

CITY OF RICHMOND
SINGLE AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2010

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For The Year Ended June 30, 2010

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CITY OF RICHMOND

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2010**

SECTION I—SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of auditor’s report issued: Unqualified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted? X Yes No

Federal Awards

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

Internal control over major programs:

- Material weakness(es) identified? X Yes No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? Yes X Reported

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

Identification of major programs:

<u>CFDA#(s)</u>	<u>Name of Federal Program or Cluster</u>
<u>12.612</u>	Department of Defense- Community Base Reuse Plans, Project Grant/Cooperative Agreement – Naval Fuel Depot Point Molate Pollution Remediation Grant
<u>14.218, 14.253 (Cluster)</u>	Department of Housing and Urban Development- Community Development Block Grants/Entitlement Grants
<u>17.274</u>	Department of Labor - YouthBuild
<u>17.258, 17.259, 17.260 (Cluster)</u>	Department of Labor - Workforce Investment Act- Adult Program, Youth Activities and Dislocated Workers
<u>16.710</u>	Department of Justice - Public Safety Partnership and Community Policing Grants
<u>20.205</u>	Department of Transportation - Highway Planning and Construction

Dollar threshold used to distinguish between type A and type B programs: \$528,857

Auditee qualified as low-risk auditee? Yes X No

SECTION II – FINANCIAL STATEMENT FINDINGS

Our audit did disclose material weaknesses, significant deficiencies and instances of noncompliance material to the basic financial statements. We have communicated the material weaknesses, significant deficiencies and instances of noncompliance material to the basic financial statements along with other matters in a separate Memorandum on Internal Control dated December 15, 2010 which is an integral part of our audits and should be read in conjunction with this report.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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

Finding 2010-01 **Unallowable Payroll and Fringe Benefit Costs Charged to Grant**

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

Criteria: Under the ARRA COPS Hiring Recovery Program grant agreement and the OMB Circular A-133 Compliance Supplement Agency Program Requirements, allowable costs for the grant include entry-level salaries and fringe benefits based on the City’s actual entry-level sworn officer salary and fringe benefit costs that are identified on the Final Financial Clearance Memorandum that was sent to the City. Any additional costs for higher than entry-level salaries and fringe benefits will be the responsibility of the City.

Condition: The City charged salary and fringe benefit amounts to the grant that were above the entry level amounts included in the Final Financial Clearance Memorandum totaling \$89,464. These salary and fringe benefit amounts are ineligible costs, which were comprised of an employee signing bonus, shift differential pay and uniform allowance pay. In addition, the City had eligible payroll and fringe benefit costs in the first quarter of the grant in the amount of \$15,349 that were not drawn down from the grant. The ineligible and eligible costs were not discovered by the City during the review of the grant drawdown requests.

Questioned Costs: We question costs of \$74,115, which consist of the ineligible costs less the eligible costs listed above.

Effect: The City is not in compliance with the allowable cost provisions of the grant agreement and the Agency Program Requirements.

Cause: City staff believed that all payroll expenses, excluding overtime, were allowable expenditures under the grant.

Recommendation: The City should contact the grantor to determine whether future grant drawdowns can be reduced by the ineligible costs or if the funds need to be returned to the grantor. The City should ensure that all future grant drawdowns are only for eligible costs under the specific grant agreement, Agency Program Requirements and the OMB Circular A-87 (Cost Circular). In addition, all staff responsible for creating reimbursement requests should be made aware of specific grant limitations and all reimbursement requests should be reviewed in detail by a second employee prior to submission to ensure that only eligible costs are being requested.

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

Finding 2010-01 Unallowable Payroll and Fringe Benefit Costs Charged to Grant (Continued)

View of Responsible Officials and Planned Corrective Actions:

Name of contact person: Connie Valentine, Senior Budget Analyst, (510) 620-6701

The City concurs and has been in contact with the grantor. The City will work with the grantor to calculate the actual amount due back to the grantor and this amount will be deducted from the next grant drawdown in April 2011. In addition, the City will develop procedures for preparing the drawdowns to make sure only allowed amounts are requested.

Finding 2010-02 Inventory of Capital Assets Acquired with Federal Funds

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

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

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

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

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

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

View of Responsible Officials and Planned Corrective Actions:

Name of contact person: Tina McKenney, Chief Accountant, (510) 621-1220

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

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

Finding 2010-03 **Grantor Approval for Sole Source Purchase**

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

Criteria: The Financial Clearance Memo for the Law Enforcement Technology Grant and Grant Condition #14 of the 2010 COPS Technology Program Grant Owner’s Manual require that grantees awarded a grant for the procurement of an item using a noncompetitive procurement process must provide a written sole source justification to the COPS Office for review and approval prior to obligating, expending, or drawing down grant funds for that item.

Condition: The City received a Law Enforcement Technology Grant that was used to expand the City’s ShotSpotter Gunshot Location System. The City’s original contract with the vendor was approved by City Council in fiscal year 2009 under a sole-source justification and procurement procedure in accordance with the City’s purchasing policy. The contract with the vendor was amended in the amount of \$600,000 to expand the system after the City received approval for the Law Enforcement Technology Grant. The contract amendment was again approved by City Council under the original sole source procurement justification. However, City staff was unable to provide documentation that the written sole source justification had been provided to and approved by the COPS Office.

Effect: It does not appear that the City is in compliance with the Sole Source Justification requirements of the Financial Clearance Memo and 2010 COPS Technology Program Grant Owner’s Manual.

Cause: Although City staff has indicated that they were in communication with the grantor regarding the purchase, City staff does not have documentation that the Sole Source Justification was provided to or approved by the COPS Office.

Recommendation: The City should obtain documentation of the required approval of the Sole Source Justification from the grantor. In the future, the City should review grant award documents to ensure that all required documentation is remitted to the grantor and the necessary approvals are obtained and retained in the City’s grant files.

View of Responsible Officials and Planned Corrective Actions:

Name of contact person: Lieutenant Charles Whitney, Richmond Police Department Administrative Services Division, (510) 620-6830

The “ShotSpotter” was approved during the application process. However, there was some miscommunication. The sole source per City of Richmond purchasing procedures were followed and approved and it was believed that the federal sole source was not needed. As such, the form was not submitted. All communications were verbal so I can not supply any documents to support the misunderstanding between the involved parties.

Yesterday, there was a meeting with the grant monitor and staff accountant. The grant monitor was satisfied with the explanation and did not see this as a major concern. City staff spoke with the grantor in Washington DC and they’ve indicated that the system met their sole source requirements. The grantor will be supplying the City with a sole source request form to submit next week so that the documentation will be on file.

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

Finding 2010-04 **Timely Submission of Grant Reimbursement Requests and Final Report of Expenditures**

CFDA Number: 20.205
CFDA Title: Highway Planning and Construction
Federal Agency: Department of Transportation
PassThrough Entity: California Department of Transportation

Criteria: Special Covenant number 5 of the Program Supplement CML-5137(035) for the Richmond Greenway Phase II project and Program Supplement ESPL-5137(037) for the Carlson Boulevard asphalt concrete overlay project requires that invoices are to be submitted “at least once every six months commencing after the funds are encumbered.” If no invoices are submitted for a six month period the City is required to submit a written explanation to the State which includes a target billing date and amount. If invoices or a written explanation are not submitted every six months, the State reserves the right to suspend future authorizations/obligations, and invoice payments for any ongoing or future federal-aid.

In addition, Section 5 of the Program Supplement and the California Department of Transportation Local Assistance Procedures Manual Section 5.9 (LAPM) require that a “Final Report of Expenditures” be submitted to the District Local Assistance Engineer (DLAE) within 180 days of project completion. If the report is not filed timely, the State may impose sanctions in accordance with the current LAPM.

Condition: The City submitted the first invoice for the Richmond Greenway Phase II project on October 22, 2009 and did not submit another invoice until January 12, 2011. The City submitted the first invoice for the Carlson Boulevard asphalt concrete overlay project in April 2010 and did not submit another invoice until February 2, 2011. The City did not submit the required written explanations to the grantor.

In addition, the Richmond Greenway Phase II Construction Project was completed on June, 30, 2010 and the City Council accepted the completed construction work on July 20, 2010. As of February 2, 2011 the Final Report of Expenditures has not been submitted to the DLAE.

Effect: The City is not in compliance with reimbursement request and Final Report of Expenditures filing requirements of the Program Supplements and the LAPM and is potentially subject to the sanctions noted above.

Cause: Due to staff turnover, the timely invoicing of costs was not achieved.

Recommendation: The City should submit invoices at least once every six months or a written explanation for the lack of invoice submittal with a target date and billing amount to remain in compliance with the Program Supplements. In addition, the City should file the Final Report of Expenditures as soon as possible. In the future, the City should ensure that it complies with all filing deadlines or filing documentation specified in the grant award documents.

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

Finding 2010-04 **Timely Submission of Grant Reimbursement Requests and Final Report of Expenditures (Continued)**

View of Responsible Officials and Planned Corrective Actions:

Name of contact person: Melissa Tigbao, Engineer I, (510) 412-2039

The Engineering Services Department went under a significant staff turnaround during the projects. Since October 2010, the City of Richmond has been under Federal-Aid Project Oversight by Caltrans District 4 Local Assistance and is working on a Standard Operating Procedure for the management of federally funded projects. This SOP will include the procedure to invoice at least once every six months, and to submit Final Expenditure Reports as soon as projects are accepted by the City Council. The City has already designated a Federal-Aid Project Coordinator to follow up on all federally funded projects being managed by the City to ensure all project managers are following the standards and procedures of the Local Assistance Procedures Manual.

Finding 2010-05: **Establish Subrecipient Agreement with the Richmond Museum Association**

CFDA Number: 20.205
CFDA Title: Highway Planning and Construction
Federal Agency: Department of Transportation
PassThrough Entity: California Department of Transportation

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

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

Effect: Although the City reviews the supporting documentation for the amounts passed through to the Richmond Museum Association in detail, the City is not in compliance with the pass-through entity requirements of OMB Circular A-133.

Cause: The City felt that its monitoring of the expenditures was sufficient, and the project was completed during the fiscal year, therefore a subrecipient agreement was not established.

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

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

Finding 2010-05: Establish Subrecipient Agreement with the Richmond Museum Association (Continued)

View of Responsible Officials and Planned Corrective Actions:

Contact person: Andy Yeung, Senior Civil Engineer, (510) 307-8108

The Red Oak Victory Ship Project is completed and we have submitted the final package (Final Expenditure Report) to CalTrans. The project is now closed. A sub-recipient agreement is no longer needed.

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

CFDA Number: 14.218

CFDA Title: Community Development Block Grants / Entitlements Grants

Federal Agency: Department of Housing and Urban Development

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

Condition: The City's PR26 for the program year 2009, which includes the activity for fiscal year 2010, reported a zero balance on line 01, Unexpended CDBG Funds at End of Previous Program Year, and a balance of \$475,968 on line 05, Current Year Program Income. However, the balances should have been \$447,506 and \$227,521, respectively. Both line 01 and line 05 feed into other calculations in the PR26.

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

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

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

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

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

View of Responsible Officials and Planned Corrective Actions:

Names of contact persons: Patrick Lynch, RCRA Housing Division Director (510) 412 – 2053
Ana Cortez, Community Development Program Manager (510) 231-3079
Nickie Mastay, RCRA Finance & Administration Manager (510) 307-8010

Since the PR26 report is automatically generated in the IDIS internet system, the City of Richmond/Redevelopment Agency will continue to work with their HUD representative to improve on the accuracy of the reporting. The City of Richmond/Redevelopment Agency’s Finance & Administration Manager will coordinate with the City of Richmond/Redevelopment Agency Community Development Program Manager to reconcile the reports filed with the reporting agency to the City of Richmond/Redevelopment Agency general ledger to ensure accuracy of the reports prior to the finalization.

Finding 2010-07: Updating Employee Allocation Percentages on a Quarterly Basis

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

Criteria: The OMB Circular A-87 Attachment B, Section 8(h), subsection (4) requires that payroll charges to grants be supported by personnel activity reports or equivalent documentation which meets the standards in subsection (5) unless a statistical sampling system or other substitute system has been approved by the cognizant Federal agency. In the absence of personnel activity reports, the use of budget estimates or other distribution percentages for interim accounting purposes for employee payroll charges to grants provided that at least quarterly comparisons of actual costs to budgeted distributions based on the monthly activity reports are made. Costs charged to Federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show the differences between budgeted and actual costs are less than ten percent and the budget estimates or other distribution percentages are revised at least quarterly, if necessary, to reflect changed circumstances.

Condition: The City uses percentage allocations to charge payroll costs of employees associated with the CDBG program based on an estimate of the time they spend on CDBG-related activities each pay period, but the allocation percentages are only updated annually to reflect the actual costs.

Effect: The City is not in compliance with the support of salaries and wages quarterly comparisons of actual costs to budgeted distributions requirements of OMB Circular A-87.

Cause: In fiscal year 2009-10 two City of Richmond/Redevelopment Agency CDBG employees retired from their positions. The City of Richmond/Redevelopment Agency did not backfill these positions. Employees that were already working on the CDBG program added these additional duties to their current CDBG work load. Because of their increased work load, a greater percentage of their payroll was charged to the CDBG program.

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

Finding 2010-07: Updating Employee Allocation Percentages on a Quarterly Basis (Continued)

Recommendation: The City should revise its procedures to include the quarterly comparisons of actual costs to budgeted distributions and make adjustments quarterly, if required.

View of Responsible Officials and Planned Corrective Actions:

Names of contact persons: Patrick Lynch, RCRA Housing Division Director (510) 412 – 2053
Nikkie Mastay, RCRA Finance & Administration Manager (510) 307-8010

The City of Richmond/Redevelopment Agency will revise its procedure to include quarterly comparisons of actual costs to budgeted distributions and make adjustments quarterly if required.

Finding 2010-08 Recording Grant Activities in the City’s General Ledger

CFDA Number: 12.612
CFDA Title: Community Base Reuse Plans, Project Grant/Cooperative Agreement – Naval Fuel Depot Point Molate Pollution Remediation Grant
Federal Agency: Department of Defense, Department of the Navy

Criteria: Grant funds received in advance and any associated expenditures should be recorded in the City’s general ledger when they occur. In addition, OMB Circular A-133 Subpart C Section 300, Auditee Responsibilities, requires the City to prepare appropriate financial statements for the fiscal year audited, including the schedule of expenditures of Federal awards.

Condition: The City received a grant from the Department of Defense, Department of the Navy, under the provisions of an Early Transfer Cooperative Agreement dated September 2008. The grant funds of \$28.5 million were advanced to the City in April 2010 and expenditures associated with the grant of \$4.9 million were made during April 2010. However, the grant advance and the related expenditures were not recorded on the City’s general ledger prior to the start of the year-end financial audit in November 2010.

During the planning for the City’s Single Audit, we noted that the City did not include the grant activities from the Department of Defense for the Point Molate Pollution Remediation grant on the Schedule of Expenditures of Federal Awards.

Effect: The City was not in compliance with requirements in OMB Circular A-133 Subpart C Section 300, since the grant was not initially included in the City’s financial statements or the City’s Schedule of Expenditures of Federal Awards.

Cause: The grant documentation and associated fiscal agent bank statements held by the City department responsible for the administration of the grant were not provided to the City’s Finance Department and the City’s Grants Manager.

Recommendation: Although the City has provided specific grant training to various City departments, all City departments should again be notified that they *must* communicate the receipt of all grant funding to the Finance Department and the Grants Manager to ensure centralized tracking of all grant programs for Single Audit reporting.

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

Finding 2010-08 **Recording Grant Activities in the City's General Ledger (Continued)**

View of Responsible Officials and Planned Corrective Actions:

Name of contact person: Belinda Warner, Grants/Internal Audit Manager, (510) 621-1272

Meetings were held January – March 2011 with all City departments that currently have grants and were explained the process of managing grants. They were also given a Grant Checklist that detailed out all of the information that should be submitted to the Grant Manager to help ensure that all grants are incorporated on the City's Schedule of Expenditures of Federal Awards.

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

CFDA Number: 12.612
CFDA Title: Community Base Reuse Plans, Project Grant/Cooperative Agreement – Naval Fuel Depot Point Molate Pollution Remediation Grant
Federal Agency: Department of Defense, Department of the Navy

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

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

Condition: As discussed in finding 2010-07, the City received an advance of grant funds in April 2010 and deposited the funds in an escrow account. In April 2010, the City drew down from the escrow account the entire amount of the administrative costs allowable under the Remediation Agreement for the City of \$630,000 and \$170,000 for the developer. However, City staff was unable to provide documentation as to whether the amounts drawn down were reimbursement for costs incurred or, if they were for costs prior to the award date, whether the grantor had approved the costs.

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

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

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

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

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

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

View of Responsible Officials and Planned Corrective Actions:

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

Staff will review the expenditures to ensure that the grant funds drawn down were allowable and will adjust the escrow account if necessary

SECTION IV - STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS –

Prepared by Management

Financial Statement Prior Year Findings

There were financial statement findings reported in the prior year, the current status of which we have communicated in a separate Memorandum on Internal Control dated December 15, 2010 which is an integral part of our audits and should be read in conjunction with this report.

Federal Award Prior Year Findings and Questioned Costs

Finding 09-01: Subrecipient Monitoring

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

Criteria: The City's standard agreement with its subrecipients indicates that the subrecipients are to file quarterly progress reports. OMB Circular A-133 section .400(d)(3) requires that if a grant is passed through to a subrecipient, the City must monitor the activities of the subrecipient to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations and the provisions of contracts or grant agreements and that performance goals are achieved.

Condition: We selected six subrecipients for testing of compliance with the OMB Circular A-133 monitoring requirements and compliance with the City's subrecipient agreements and noted the following:

- Two subrecipients did not file the required quarterly reports for the entire fiscal year.
- One subrecipient did not file the 3rd and 4th quarter reports.
- One subrecipient did not file the 2nd, 3rd and 4th quarter reports.
- One subrecipient that included three programs did not file the 3rd and 4th quarter reports for two of the programs and did not file the 2nd, 3rd and 4th quarter reports for one of the programs.

The City did not monitor the subrecipients to ensure compliance with the agreement performance reporting requirements.

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

Cause: City staff indicated that the reporting requirements for some of the subrecipients may have changed and the reporting requirements for some subrecipients may be less than quarterly since the funded activities may not occur every quarter. However, the subrecipient agreements were not amended and do not include a provision for reporting in only the quarters in which services were performed.

Recommendation: The City should monitor its subrecipients to ensure they are in compliance with the subrecipient agreement reporting requirements. In the event the reporting requirements have been changed, or reporting less than quarterly is required, the City should ensure that the subrecipients are notified of the change, documentation of the revision is maintained in the subrecipient file, and agreements are modified as necessary.

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

Finding 09-01: Subrecipient Monitoring (Continued)

Name of Contact person: Nickie Mastay, RCRA Finance & Administration Manager (510)-307-8010

Management's Response:

The Program Manager in charge of the contract to the subrecipient will co-ordinate with the Contract Administrator to ensure the amendment to the contract states how many monitoring(s) the subrecipient will supply during the course of the contract. The Program Manager will meet with the Community Development Block Grant Assistant Manager to ensure all monitoring(s) take place during the contract duration.

Current Status:

RCRA has experienced an unprecedented rate of retirements, transfers, and layoffs in Fiscal Year 2009-10. Remaining staff have new assignments along with existing tasks. RCRA staff is adhering to the process to try and ensure all monitoring take place and contracts are amended when necessary.

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

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

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

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

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

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

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

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

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

Name of Contact person: Nickie Mastay, RCRA Finance & Administration Manager (510)-307-8010

Management's Response:

The City of Richmond/Redevelopment Agency has a HUD/IDIS consultant to train staff on the steps needed in the new system to properly generate all necessary HUD reports and to enhance the City of Richmond/Redevelopment Agency existing reports. The City of Richmond/Redevelopment Agency staff is in the process of developing more accurate drawdown schedules for faster drawdown of funds and staff is working with the consultant to develop better backup documentation for reporting requirements.

Current Status:

RCRA staff is adhering to the process. Staff continues to work with the HUD/IDIS consultant and has enhanced the accuracy of the drawdown reports.

See also Finding 2010-05.

Finding 09-03: Accurate Preparation and Review of Reimbursement Requests

Program Affected: Department of Transportation – Highway Planning and Construction, CFDA# 20.205 (Passed through the California Department of Transportation)

Criteria: The City should submit accurate reimbursement requests for expenses incurred and paid during the course of the grant period authorized by the awarding agency. The California Department of Transportation requires that reimbursement requests include cumulative data for each grant, so that grant drawdowns are only requested for the change in cumulative federal expenditures. Each grant reimbursement request should be reviewed by a person other than the preparer to ensure that all amounts included are accurate and eligible.

Condition: During our tests of reimbursement requests for the Transportation for Livable Communities Richmond Transit Station project we found that the City had also requested drawdown of funds for the Congestion Management portion of the project. However, these Congestion Management funds in the amount of \$161,190 had already been reimbursed by the grantor in a prior fiscal year. Although the grantor denied reimbursement of the duplicate request, the City's review procedures did not provide for the discovery and correction of this error.

Effect: The City requested reimbursement of costs from the grantor twice which provided for the potential reimbursement of ineligible amounts from the grantor.

Cause: The Finance Manager of the Richmond Community Redevelopment Agency prepared and signed the reimbursement request and then the Director of Engineering reviewed and signed this request before submittal to the Department of Transportation. During this process neither individual noticed that the same amount was submitted twice on two different invoices.

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

Finding 09-03: Accurate Preparation and Review of Reimbursement Requests (Continued)

Recommendation: The City should revise its procedures for preparation of reimbursement requests to ensure they include an in depth review of the request to make sure that only eligible costs are included on the reimbursement request. The performance of this review should be documented in the applicable grant files.

Name of Contact person: Nickie Mastay, RCRA Finance & Administration Manager (510)-307-8010

Management's Response:

The City of Richmond/Redevelopment Agency will enhance the procedure for preparation of reimbursement requests as follows: The Project Manager (or Senior Accountant if the Project Manager is unavailable) will prepare the reimbursement request and necessary backup. This reimbursement request, along with the previous reimbursement request, will be given to the Finance Manager of the Richmond Community Redevelopment who will review and sign the request. The reimbursement request(s) will then be given to the Director of Engineering for their review and signature before submittal to the Department of Transportation.

Current Status:

RCRA staff is adhering to the process. The Project Manager prepares the reimbursement requests; the Finance Manager reviews/initials or signs the reimbursement requests and then the Director of Engineering (or other appropriate final signer) reviews and signs the reimbursement request before submittal to the proper awarding agency. Please Note: We are trying to use this process not only for Department of Transportation grants, but for other grants as well.

Finding 09-04: Certification of Accounting System

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

Criteria: Part II (C)(2)(a)(ii) of the Economic Adjustment Assistance Grant Agreement and the Loan Requirements section of the OMB Circular A-133 Compliance Supplement for the program require that within sixty days prior to the initial disbursement of EDA funds, the City certify to the EDA and to recipients of the grant funding that the City's accounting system is adequate to identify, safeguard and account for all Revolving Loan Funds (RLF) capital, outstanding RLF loans and other RLF operations.

Condition: The City could not provide us with documentation showing that the certifications were sent to the EDA or to the recipients of the grant funding.

Effect: The City is not in compliance with the terms of the grant agreement and the Compliance Supplement.

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

Finding 09-04: Certification of Accounting System (Continued)

Cause: The grant was originally awarded to the Greater Richmond Community Development Corporation (GRCDC). When this nonprofit went out of business, the City of Richmond/Redevelopment Agency continued the revolving loan fund program. A check along with the loan files were turned over to the City. The Department of Commerce – EDA was aware of the transition of the grant to the City of Richmond/Redevelopment Agency. The City of Richmond/Redevelopment Agency was not aware that they had to retain GRCDC documentation of certification or have documentation of certification for the City of Richmond/Redevelopment Agency.

Recommendation: Although the City was not the initial recipient of the funding, when the City receives grant funding the grant requirements should be read in detail to ensure that the City is in compliance with all applicable requirements. Any requirements that are not applicable should be documented and retained in the grant file. The City should determine whether the certifications were filed with the EDA and recipients of the grant funding. In the future, the City should also retain all documentation required by an awarding agency to show that the City is in compliance with the terms of the grant agreement and the Compliance Supplement.

Name of Contact person: Nickie Mastay, RCRA Finance & Administration Manager (510)-307-8010

Management's Response:

The City of Richmond/Redevelopment Agency has contacted the Department of Commerce-EDA to obtain the necessary steps to receive the certification. Also, the Department of Commerce-EDA suggested that the City of Richmond/Redevelopment Agency contact other cities in the area that have a similar program to obtain the information on the audit firms these cities used to receive their certification.

Current Status:

RCRA-EDA Program Manager has contacted other cities to obtain audit firms that provide the certification. RCRA staff will be preparing and RFP/RFQ to determine audit firms that are qualified to do the certification.

Finding 09-05: Fidelity Bond Coverage for Employees

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

Criteria: Part II (C)(2)(a)(i) of the Economic Adjustment Assistance Grant Agreement states the City should have “fidelity bond coverage for persons authorized to handle funds under this Award in an amount sufficient to protect the interest of EDA and the RLF.” This coverage is to exist at all times during the duration of the Revolving Loan Fund’s (RLF) operation.

Condition: The City was unable to provide evidence that the City has the proper fidelity bond coverage for employees handling the grant funds associated with the RLF program.

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

Finding 09-05: Fidelity Bond Coverage for Employees (Continued)

Effect: The City is not in compliance with the grant program and is not protecting the assets of the awarding agency.

Cause: The grant was originally awarded to the Greater Richmond Community Development Corporation (GRCDC). When this nonprofit went out of business, the City of Richmond/Redevelopment Agency continued the revolving loan fund program. A check along with the loan files were turned over to the City. The Department of Commerce – EDA was aware of the transition of the grant to the City of Richmond/Redevelopment Agency. The City of Richmond/Redevelopment Agency was not aware that they had to obtain fidelity bond coverage for all employees involved with the RLF program.

Recommendation: Although the City was not the initial recipient of the funding, when the City receives grant funding the grant requirements should be read in detail to ensure that the City is in compliance with all applicable requirements. The City should purchase the required fidelity bond coverage policies for applicable employees involved with the RLF program. In the future, the City should review all grant award documents and applicable federal regulations to ensure that it maintains compliance with all requirements.

Name of Contact person: Nickie Mastay, RCRA Finance & Administration Manager (510)-307-8010

Management's Response:

The City of Richmond/Redevelopment Agency has contacted the Department of Commerce-EDA to take the necessary steps to obtain fidelity bond coverage. Also, the Department of Commerce-EDA stated that the City of Richmond/Redevelopment Agency attorney(s) should know how to obtain fidelity bond coverage. The City of Richmond/Redevelopment Agency staff and attorney(s) are in the process of obtaining the fidelity bond coverage.

Current Status:

RCRA-EDA Program Manager has contacted a variety of other cities to find out what their process was to obtain the fidelity bond coverage. Every City that was called had no idea this was a requirement of the EDA grant (revolving loan fund). The City of Richmond/RCRA staff will be working with the Attorneys and Risk Management to determine how to obtain the proper fidelity bond coverage.

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

Finding 09-06: Accurate and Complete Preparation of Special Reports

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

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

Condition: We reviewed the financial and loan information included in the City's ED-209S report for the period ending September 30, 2009 and noted that the reconciliation of the activity reported to the City's June 30, 2009 general ledger and found that it contained errors as follows:

- Section II A, line 9 (RLF \$\$ Loaned for Industrial, Commercial, Service) reported the incorrect balances for these loan segments and therefore line 9 did not agree to lines 6/7 and line 8.
- Section III D, line 17 (Current Balance Available) is supposed to be the difference of line 14 (RLF Base Capital) and line 15 (RLF Principal Outstanding on Loans). While the balance on Line 17 of the reconciliation agreed to the bank balance at June 30, 2009 of \$184,079, it did not agree to the difference between lines 14 and 15 as shown on the reconciliation which netted to \$159,866 due to the exclusion of matured interest receivable on loans of \$24,709 that was not reported on the reconciliation and an unreconciled difference of \$496.

In addition, the City did not include the required Core Performance Measures report with the ED-209S.

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

Cause: The schedule used to prepare Section II A of the ED-209S contained a formula error that resulted in the incorrect reported amount. The City of Richmond/Redevelopment Agency did not reconcile the Sept 30, 2009 ED-209S Semiannual report to the June 30, 2009 general ledger in a timely manner to ensure complete and accurate information was reported to the awarding agency. The current City of Richmond/Redevelopment Agency program manager for this grant was not aware of the requirement of the filing of the Core Performance Measures report with ED-209S

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

Name of Contact person: Nickie Mastay, RCRA Finance & Administration Manager (510)-307-8010

Management's Response:

The program manager and senior accountant of the City of Richmond/Redevelopment Agency will prepare the ED-209S semiannual reports. The ED-209S semiannual report and general ledger backup will be given to the City of Richmond/Redevelopment Agency Finance Manager for review before submittal to the Department of Commerce-EDA.

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

Finding 09-06: Accurate and Complete Preparation of Special Reports (Continued)

Please note: The Sept 30 ED-209S semiannual report will have general ledger backup for Sept 30 and a reconciliation to June 30 with the submittal to the City of Richmond/Redevelopment Agency Finance Manager.

The City of Richmond/ Redevelopment Agency program manager will contact the Department of Commerce-EDA to ensure that the Core Performance Measures report is included with future submittals of the ED-209S semiannual report.

Current Status:

RCRA-EDA Program Manager has been to a number of classes/webinars for the EDA online reporting system. The online reporting implementation was for the March 31, 2009 report (there have been enhancements to the online reporting system since the implementation). With the online reporting system, the City will be reporting on the most up to date schedules. RCRA staff has extensive meetings during the reporting periods to ensure more accurate reporting to the awarding agency.

Finding 09-07: Annual Filing of HUD 60002 Performance Report

Program Affected: Department of Housing and Urban Development – Home Investment Partnerships Program CFDA # 14.239

Criteria: Section L(2) Performance Reporting of the OMB Circular A-133 Compliance Supplement for the HOME Investment Partnerships Program requires the annual filing of the HUD 60002 Section 3 Summary Report.

Condition: The City did not file a HUD 60002 report for fiscal year 2009. The City only files the HUD 60002 report at the end of applicable construction projects.

Effect: The City is not in compliance with the performance reporting requirements of the Compliance Supplement.

Cause: Although City of Richmond/Redevelopment Agency Development Project Managers are aware of the submittal of the HUD 60002 Section 3 Summary Report, due to the infrequency of projects receiving more than \$200,000 in housing and community development assistance they were submitting this report upon completion of construction projects.

Recommendation: The City should ensure that all performance reports are filed on an annual basis in accordance with the requirements of the Compliance Supplement.

Name of Contact person: Nickie Mastay, RCRA Finance & Administration Manager (510)-307-8010

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

Finding 09-07: Annual Filing of HUD 60002 Performance Report (Continued)

Management's Response:

All Development Project Managers that have projects receiving more than \$200,000 in housing and community development assistance will be given a copy of HUD 60002 Section 3 Summary Report that is to be filed on an annual basis. At the end of the fiscal year, the Community Development Block Grant Assistant Manager will coordinate with the Development Project Manager to ensure annual filing of this report.

Current Status:

All Development Project Managers are now aware that this is an annual filing and staff is adhering to this process.

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

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

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

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

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

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

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

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

Finding 08-03: Cash Management and Vendor Payment after Grant Advance Deadline (Continued)

Management's Response:

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

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

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

Current Status:

The City has not yet resolved this matter with the grantor, however the new MUNIS system allows better reporting tools in order to monitor outstanding good-receipts on a monthly basis.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Management's Response:

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

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

Current Status:

The City has not yet resolved this matter with the grantor, however the Port is monitoring all the expenses related to the grants in order to comply with grant requirements and making sure all the invoices clearly specify the funding source.

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

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

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

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

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

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

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

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

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

Management's Response:

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

Current Status:

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

See Finding 2010-02.

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

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

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

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

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

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

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

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

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

Management's Response:

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

Current Status:

Project Managers review their grant documents to see if subrecipient agreements are needed. A subrecipient agreement has not been established with the Richmond Museum Association.

See Finding 2010-04.

CITY OF RICHMOND
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2010

Federal Grantor/ Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Federal and Pass-Through Identifying Number	Federal Expenditures
Department of Housing and Urban Development Direct Programs			
Community Development Block Grant Program Cluster			
Community Development Block Grant/Entitlement Grant			
2007 Program expenditures	14.218	B-07-MC-0015	\$397,346
2008 Program expenditures	14.218	B-08-MC-0015	726,961
2007 Subgrants	14.218	B-07-MC-0015	54,299
2008 Subgrants	14.218	B-08-MC-0015	471,184
Loan program cash balance at the end of the year	14.218		1,296,021
Neighborhood Stabilization Program:			
Program expenditures	14.218	B-08-MN-060006	243,183
Subgrants	14.218	B-08-MN-060006	1,094,976
Community Development Block Grant- R			
ARRA - Program expenditures	14.253	B-09-MY-06-0015	<u>22,454</u>
Subtotal Community Development Block Grant Program Cluster			<u>4,306,424</u>
Home Investment Partnership Program			
Program expenditures	14.239	M-07-MC-060209	58,767
Program expenditures	14.239	M-05-MC-060209	7,182
Program expenditures	14.239	M-06-MC-060209	131,301
Program expenditures	14.239	M-07-MC-060209	<u>98,011</u>
Subtotal Home Investment Partnership Program Grants			<u>295,261</u>
Community Development Block Grant- HPRP			
Program expenditures	14.257	S-09-MY-060015	<u>151,609</u>
Total Department of Housing and Urban Development			<u>4,753,294</u>
Department of Labor, Employment Training Administration, Direct Programs			
YouthBuild	17.274	YB-19119-09-60-A-6	<u>557,725</u>
Department of Labor, Employment Training Administration, Pass-Through Programs From:			
State of California Employment Development Department			
Workforce Investment Act -15% Pilot Special Project	17.261	R865477	<u>154,433</u>
Workforce Investment Act Cluster			
State of California Employment Development Department			
Workforce Investment Act			
Workforce Investment Act - Adult	17.258	R970555	16,178
Workforce Investment Act - Adult	17.258	K074159	486,746
Workforce Investment Act - Adult Special Projects	17.258	R760341	298,785
Workforce Investment Act - Adult Special Projects	17.258	R970555	10,173
Workforce Investment Act - ARRA Adult	17.258	R970555	277,794
Workforce Investment Act - ARRA 15% Adult Special Projects	17.258	K074159	82,926
Workforce Investment Act - ARRA 15% Adult Special Projects	17.258	K074159	193,094
Workforce Investment Act - Youth	17.259	R970555	39,485
Workforce Investment Act - Youth	17.259	K074159	555,516
Workforce Investment Act - ARRA Youth	17.259	R970555	423,211
Workforce Investment Act - ARRA Dislocated Worker Phase I	17.260	R970555	92,000
Workforce Investment Act - Dislocated Worker	17.260	R970555	19,395
Workforce Investment Act - Dislocated Worker	17.260	K074159	379,079
Workforce Investment Act - Rapid Response	17.260	K074159	141,034
Workforce Investment Act - ARRA Rapid Response	17.260	R970555	43,456
Workforce Investment Act - ARRA 15% Adult Special Projects	17.260	R970555	284,799
Workforce Investment Act - ARRA Dislocated Worker	17.260	R970555	<u>298,909</u>
Subtotal Workforce Investment Act Cluster			<u>3,642,580</u>
Total Department of Labor, Employment Training Administration			<u>4,354,738</u>

CITY OF RICHMOND
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2010

Federal Grantor/ Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Federal and Pass-Through Identifying Number	Federal Expenditures
Department of Health and Human Services Pass-Through Programs From: Contra Costa County Department of Employment & Human Services Community Services Block Grant ARRA - CSBH (Youth Corps)	93.710	38-933	<u>50,000</u>
Department of Energy Direct Programs Energy Efficiency and Conservation Block Grant Program	81.128	DE-SC0002135	<u>31,250</u>
Department of Energy Pass-Through Programs From: California Energy Commission State Energy Program ARRA - Clean Energy Workforce Category 2	81.041	K077122	<u>295,461</u>
Total Department of Energy			<u>326,711</u>
Environmental Protection Agency Direct Programs ARRA - Brownfields Job Training Cooperative Agreements	66.815	2J-T0032101	<u>103,536</u>
Department of Justice Direct Programs Public Safety Partnership and Community Policing Grants Law Enforcement Technology - Shotspotter ARRA - COPS Hiring Recovery Program Grant - Hire 8 Police Officers	16.710 16.710	2009CKWX0203 2009RKWX0094	600,000 <u>728,724</u>
Subtotal Department of Justice Direct Programs			<u>1,328,724</u>
Department of Justice Pass-Through Programs From: Contra Costa County Sheriff's Department Edward Byrne Memorial Justice Assistance Grant Program ARRA - Law Enforcement Programs- Recovery JAG	16.804	Not Available	<u>36,587</u>
State of California Office of Emergency Services Domestic Violence and Sexual Assault- Family Services	16.558	Vawa LE08017830	<u>146,000</u>
Subtotal Department of Justice Pass-Through Programs			<u>182,587</u>
Total Department of Justice			<u>1,511,311</u>
Department of Transportation Pass-Through Programs From: State of California Department of Transportation Highway Planning & Construction Red Oak Victory Ship Safe Routes to School Richmond Greenway Phase II ARRA - Carlson Blvd. Project	20.205 20.205 20.205 20.205	STPLEE-5137 (030) SRTSD04 0006 CML-5137 (035) ESPL-5137(037)	50,035 2,973 689,554 <u>285,183</u>
Total Department of Transportation			<u>1,027,745</u>
Department of Interior, National Park Service, Direct Programs Save America's Treasures Preserve Richmond to Interpret and Support Memories	15.929	06-07-PA-3005	<u>8,877</u>

CITY OF RICHMOND
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2010

<u>Federal Grantor/ Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Federal and Pass-Through Identifying Number</u>	<u>Federal Expenditures</u>
Department of Interior, National Park Service, Pass-Through Programs From:			
State of California Department of Parks and Recreation			
Historic Preservation Fund Grants			
Historic Structure Report- Atchison Village	15.904	06-08-21709	25,000
Historic Structure Report- Shipyard #3	15.904	06-09-21810	<u>25,000</u>
Subtotal Department of Interior, National Park Service, Pass-Through Programs			<u>50,000</u>
Total Department of Interior, National Park Service			<u>58,877</u>
Department of Homeland Security Direct Programs			
Assistance to Firefighters	97.044	EMW-2007-FO-07209	<u>101,886</u>
Department of Homeland Security Pass-Through Programs From:			
State of California Office of Emergency Services			
Emergency Management Performance Grant	97.042	13-000	<u>20,000</u>
Total Department of Homeland Security			<u>121,886</u>
Department of Commerce, Economic Development Administration, Direct Programs			
Economic Development Support for Planning Organizations	11.302	07-87-06466	<u>34,350</u>
Economic Adjustment Assistance			
Program expenditures	11.307	07-39-2437.01	10
Loan program cash balance at end of year	11.307	07-39-2437.01	<u>299,234</u>
Subtotal Economic Adjustment Assistance			<u>299,244</u>
Total Department of Commerce, Economic Development Administration			<u>333,594</u>
Institute of Museum and Library Services Pass-Through Program From:			
California State Library			
Grants to States			
Library Services and Technology Act	45.310	40-7372	2,880
Library Services and Technology Act	45.310	40-7316	41,781
Library Services and Technology Act	45.310	40-7415	<u>11,200</u>
Total Institute of Museum and Library Services			<u>55,861</u>
Department of Defense, Department of the Navy, Direct Programs			
Community Base Reuse Plans, Project Grant/Cooperative Agreement			
Naval Fuel Depot Point Molate Pollution Remediation	12.612	N62473-08-MD-V0020	<u>4,931,000</u>
Total Expenditures of Federal Awards			<u><u>\$17,628,553</u></u>

See Accompanying Notes to Schedule of Expenditures of Federal Awards

CITY OF RICHMOND

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended June 30, 2010

NOTE 1-REPORTING ENTITY

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

The Richmond Housing Authority issues a separate Single Audit Report. Accordingly federal awards for the Richmond Housing Authority have been excluded from the scope of this Single Audit Report.

NOTE 2-BASIS OF ACCOUNTING

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

NOTE 3-DIRECT AND INDIRECT (PASS-THROUGH) FEDERAL AWARDS

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

NOTE 4 - SUBRECEIPIENTS

Of the federal expenditures presented in the Schedule, the City provided federal awards to subrecipients as follows:

<u>CFDA Number</u>	<u>Program Name</u>	<u>Amount Provided to Subrecipients</u>
14.218	Community Development Block Grant/Entitlement Grant Community Development Block Grant/Entitlement	\$525,483
14.218	Grant - Neighborhood Stabilization Program	1,094,976
17.274	YouthBuild	14,125
17.258	Workforce Investment Act - Adult Programs	230,563
17.260	Workforce Investment Act - Dislocated Worker Programs	171,128
17.261	Workforce Investment Act -15% Pilot Special Project	48,850
20.205	Highway Planning and Construction	50,035
81.041	ARRA - Clean Energy Workforce Category 2	23,369

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

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

We have audited the financial statements of the City of Richmond as of and for the year ended June 30, 2010, and have issued our report thereon dated December 15, 2010. We conducted our audit in accordance with generally accepted auditing standards in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. We have identified certain deficiencies we consider to be material weaknesses. These are listed as items in our separately issued Memorandum on Internal Control dated December 15, 2010.

A significant deficiency is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We have identified certain deficiencies we consider to be significant deficiencies in internal control over financial reporting. These are listed as items in our separately issued Memorandum on Internal dated December 15, 2010.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* which we have communicated in our separately issued Memorandum on Internal dated December 15, 2010.

We have also issued a separate Memorandum on Internal Control dated December 15, 2010 which is an integral part of our audits and should be read in conjunction with this report.

The City's responses to the findings identified in our audit are described in the Memorandum on Internal Control. We did not audit the City's response and, accordingly, we express no opinion on it.

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

Mane & Associates

December 15, 2010

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT
ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133**

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

Compliance

We have audited City of Richmond's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2010. 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 City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

City of Richmond's basic financial statements include the operations of the Richmond Housing Authority which received federal awards which are not included in the schedule during the year ended June 30, 2010. Our audit, described below, did not include the operations of Richmond Housing Authority because it issues a separate Single Audit Report.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133. 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 item 2010-01 in the accompanying Schedule of Findings and Questioned Costs, the City did not comply with requirements regarding allowable costs/cost principals that are applicable to its Public Safety Partnership and Community Policing Grants, and as described in items 2010-08 and 2010-09, the City did not comply with the requirements regarding reporting and other compliance requirements and allowable costs that are applicable to its Community Base Reuse Plans, Project Grant/Cooperative Agreement – Naval Fuel Depot Point Molate Pollution Remediation Grant. Compliance with such requirements is necessary, in our opinion, for the City to comply with the requirements applicable to those programs.

In our opinion, except for the noncompliance described in the preceding paragraph, the City complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010. The results of our auditing procedures also disclosed other 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.

Internal Control Over Compliance

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 the requirements that could have a direct and material effect on a major federal program to determine the 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2010-01, 2010-08 and 2010-09 to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the City as of and for the year ended June 30, 2010, and have issued our report thereon dated December 15, 2010. Our audit was performed for the purpose of forming our 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, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The City's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the City's responses and, accordingly, we express no opinion on the responses.

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

Mayer & Associates

March 9, 2011

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