WIA – Dislocated Worker Program assistance is being funded in the correct amounts.
Recommendation:	We recommend that the City confirm the eligibility of the recipients who receive payments from the program.
Management’s Response:	The City asserts all participants in the grant programs were eligible, and that the finding results from missing or incomplete supporting documentation. The improper completion or misplacement of the documentation is attributed to substantial staff turnover and overwhelmed remaining staff. Since that time, a very competent Senior Accountant has been hired who has documented grant and fiscal policies within the City of Richmond Employment & Training Department, has organized the filing of their supporting documents, and has brought the Department into compliance, supported by several favorable grantor audits.
04-11	U.S. Department of Health and Human Services, Transitional Living, (CFDA Number 93.550) – Eligibility Administered by the City’s Employment and Training Department.
Criteria:	In accordance with the Basic Guidelines section of OMB’s cost principles circulars, expenditures should be supported by appropriate documentation.
Condition:	During the performance of the audit, it was noted that some participants had incomplete application files. These files were missing support for statements made on the application.

**City of Richmond**  
**Schedule of Findings and Questioned Costs, Continued**  
**For the year ended June 30, 2004**

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**3. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAM AUDIT,**  
**Continued**

Questioned Costs:	The amount for questioned costs could not be determined.
Context and Effect:	Applicant files should have all necessary supporting documentation to ensure participants' eligibility to receive program services. Retaining adequate supporting documentation for expenditures would substantiate that Transitional Living Program assistance is being funded in the correct amount.
Recommendation:	We recommend that the City retain adequate documentation to support its expenditures.
Management's Response:	The City asserts all participants in the grant programs were eligible, and that the finding results from missing or incomplete supporting documentation. The improper completion or misplacement of the documentation is attributed to substantial staff turnover and overwhelmed remaining staff. Since that time, a very competent Senior Accountant has been hired who has documented grant and fiscal policies within the City of Richmond Employment & Training Department, has organized the filing of their supporting documents, and has brought the Department into compliance, supported by several favorable grantor audits.
04-12	U.S. Department of Health and Human Services, Transitional Living, (CFDA Number 93.550) - Allowable Costs/Cost Principles Administered by the City's Employment and Training Department.
Criteria:	In accordance with the Basic Guidelines section of OMB's cost principles circulars, expenditures should be supported by appropriate documentation.
Condition:	During the performance of the audit, it was noted that direct labor amounts charged to this grant program were not supported by functional time cards. Since indirect labor costs are based on direct labor amounts, indirect labor costs charged to this program could be over or understated.
Questioned Costs:	The amount of direct labor costs charged to the grant which were not supported by functional time cards were \$50,039. In addition, the amount of indirect labor costs in the amount of \$12,279 is also questioned since it was allocated using the direct labor cost charges to the grant.
Context and Effect:	Retaining adequate supporting documentation for expenditures would ensure that the Transitional Living Program assistance is being funded in the correct amount.
Recommendation:	We recommend that the City retain adequate documentation to support its expenditures.

**City of Richmond**  
**Schedule of Findings and Questioned Costs, Continued**  
**For the year ended June 30, 2004**

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**3. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAM AUDIT,**  
**Continued**

Management's Response: The above findings and Questioned Costs relate to one specific condition that occurred in FY 2004. The condition is that "during the performance of the audit, it was noted that direct labor amounts charged to this grant program were not supported by functional time cards, which were subsequently located. Since indirect labor costs are based on direct labor amounts, indirect labor costs charged to this program could be over or understated."

The following procedures have been enacted by The City of Richmond Employment & Training Department since FY 2005 to ensure that the above Findings - Financial Statements Audit and Findings and Questioned Cost - Major Federal Award Program Audit does not occur in the future. The City of Richmond Employment & Training Department is funded by grants from several different Federal, State and Local Agencies. The regulations attached to these grants require that all costs be identified as either Direct or Indirect. In the case of salaries and benefits costs, it is only possible to identify direct costs for those employees who work directly with the clients served under the specific grants. Salary and benefit costs for all other employees must be allocated between all grants in a fair and equitable manner.

The City of Richmond Employment & Training Department utilizes a "Labor Cost Pool" to collect all payroll costs. When an employee of The City of Richmond Employment & Training Department submits a timesheet all salaries and benefits are recorded in the Labor Cost Pool. At the same time an employee of The City of Richmond Employment & Training Department submits a timesheet, they also submit a functional timesheet detailing what grants they have directly worked on for that pay period. The payroll costs for The City of Richmond Employment & Training Department are charged to the respective grants based on these records. Salaries and benefit costs of employees that do not directly work with clients are then allocated to each grant based upon the percentage of direct time for each grant.

Upon completion of each pay period, the City of Richmond Employment & Training Department timesheets and the functional timesheets are reviewed and signed by the Director of the Department. The Senior Accountant for the City of Richmond Employment & Training Department reviews and processes the functional timesheets to arrive at the percentage of direct time for each grant. The salaries and benefits for each employee are entered and multiplied by the percentage of direct time for each grant. The Director of the Department and the Senior Accountant then review the percentages and the calculated dollars of salaries and benefits for each grant. This data is then entered into SAP via Journal Entry out of the Labor Cost Pool. The Journal Entry is then submitted to the City of Richmond Finance Department for posting.

**City of Richmond**  
**Schedule of Findings and Questioned Costs, Continued**  
**For the year ended June 30, 2004**

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**3. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAM AUDIT,**  
**Continued**

04-13 U.S. Department of Health and Human Services, Transitional Living, (CFDA Number 93.550) - Allowable Costs/Cost Principles Administered by the City's Employment and Training Department.

Criteria: In accordance with the Basic Guidelines section of OMB's cost principles circulars, expenditures should be supported by appropriate documentation.

Condition: During the performance of the audit, it was noted that the amount charged to this program for direct labor was not supported by payroll expense amounts in the City's general ledger. Additionally, since indirect labor costs are based on direct labor amounts, indirect labor cost charged to this program could be over or understated. The amount of unsupported payroll expense questioned was \$5,538.

Questioned Costs: The amount of direct labor costs charged to the grant which were not supported by general ledger payroll reports were \$5,538. In addition, the amount of indirect labor costs is also questioned since it was allocated using the direct labor cost charges to the grant.

Context and Effect: By reviewing the information used to report expenditures charged to the grant program and confirming that they are proper in nature and eligible for reimbursement will ensure that the Transitional Living Program assistance is being funded in the correct amount.

Recommendation: We recommend that the City review the documentation that supports its expenditures for accuracy.

Management's Response: The general ledger ties to the recorded grant totals for the year, as a whole, just not to the specific month-period. Salary allocation worksheet did not tie to the general ledger, on a month-by-month basis because year-end postings to salary expense can be posted to any given month during the course of the year. Since the salary expenses were printed from SAP by month after the year closed, it is possible that some adjustments occurred during specific months after the journal entry was made to allocate the salaries.

The following procedures have been enacted by the City of Richmond Employment & Training Department since FY 2005 to ensure that the above findings do not occur in the future. All monthly salary allocation journal entries have SAP payroll back-up to ensure proper monthly salary allocation by employee.

**City of Richmond**  
**Schedule of Findings and Questioned Costs, Continued**  
**For the year ended June 30, 2004**

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**3. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAM AUDIT,**  
**Continued**

Management's Response, Continued:

The City of Richmond Employment & Training Department utilizes a "Labor Cost Pool" to collect all payroll costs. When an employee of The City of Richmond Employment & Training Department submits a timesheet all salaries and benefits are recorded in the Labor Cost Pool. At the same time an employee of The City of Richmond Employment & Training Department submits a timesheet, they also submit a functional timesheet detailing what grants they have directly worked on for that pay period. The payroll costs for The City of Richmond Employment & Training Department are charged to the respective grants based on these records. Salaries and benefit costs of employees that do not directly work with clients are then allocated to each grant based upon the percentage of direct time for each grant. Upon completion of each pay period, the City of Richmond Employment & Training Department timesheets and the functional timesheets are reviewed and signed by the Director of the Department. The Senior Accountant for the City of Richmond Employment & Training Department reviews and processes the functional timesheets to arrive at the percentage of direct time for each grant. The salaries and benefits for each employee are entered and multiplied by the percentage of direct time for each grant. The Director of the Department and the Senior Accountant then review the percentages and the calculated dollars of salaries and benefits for each grant. This data is then entered into SAP via Journal Entry out of the Labor Cost Pool. The Journal Entry is then submitted to the City of Richmond Finance Department for posting.

- 04-14 U.S. Department of Labor, Employment and Training Administration WIA-Youth Participants, (CFDA Number 17.259) - Eligibility Administered by the City's Employment and Training Department.
- Criteria: In accordance with the Basic Guidelines section of OMB's eligibility principles, expenditures should be supported by appropriate documentation to support the eligibility of the expense.
- Condition: During the performance of the audit, it was noted that one participant in the program did not meet the income requirements to be eligible for participation in the program.
- Questioned Costs: The amount for questioned costs could not be determined.
- Context and Effect: By reviewing participant eligibility requirements and retaining adequate supporting documentation, this would substantiate that the Youth Participants Program assistance is being provided to eligible participants.
- Recommendation: We recommend that the City review applicant file documentation to check for eligibility prior to providing program services.

**City of Richmond**  
**Schedule of Findings and Questioned Costs, Continued**  
**For the year ended June 30, 2004**

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**3. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAM AUDIT,**  
**Continued**

Management's Response: The City asserts all participants in the grant programs were eligible, and that the finding results from missing or incomplete supporting documentation. The improper completion or misplacement of the documentation is attributed to substantial staff turnover and overwhelmed remaining staff. Since that time, a very competent Senior Accountant has been hired who has documented grant and fiscal policies within the City of Richmond Employment & Training Department, has organized the filing of their supporting documents, and has brought the Department into compliance, supported by several favorable grantor audits.

04-15 U.S. Department of Labor, Employment and Training Administration WIA - Youth Participants, (CFDA Number 17.259) - Eligibility Administered by the City's Employment and Training Department.

Criteria: In accordance with the Basic Guidelines section of OMB's eligibility principles circulars, expenditures should be supported by appropriate documentation.

Condition: During the performance of the audit, it was noted that payments charged to the program were made to individuals who were not participants in the program.

Questioned Costs: The amount for questioned costs could not be determined.

Context and Effect: A review process of participant payments needs to be initiated to ensure that eligible participants are receiving payments and that adequate supporting documentation for expenditures is retained to substantiate that the WIA - Youth Participants Program assistance is being issued in the correct amounts.

Recommendation: We recommend that the City confirm the eligibility of the recipients who receive payments from the program.

Management's Response: The City asserts all participants in the grant programs were eligible, and that the finding results from missing or incomplete supporting documentation. The improper completion or misplacement of the documentation is attributed to substantial staff turnover and overwhelmed remaining staff. Since that time, a very competent Senior Accountant has been hired who has documented grant and fiscal policies within the City of Richmond Employment & Training Department, has organized the filing of their supporting documents, and has brought the Department into compliance, supported by several favorable grantor audits.

**City of Richmond**  
**Schedule of Findings and Questioned Costs, Continued**  
**For the year ended June 30, 2004**

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**3. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAM AUDIT, Continued**

04-16	U.S. Department of Labor, Employment and Training Administration WIA – Youth Participants, (CFDA Number 17.259) – Allowable Costs/Cost Principles Administered by the City’s Employment and Training Department.
Criteria:	In accordance with the Basic Guidelines section of OMB’s cost principles circulars, expenditures should be supported by appropriate documentation.
Condition:	During the performance of the audit, it was noted that the amount charged to this program for direct labor was not supported by payroll expense amounts in the City’s general ledger. Additionally, since indirect labor costs are based on direct labor amounts, indirect labor cost charged to this program could be over or understated.
Questioned Costs:	The amount of direct labor costs charged to the grant which were not supported by general ledger payroll reports were \$41,226. In addition, the amount of indirect labor costs in the amount of \$16,794 is also questioned since it was allocated using the direct labor cost charges to the grant.
Context and Effect:	By reviewing the information used to report expenditures charged to the grant program and confirming that they are proper in nature and eligible for reimbursement will ensure that the Youth Participants Program assistance is being funded in the correct amount.
Recommendation:	We recommend that the City review the documentation that supports its expenditures for accuracy.
Management’s Response:	<p>The general ledger ties to the recorded grant totals for the year, as a whole, just not to the specific month-period. Salary allocation worksheet did not tie to the general ledger, on a month-by-month basis because year-end postings to salary expense can be posted to any given month during the course of the year. Since the salary expenses were printed from SAP by month after the year closed, it is possible that some adjustments occurred during specific months after the journal entry was made to allocate the salaries.</p> <p>The following procedures have been enacted by the City of Richmond Employment &amp; Training Department since FY 2005 to ensure that the above findings do not occur in the future. All monthly salary allocation journal entries have SAP payroll back-up to ensure proper monthly salary allocation by employee.</p>

**City of Richmond**  
**Schedule of Findings and Questioned Costs, Continued**  
**For the year ended June 30, 2004**

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**3. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAM AUDIT,**  
**Continued**

Management's Response, Continued:

The City of Richmond Employment & Training Department utilizes a "Labor Cost Pool" to collect all payroll costs. When an employee of The City of Richmond Employment & Training Department submits a timesheet all salaries and benefits are recorded in the Labor Cost Pool. At the same time an employee of The City of Richmond Employment & Training Department submits a timesheet, they also submit a functional timesheet detailing what grants they have directly worked on for that pay period. The payroll costs for The City of Richmond Employment & Training Department are charged to the respective grants based on these records. Salaries and benefit costs of employees that do not directly work with clients are then allocated to each grant based upon the percentage of direct time for each grant. Upon completion of each pay period, the City of Richmond Employment & Training Department timesheets and the functional timesheets are reviewed and signed by the Director of the Department. The Senior Accountant for the City of Richmond Employment & Training Department reviews and processes the functional timesheets to arrive at the percentage of direct time for each grant. The salaries and benefits for each employee are entered and multiplied by the percentage of direct time for each grant. The Director of the Department and the Senior Accountant then review the percentages and the calculated dollars of salaries and benefits for each grant. This data is then entered into SAP via Journal Entry out of the Labor Cost Pool. The Journal Entry is then submitted to the City of Richmond Finance Department for posting.

04-17 U.S. Department of Labor, Employment and Training Administration WIA-Youth Participants, (CFDA Number 17.259) - Allowable Costs/Cost Principles Administered by the City's Employment and Training Department.

Criteria: In accordance with the Basic Guidelines section of OMB's cost principles circulars, expenditures should be supported by appropriate documentation.

Condition: During the performance of the audit, it was noted that expenditure amounts charged to this grant program did not have adequate supporting documentation to assist in determining if the expenditure was proper in nature and allowable. The amount questioned was \$9,310.

Question Costs: The expenditure amounts tested that did not have adequate supporting documentation to determine if they were allowable under the grant program amounted to \$9,310.

Context and Effect: By retaining adequate supporting documentation for expenditures, this would ensure that the WIA - Youth Participants Program assistance is being issued in the correct amounts.

**City of Richmond**  
**Schedule of Findings and Questioned Costs, Continued**  
**For the year ended June 30, 2004**

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**3. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAM AUDIT,  
Continued**

Recommendation: We recommend that the City retain adequate documentation to support its expenditures.

Management's Response: Under the fiscal leadership of a new Senior Accountant, the documentation and monitoring to ensure proper documentation for all grant expenditures is in place.

**City of Richmond**  
**Summary Schedule of Prior Audit Findings**  
**For the year ended June 30, 2004**

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The following is the status of audit findings reported in the prior year's schedule of findings and questioned costs:

03-1	U.S. Department of Labor, Employment and Training Administration Welfare-to-Work, (CFDA Number 17.253) - Reporting Administered by the City's Employment and Training Department.
Criteria:	In accordance with OMB Circular A-133, grantees are required to abide by the reporting requirements as documented in the individual grant agreements of the respective programs. Per grant agreement #Y-6778-8-00-81-60, final reports must be submitted no later than 90 days after the grant expires.
Condition:	During the performance of our audit, we noted that the grant expired on June 30, 2003. The final report was submitted on February 25, 2004, which was 240 days after the grant expired.
Questioned Costs:	No Questioned costs were noted for the period.
Context and Effect:	By ensuring that final reports are submitted timely, Welfare-to-Work assistance could be accounted for in a timely manner.
Recommendation:	We recommend that the City strengthen its controls governing financial report submission process to ensure that it is performed in a timely manner
Management's Response:	The City has already begun the process of tracking all grants and monitoring the related reporting requirements.
Status:	<i>Not Implemented</i> - The City has not created a centralized database to track and monitor grants reporting, but additional staff has been retained in the key grant-funded departments that are maintaining such a department for their grant activities.

**City of Richmond**  
**Summary Schedule of Prior Audit Findings, Continued**  
**For the year ended June 30, 2004**

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03-2	U.S. Department of Labor, Employment and Training Administration WIA Youth Participants, (CFDA Number 17.259) - Allowable Costs/Cost Principles Administered by the City's Employment and Training Department.
Criteria:	In accordance with the Basic Guidelines section of OMB's cost principles circulars, expenditures should represent charges for actual costs, not budgeted or projected amounts.
Condition:	During the performance of our audit, we noted that an expenditure was overstated in the general ledger by \$546. The amount on the invoice was \$9,492 while the amount recorded in general ledger was based on an original estimate from a purchase order for \$10,038.
Questioned Costs:	The amount claimed on the grant by the City was overstated by \$546.
Context and Effect:	Reporting expenditures at actual costs, instead of budgeted or projected amounts, would ensure WIA - Youth Participants assistance is being issued in the correct amounts.
Recommendation:	We recommend that the City strengthen its controls governing cost accounting.
Management's Response:	The City will include additional steps to ensure that all expenditures are reviewed by a supervisor and properly supported before being posted to the general ledger.
Status:	Not implemented in fiscal year ending June 30, 2004. However the City has stated that during fiscal year ending June 30, 2005 all expenditures are reviewed by a supervisor for approval, and all expenditures of \$1,000 or more are reviewed and approved by the Finance Director to ensure proper documentation is in place. Controls to ensure proper documentation are also being enhanced through the recent restart of a centralized Purchasing Division.

**City of Richmond**  
**Summary Schedule of Prior Audit Findings, Continued**  
**For the year ended June 30, 2004**

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03-3 U.S. Department of Labor, Employment and Training Administration WIA - Youth Participants, (CFDA Number 17.259) - Allowable Costs/Cost Principles Administered by the City's Employment and Training Department.

Criteria: In accordance with the Basic Guidelines section of OMB's cost principles circulars, expenditures should be supported by appropriate documentation.

Condition: The City found errors in the cost allocation system for allocating indirect payroll costs and had to reverse the entire fiscal year's payroll charges to the grant. Salary assessments were rerun at the end of the year. During the performance of our audit, the City was unable to provide documents to support allocation of payroll cost.

Questioned Costs: The City was unable to support the amount of \$27,052.02 in payroll costs charged to the grant.

Context and Effect: Retaining adequate supporting documentation for expenditures would substantiate that WIA - Youth Participants assistance is being issued in the correct amounts.

Recommendation: We recommend that the City retain adequate documentation to support expenditures.

Management's Response: The City has standardized and simplified its process for allocating indirect payroll costs to ensure that payroll costs are properly supported and recorded in the correct period.

Status: Not implemented in fiscal year ending June 30, 2004. However the City has stated that during fiscal year ending June 30, 2005, all indirect payroll costs are fully allocated on a semi-monthly basis. If rates are revised, the City's integrated payroll-financial management system will recalculate retroactively back to the effective date of the change and post into the current period.