

# City of Richmond

Richmond, California

*Single Audit Reports*

*For the year ended June 30, 2003*

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

**City of Richmond**  
**Single Audit Reports**  
**For the year ended June 30, 2003**

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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 basic financial statements of the City of Richmond (City) as of and for the year ended June 30, 2003, and have issued our report thereon dated February 26, 2004. 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.

**Compliance**

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

**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 opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a 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 in amounts that would be material in relation to the 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting, which we have reported to management of the City in a separate letter dated March 8, 2004.

This report is intended for the information of management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

Oakland, California  
February 26, 2004

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**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 (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, 2003. The City's major federal programs are identified in the summary of the auditors' 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, *Audit of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2003. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 03-1 to 03-3.

**Internal Control Over Compliance**

The management of the City is responsible for establishing and maintaining effective internal control over compliance with 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 noted a matter involving the internal control over compliance and its operation that we consider to be a reportable condition. 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 County's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. The reportable condition is described in the accompanying schedule of findings and questioned costs as items 03-1 to 03-3.

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

A material weakness is a 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 the applicable requirements of laws, regulations, contracts, and grants 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 that are also considered to be material weaknesses. However, we believe that the reportable condition described above is not a material weakness.

**Schedule of Expenditures of Federal Awards**

We have audited the basic financial statements of the City as of and for the year ended June 30, 2003, and have issued our report thereon dated February 26, 2004. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as whole.

This report is intended for the information of management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

*Capricci & Carson*

Oakland, California  
February 26, 2004

**City of Richmond**  
**Schedule of Expenditures of Federal Awards**  
**For the year ended June 30, 2003**

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-01-MC-06-0015 through B-02-MC-06-0015	\$ 2,188,090
Home Investment Partnership Program	14.239	* M02-MC060209	821,917
Home Investment Partnership Program	14.239	* M03-MC060209	10,675
Youthbuild	14.243	Y-99-IM-CA-0150	65,665
Youthbuild	14.243	Y-02-IM-CA-0095	19,268
Project R.E.A.L.	14.900	CALH0088-98	162,549
<b>Total U.S. Department of Housing &amp; Urban Development</b>			<b>3,268,164</b>
<b>U.S. Department of Labor:</b>			
<i>Direct Programs:</i>			
Welfare-to-Work	17.253	* Y677880008160	109,303
H-1B Visa Program	17.261	AH-11952-02-60	1,125,150
Youth Offender Demonstration Grant	17.249	F-7447-9-00-80-60	275,396
<i>Passed through State of California, Employment Development Department:</i>			
WIA - Adult	17.258	R275858	178,025
WIA - Adult	17.258	R380524	368,201
WIA - Youth	17.259	* R275858	34,076
WIA - Youth	17.259	* R380524	409,167
WIA - Governor's 15% Discretionary Funds	17.259	* R380524	462,234
WIA - Dislocated Worker	17.260	R275858	248,139
WIA - Dislocated Worker	17.260	R380524	352,102
WIA - Nurses Workforce Initiative	17.260	R380524	1,660
<b>Total U.S. Department of Labor</b>			<b>3,563,453</b>
<b>U.S. Department of Justice:</b>			
<i>Direct Programs:</i>			
Local Law Enforcement Block Grant	16.592	* 2001-LB-BX-2521	262,435
COPS in School	16.710	* 2002-SH-WX-0226	225,000
<b>Total U.S. Department of Justice</b>			<b>487,435</b>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<b>\$ 7,319,052</b>

\*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, 2003**

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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, 2003**

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**1. SUMMARY OF AUDIT RESULTS**

1. The auditors' report expresses an unqualified opinion on the basic financial statements of the City of Richmond (City).
2. No reportable conditions relating to the audit of the financial statements are reported in the basic financial statements.
3. No instances of noncompliance material to the financial statements of the City were disclosed during the audit.
4. No reportable conditions relating to the audit of the major Federal award programs is reported in the basic financial statements.
5. The auditors' report on compliance for the major federal award programs for the City expresses an unqualified opinion.
6. Audit findings relative to the major federal award programs for the City are reported in this Schedule.
7. The programs tested as major programs:

<u>Major Programs</u>	<u>Federal Expenditures</u>
Community Development Block Grant	\$ 2,188,090
Home Investment Partnership Program	821,917
Home Investment Partnership Program	10,675
Welfare-to-Work	109,303
WIA - Youth	34,076
WIA - Youth	409,167
WIA - Governor's 15% Discretionary Funds	462,234
Local Law Enforcement Block Grant IV	262,435
COPS in School	225,000
<b>Total Major Program Expenditures</b>	<b>\$ 4,522,897</b>
<b>Total Federal Award Expenditures</b>	<b>\$ 7,319,052</b>
<b>Percentage of Total Federal Award Expenditures</b>	<b>61.80%</b>

8. The threshold for distinguishing Types A and B programs was \$300,000.
9. 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, 2003**

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**2. FINDINGS - FINANCIAL STATEMENTS AUDIT**

None

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

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.

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.

**City of Richmond**  
**Schedule of Findings and Questioned Costs, Continued**  
**For the year ended June 30, 2003**

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

03-2	U.S. DEPARTMENT OF LABOR, Employment and Training Administration WIA Youth Activities, (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 expenditure was overstated in the general ledger by \$546. The amount on invoice was \$9,492. The amount recorded in general ledger was based on original estimate on purchase order for \$10,038.
Context and Effect	Reporting expenditures at actual costs, instead of budgeted or projected amounts would ensure WIA Youth assistance is being issued in the correct amount.
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.

**City of Richmond**  
**Schedule of Findings and Questioned Costs, Continued**  
**For the year ended June 30, 2003**

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

03-3	U.S. DEPARTMENT OF LABOR, Employment and Training Administration WIA Youth Activities, (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 of \$27,052.02 to the grant.
Context and Effect	Retaining adequate supporting documentation for expenditures would substantiate that WIA Youth assistance is being issued in the correct amount.
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.

**City of Richmond**  
**Summary Schedule of Prior Audit Findings**  
**For the year ended June 30, 2003**

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

02-1 U.S. DEPARTMENT OF LABOR, Employment and Training Administration  
WIA Youth Activities, (CFDA Number 17.259) - Allowable Costs/Cost Principles  
Administered by the City's Employment and Training Department

Condition For the fiscal year ended June 30, 2002 the Employment & Training Department organized certain tours to the Southern Colleges during the period 11/16/01 to 11/22/01 for youth programs. The tours are unallowed activities and accordingly unallowable cost. The amount of questioned costs totaled \$6,384.

Recommendation It was recommended that the City closely monitor the activities allowed and unallowed when charging expenses to federal funds.

Status Implemented.

02-2 U.S. DEPARTMENT OF JUSTICE  
Local Law Enforcement Block Grants, (CFDA Number 16.592) - Reporting

Criteria In accordance with OMB Circular A-133, grantees are responsible for maintaining internal control over federal programs that provide reasonable assurance that they are managing federal awards in compliance with laws, regulations, and the provisions of contracts or agreements that could have a material effect on each of their federal programs.

Condition When first testing was performed for reporting, it was noted no reconciliation reports were prepared or provided to Ravinder Singh & Associates for amounts reported on the quarterly Financial Status Report.

Context and Effect A key control over a grantee's federal award programs is the performance of a reconciliation of the program expenditures, as reported to the federal agency, to the amounts recorded in the grantee's financial accounting system. To ensure that adequate controls are maintained and to ensure that all federal program expenditures are adequately supported, grantees should reconcile all federal expenditures on a regular basis.

Recommendation All reports should be prepared from accounting records and should be periodically reconciled to the general ledger.

Status Implemented.

**City of Richmond**  
**Summary Schedule of Prior Audit Findings, Continued**  
**For the year ended June 30, 2003**

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

02-3	U.S. DEPARTMENT OF JUSTICE Local Law Enforcement Block Grants, (CFDA Number 16.592) – Period of availability
Criteria	In accordance with OMB Circular A-133, grantees may charge to award only costs resulting from obligations incurred during the funding period.
Condition	As mentioned in finding 02-2, reconciliation controls are missing and grants are not reconciled to the general ledger on a regular basis. The following were reported as expenses under LLEBG IV - \$42,922, V - \$58,631 & VI - \$85,573. Of the above, \$121,194 were coded and recorded as LLEBG IV expenses after 1/31/2002, which were beyond the period of availability. Additionally, \$85,573 were recorded and reported as LLEBG VI expense. As per grant requirements, period of availability begins on the date the City first draws down funds, which was done on July 12, 2002. Hence for FYE 6/30/2002, no amount of expenses should have been recorded and reported as LLEBG VI grant expenses. The questioned costs are as follows: LLEBG IV - \$121,194 and LLEBG VI - \$85,573.
Context and Effect	By monitoring the period of availability, the funds would be spent in the correct time period.
Recommendation	Ravinder Singh & Associates recommended that internal control procedures be strengthened to monitor the period of availability on expenditures being charged to the grant and grants should be reconciled on a regular basis.
Status	Implemented.

**City of Richmond**  
**Summary Schedule of Prior Audit Findings, Continued**  
**For the year ended June 30, 2003**

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

02-4	U.S. DEPARTMENT OF JUSTICE Local Law Enforcement Block Grants, (CFDA Number 16.592) - Reporting
Criteria	In accordance with OMB Circular A-133, grantees are responsible for maintaining internal control over federal programs that provide reasonable assurance that they are managing federal awards in compliance with laws, regulation, and the provisions of contracts or agreements that could have a material effect on each of their federal programs.
Condition	It was noted that the reports were not prepared from accounting records, the submitted Financial Status Reports were not reconciled, no adequate support were provided to the auditors for testing, and finally the reports were incomplete as it did not include all the accounts like program income which was required to be reported
Context and Effect	Preparing financial reports from reconciled accounting records would ensure that the expenditures reported are accurate and complete.
Recommendation	Ravinder Singh & Associates recommended that internal control procedures be strengthened to ensure reports are prepared with adequate reconciliation to the general ledger. Additionally, care should be taken to ensure the reports are complete and include all the required accounts like program income, etc.
Status	Implemented.

**City of Richmond**  
**Summary Schedule of Prior Audit Findings, Continued**  
**For the year ended June 30, 2003**

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

02-5	U.S. DEPARTMENT OF JUSTICE Local Law Enforcement Block Grants, (CFDA Number 16.592) - Equipment Management & Equipment Inventory Listing
Criteria	In accordance with OMB Circular A-133 and the uniform administrative requirements, the grantee is required to maintain an equipment inventory list, assign the equipment with a fixed asset serial number, tag it, monitor such equipment, provide information about its physical location so that auditors can inspect it, ensure adequate security from theft and misuse, etc.
Condition	An equipment inventory list was not maintained or provided to the auditor.
Context and Effect	Maintaining an equipment inventory list would ensure proper accounting and monitoring of equipment purchased through Local Law Enforcement Block grants. When the equipment is no longer needed for the federal program, it may be retained or sold with the federal agency having a right to a proportionate amount of the current fair market value.
Recommendation	The City should maintain an equipment inventory list and provide a copy to the auditors when such a list is requested.
Status	Implemented.