

CITY OF RICHMOND
SINGLE AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2014

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SINGLE AUDIT REPORT
For The Year Ended June 30, 2014

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CITY OF RICHMOND

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2014**

SECTION I—SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of auditor’s report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? X Yes No
- Significant deficiency(ies) identified? X Yes None Reported

Noncompliance material to financial statements noted? Yes X No

Federal Awards

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

Internal control over major programs:

- Material weakness(es) identified? X Yes No
- Significant deficiency(ies) identified? X Yes None Reported

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

Identification of major programs:

<u>CFDA#(s)</u>	<u>Name of Federal Program or Cluster</u>
<u>17.258, 17.259, 17.278</u>	<u>Workforce Investment Act (WIA) Cluster</u>
<u>14.218</u>	<u>Community Development Block Grants/Entitlement Grants</u>
<u>20.205</u>	<u>Highway Planning and Construction (Federal-Aid Highway Program)</u>
<u>12.612</u>	<u>Community Base Reuse Plans, Project Grant/Cooperative Agreement</u>
<u>16.726</u>	<u>Juvenile Mentoring Program</u>
<u>97.056</u>	<u>Port Security Grant Program</u>
<u>11.307</u>	<u>Economic Adjustment Assistance</u>
<u>14.239</u>	<u>HOME Investment Partnerships Program</u>

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? Yes X No

SECTION II – FINANCIAL STATEMENT FINDINGS

Our audit disclosed significant deficiencies and material weaknesses, but no instances of noncompliance material to the basic financial statements. We have also issued a separate Memorandum on Internal Control dated December 23, 2014, 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 SA2014-001 SEFA Preparation

CFDA Number: 11.307, 14.218, 14.239 & 20.205

CFDA Title: Economic Adjustment Assistance
Community Development Block Grant/Entitlement Grants
HOME Investment Partnerships Program
Highway Planning and Construction (Federal-Aid Highway Program)

Federal Agency: Economic Development Administration
Department of Housing and Urban Development
Department of Transportation

Pass-Through Entity: State of California Department of Transportation

Criteria: In accordance with the requirements of OMB Circular A-133 and the Single Audit Act, the City should report all Federal expenditures in the Schedule of Expenditures of Federal Awards (SEFA) each fiscal year.

Condition: The SEFA initially provided for audit was materially misstated, and the prior year SEFA did not include expenditures for all prior year programs. When we received the initial SEFA for the Single Audit work, the federal award expenditures totaled \$8,278,795 and the dollar threshold used to distinguish between type A and type B programs was \$300,000. As we began tracing the reported amounts to supporting documentation and comparing the grants listed to the prior year SEFA, we noted a number of material discrepancies. After more than three revisions, the federal award expenditures totaled \$10,396,856 and the dollar threshold used to distinguish between type A and type B programs was \$311,906 (this was later revised due to a change in the CDBG program expenditures unrelated to the errors noted below). The significant errors noted on the original SEFA include:

- Unexpended cash balances of the loan programs for the Community Development Block Grant Program and HOME Investment Partnerships Program totaling \$1.4 million were not included.
- Highway Planning and Construction Program expenditures included 100% of construction costs for the Dornan Drive project, while the federally reimbursable rate is only 64.97%.
- Highway Planning and Construction Program expenditures included 100% of costs for the South Richmond Specific Plan and Program EIR project, while the federally reimbursable rate is only 80%.

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

Finding SA2014–001 SEFA Preparation (Continued)

- Highway Planning and Construction Program expenditures included 100% of engineering and construction costs for the Barrett Avenue Bike Lanes project, while the federally reimbursable rate is only 88.53%.
- Highway Planning and Construction Program expenditures of \$374,828 for the Barrett Avenue Bike Lanes project were reported as Federal Transit-Formula Grants under CFDA #20.507, when the funds were actually granted by the Federal Highway Administration under CFDA #20.205.
- Economic Adjustment Assistance program expenditures and the balance of unexpended cash balance of the revolving loan program totaling \$893,127 were not included, and although the program had such balances for the year ended June 30, 2013, the program had been excluded from the prior year SEFA. In addition, the City did not use the grantor’s formula for calculating expenditures of federal awards for this program, which resulted in expenditures that should be reported on the SEFA of \$782,647.

Effect: Excluding annual program expenditures from the SEFA or incorrect reporting not only misstates the SEFA, it results in noncompliance with the requirements of individual grant agreements and OMB Circular A-133. As a result, future federal funding could be adversely affected.

Cause: The Grants Manager did not know that unexpended cash balances of federal grant programs must be reported on the SEFA, the Grants Manager did not correctly identify the origins of grant funding, and the Grants Manager included project costs in excess of federally reimbursable amounts on the SEFA.

Recommendation: The City must develop procedures and policies to centralize the reporting of grant activity with the Grants Manager to ensure that all data is readily available when year-end grant activity reporting is necessary. These procedures should facilitate the preparation of the SEFA so that annual expenditures for all grant programs are accurately included on the SEFA. In addition, the Grants Manager and other applicable grant staff must familiarize themselves with the guidelines for determining basis for determining federal awards expended contained in OMB Circular A-133.

View of Responsible Officials and Planned Corrective Actions:

- Contact person:** Chad Smalley, Capital Projects Manager
Yolanda Skelton, Senior Accountant for CDBG, HOME, NSP/HUD grants
Janet Johnson for EDA program
Latha Ravinder, Accounting Manager
- Corrective action:** The Grants Manager will include another column in the SEFA worksheet that states the actual amount of expenditure funded by Federal or Federal pass-through grants.

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

Finding SA2014-002 Timely Submission of Financial Reports

CFDA Number: 14.218

CFDA Title: Community Development Block Grants/Entitlement Grants

Federal Agency: Department of Housing and Urban Development

Criteria: The OMB Circular A-133 Compliance Supplement for the Community Development Block Grant program requires the SF-425 Federal Financial Report to be completed annually.

Condition: The City failed to complete and submit the required report above for fiscal year 2014.

Effect: The City is not in compliance with the financial reporting requirements of the grant program.

Cause: The Finance Department is aware that they failed to submit the reports and is currently working with HUD to resolve the issue.

Recommendation: The City must develop procedures to ensure that all financial and performance reports are filed on an annual basis in accordance with the grant program requirements. In addition, the fiscal year 2014 SF-425 Federal Financial Report should be filed as soon as possible.

View of Responsible Officials and Planned Corrective Actions:

Contact person: Yolanda Skelton, Senior Accountant
Latha Ravinder, Accounting Manager

Corrective action: The City is in the process of revising all SF 425 and PR 26 reports starting with fiscal year 2010 due to incorrect reporting. Since SF 425 is a report of cumulative expenditures and grant revenues from the start of the grants for (CDBG, HOME, NSP 1 & 3, CDBG-R, HPPR) the prior year reports will have to be completed first to determine the amount that will be carried forward to the following year(s). Due to lack of grant activities in each program year, the City has been drawing from the old left over entitlements. The proposed submission of the corrected reports to HUD and Maze will be completed by May 31, 2015 if not earlier.

The PR 26 submitted with the FY 2014 CAPER will be revised and submitted to HUD and to Maze on or before May 31, 2015. Prior year PR 26 reports including the one reported incorrectly in the FY 2013 CAPER will also be revised and submitted to HUD and to Maze on or before May 31, 2015. Correct staff with financial reporting background and with the assistance of a contracted consultant (TDA) will prepare all the financial reports (SF 425 and PR 26) on time from now on.

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

Finding SA2014-003 **Accurate Preparation of IDIS Financial Summary Report**

CFDA Number: 14.218

CFDA Title: Community Development Block Grants/Entitlement Grants
Federal Agency: Department of Housing and Urban Development

Criteria: The City is required to file an annual Financial Summary Report (C04PR26) using the Housing and Urban Development’s Integrated Disbursement and Information System (IDIS) that contains accurate financial information. In addition, in accordance with OMB Circular A-133 Compliance Supplement Agency Program Requirements, the C04PR26 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 C04PR26 for the program year 2013, which includes the activity for fiscal year 2014, reported a zero balance on line 01, Unexpended CDBG Funds at End of Previous Program Year. However, per review of C04PR26 for the program year 2012, the balances should have been \$323,726. Line 01 feeds into other calculations in the C04PR26.

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

Cause: The Program Manager tasked with completing the report is still becoming familiar with the system and has been unable to correct the balance in line 01.

Recommendation: The City must continue to work with the HUD representatives to improve the accuracy of the reporting and make the necessary corrections.

View of Responsible Officials and Planned Corrective Actions:

Contact person: Yolanda Skelton, Senior Accountant
 Latha Ravinder, Treasury Manager

Corrective action: Staff prepared the Program Year 2014 PR 26 due to lack of knowledge of IDIS reporting. A consultant (TDA) was hired to assist the City with the financial reporting. The Program Year 2013 PR 26 that was supposed to report the FY 2014 expenditures was submitted with the 2013 CAPER erroneously with FY 2013 expenditures by staff who also lack knowledge of financial reporting due to the departure of the former Housing Division Finance Manager. All submitted PR 26 will be corrected and included with the submission of SF 425 (after all prior year reports are corrected) and submitted to HUD on or before May 31, 2015.

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

Finding SA2014-004 **Timely Submission of Final Report of Expenditures**

CFDA Number: 20.205

CFDA Title: Highway Planning and Construction (Federal-Aid Highway Program)
Federal Agency: Department of Transportation

Pass-Through Entity: State of California Department of Transportation

Criteria: Special Covenant #5 of the grant award supplement for the Dornan Drive Tunnel grant (STPL-5137(042)) requires that the City submit a “Final Report of Expenditures” within 180 days of project completion.

Condition: The official completion date for the Dornan Drive Tunnel Project was February 4, 2014, and the “Final Report of Expenditures” was filed in December 2014, which is outside of the 180 day window required by the award agreement.

Effect: The City is not in compliance with the reporting requirements of the grant award agreement, which could result in the State imposing sanctions in accordance with the current Local Assistance Procedures Manual.

Cause: The original Project Program Manager left during the fiscal year and the new Program Manager was not aware of the 180 day window to submit the Final Report of Expenditures.

Recommendation: The City should develop procedures to ensure compliance with grant reporting requirements timely.

View of Responsible Officials and Planned Corrective Actions:

Contact person: Andy Yeung, Program Manager

Corrective action: Two of the City Engineers assigned moved to other cities. The Senior Engineer now assigned enters due dates in his "outlook calendar" as a reminder for the dates to submit report.

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

Finding SA2014-005 Cash Management - Timely Submission of Reimbursement Requests

CFDA Number: 20.205

CFDA Title: Highway Planning and Construction (Federal-Aid Highway Program)

Federal Agency: Department of Transportation

Pass-Through Entity: State of California Department of Transportation

Criteria: “Special Covenants or Remarks” #5 of the Barrett Avenue (Garrard Boulevard-San Pablo Avenue) Bike Path grant’s Program Supplement Agreement (CML-5137(044)), requires that the City submit invoices to the State of California Department of Transportation for project expenditures as least once every six months. If no costs have been invoiced for a six-month period, the City is required to submit for each phase, a written explanation of the absence of project activity along with target billing date and a target billing amount.

Condition: During our review of invoices for project expenditures, we noted a period of nearly one year between the first invoice submitted October 2, 2013 and the second invoice submitted September 30, 2014. Upon follow up with City staff, we noted that there was no written explanation for the lapse in invoices provided to State of California Department of Transportation, as required by the Program Supplement Agreement.

Effect: The City is not in compliance with the terms of the Program Supplement Agreement and future authorization/obligations for Federal aid projects, or encumbrances for State funded projects could be subject to suspension.

Cause: The City had incurred construction expenditures in February 2014, within 6 months of the previous invoice. However, the City did not send an invoice for these expenses to the State of California Department of Transportation until September 2014. It was noted that the third invoice, dated January 9, 2015, was submitted within six months of the previous invoice.

Recommendation: The City should develop procedures to ensure invoices are submitted to the State of California Department of Transportation at least once every six months for the duration of the project. Additionally, should there be circumstances that prevent the City from submitting invoices at least once every six months, the City should ensure that a written explanation of the absence of project activity is submitted to the State of California Department of Transportation in a timely manner.

View of Responsible Officials and Planned Corrective Actions:

Contact person: Chad Smalley, Capital Project Manager

Corrective action: The Capital Project Manager will include in the Grant Policy that invoices should be sent at least quarterly. This will be disseminated citywide to all project managers.

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

Finding SA2014-006 **Cash Management - Submission of Reimbursement Requests to Granting Agency for Costs Incurred**

CFDA Number: 20.205

CFDA Title: Highway Planning and Construction (Federal-Aid Highway Program)

Federal Agency: Department of Transportation

Pass-Through Entity: Metropolitan Transportation Commission

Criteria: The Funding Agreement for the South Richmond Specific Plan and Program EIR Project includes a budget with project completion and funding milestones from March 2013 through December 2014, with final performance and completion of the project by December 31, 2014.

Condition: During our testing of expenditures for the Project, we selected four disbursements from September 2013 through December 2013 and noted that the City has not requested reimbursement for the costs incurred as of January 28, 2015.

Effect: The City is not in compliance with the terms of the grant Funding Agreement which could allow the awarding agency to deny reimbursement for the expenditures and could also impact future funding.

Cause: The original Program Manager left during this year and the new Program Manager was not aware of the outstanding reimbursement requests.

Recommendation: The City should ensure that all outstanding reimbursement requests are submitted as soon as possible, and the City should develop procedures to ensure future reimbursement requests are submitted to the grantor in a timely matter.

View of Responsible Officials and Planned Corrective Actions:

Contact person: Lina Velasco, Project Manager I

Corrective action: The grant agreement was amended on December 10, 2014 to extend the time of performance to December 31, 2015. The City submitted three invoices to the grantor on January 30, 2015.

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

Finding SA2014-007 First Tier Subaward Reporting

CFDA Number: 14.218

CFDA Title: Community Development Block Grants/Entitlement Grants
Federal Agency: Department of Housing and Urban Development

Criteria: The Federal Funding Accountability and Transparency Act (FFATA) requires that direct recipients of grants who make first-tier subawards over \$25,000 must report their contribution to that subrecipient. This report must include the amount, date, subaward number, and date submitted. These reports must be submitted within a month of completion.

Condition: During the testing of subrecipients, two of the subrecipients selected met the requirements presented by FFATA to be reported. Upon review of USASpending.org, using subawardee’s nine digit Data Universal Numbering System (DUNS) number, we could not identify that either of the samples were properly reported.

Effect: It cannot be confirmed that the City submits subaward reports as required by FFATA.

Cause: The employee responsible for the submission had no knowledge of this requirement. The previous employee who assumed these duties is no longer employed by the City.

Recommendation: City must assign a staff member, as well as a reviewer, responsible for submitting subaward reports as required by FFATA.

View of Responsible Officials and Planned Corrective Actions:

Contact person: Charice Duckworth, Development Project Manager
 Latha Ravinder, Accounting Manager

Corrective action: City staff will review grant award closely and prepare a check list of grant requirements to make sure that all are complied with.

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

Finding SA2014-008 Subrecipient Monitoring

CFDA Number: 14.218

CFDA Title: Community Development Block Grants/Entitlement Grants

Federal Agency: Department of Housing and Urban Development

Criteria: 24 CFR 570.501 (b) states "the recipient is responsible for ensuring that CDBG funds are used in accordance with all program requirements. The use of designated agencies, subrecipients, or contractors does not relieve the recipient of this responsibility." In addition, regulations at 24 CFR 85.40(a) provide that grantees are responsible for managing the day-to-day operations of subrecipient activities. Grantees must monitor these activities to ensure compliance with applicable Federal requirements and achievement of program goals.

Implicit in these regulations is the requirement for recipients to establish the necessary controls to ensure performance, including adequate policies and procedures for monitoring of subrecipients.

Condition: We selected three subrecipient files for testing of the City's monitoring of its subrecipients and noted the City was unable to provide support to show the monitoring had been conducted due to the departure of the employee in charge of the task. City staff indicated that there were documents held by that former employee that could not be located, which includes the subrecipient monitoring documentation. The City is currently operating the grant under "special conditions" and City officials had reiterated to staff that their assigned tasks must be performed with due diligence and City staff believes that the monitoring occurred however no documentation can be provided to support the claim. We did note that in our testing of the program in fiscal year 2013, the City had performed subrecipient monitoring.

Effect: The City is not in compliance with the subrecipient monitoring requirements of 24 CFR 570.501 (b) and 24 CFR 85.40 (a).

Cause: The employee in charge of the subrecipient monitoring left the City and in connection with the employee's departure there were documents that could not be located.

Recommendation: The City should ensure that subrecipient monitoring is performed on an annual basis. In addition, the City should ensure that all documents related to the grant are stored in a central location to keep track of all essential paperwork. Finally, when an employee leaves the City, all documents should be accounted for and that persons responsibilities should be reassigned to another qualified individual.

View of Responsible Officials and Planned Corrective Actions:

Contact person: Yolanda Skelton, Senior Accountant
Latha Ravinder, Accounting Manager

Corrective action: City staff will locate the missing documentation or perform the necessary subrecipient monitoring. In addition, a project number will be created in MUNIS, the accounting software, so all documents pertaining to these specific projects will be scanned and saved in MUNIS. This will preclude misplaced or lost documents and should be available for review even if the employee assigned retired or moves to another city.

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 of Internal Control dated December 23, 2014 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 SA2013-01 Supporting Documentation for Payroll Expenditures

CFDA number: 20.205

CFDA Title: Highway Planning and Construction

Federal Agency: Department of Transportation

Pass-Through Entity: State of California Department of Transportation

Criteria: Attachment B of OMB Circular A-87 indicates that compensation for personnel services includes all remuneration, paid currently or accrued, for services rendered during the period of performance under federal awards, including but not necessarily limited to wages, salaries, and fringe benefits. The costs of such compensation are allowable to the extent that they satisfy the specific requirements of the Circular, and that the total compensation for individual employees is determined and supported.

Condition: We selected a sample of payroll expenditures charged to the Safe Route to School Project (SRTS-5137 (041)) consisting of two employees for the pay periods ending May 15, 2013 and June 15, 2013. We noted that the payroll costs were based on a flat hourly rate of \$200 for one employee and \$140 for the other employee. However, the hourly rates that were supported by the Personnel Action Forms (PAF) were \$52.49 and \$36.17, respectively. The City claimed that the difference between the pay rates per PAF and rates charged to the grants are fringe benefits. However, the City could not provide documentation supporting how it arrived at the higher rates.

During the current year, payroll costs charged the grant totaled \$62,860 for these two employees. City staff estimated that if the City were to charge the grant based on the pay rates supported by each PAF, only \$16,393 would have been charged, creating a difference of \$46,467.

Questioned cost: We question the costs of \$46,467.

Effect: The City is not in compliance with the compensation documentation requirements of OMB Circular A-87.

Cause: City staff stated that the hourly rates used to calculate payroll charges applicable to the grant were established a few years ago by an employee who no longer works for the City.

Recommendation: Payroll expenditures being charged to the grant should be supported by salaries and benefits rate calculations to ensure that the City is in compliance with the compensation requirements of OMB Circular A-87. The City should maintain documentation supporting eligible payroll benefit costs in excess of the hourly rate in the PAF, and the City should either reduce the next grant reimbursement by the ineligible costs or return the funds to the grantor.

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

Prepared by Management

Finding 2013-01 Supporting Documentation for Payroll Expenditures (Continued)

View of Responsible Officials and Planned Corrective Actions

Contact person: Alan Wolken, Director, Engineering Department

Corrective action: City staff will be instructed to use actual costs in charging grant related expenditures.

Current Status: The final calculation of unsupported costs was \$43,243 and the City disbursed the funds to the Department of Transportation on March 12, 2015 and the grantor confirmed the finding was resolved as of that date.

Finding 2013-02 Financial Reporting

CFDA number: 14.218

CFDA Title: Community Development Block Grants/Entitlement Grants

Federal Agency: Department of Housing and Urban Development

Criteria: The OMB Circular A-133 Compliance Supplement for the Community Development Block Grant program requires the SF-425 Federal Financial Report and the C04PR26 – CDBG Financial Summary to be completed annually.

In addition, the Funding Approval and Grant Agreement, for the third round of Neighborhood Stabilization Program (NSP3) grant funds allocated to the City, requires the City to post quarterly performance reports to its website concurrent with the submission to the Department of Housing and Urban Development (HUD). The Grant Agreement further requires that the City submit information on performance measurements for activities undertaken with NSP grant funds.

Condition: The City failed to complete and submit the required reports above for fiscal year 2013.

Effect: The City is not in compliance with the financial reporting requirements of the grant program.

Cause: The Finance Department is aware that they failed to submit the reports and is currently working with HUD to resolve the issue.

Recommendation: The City should ensure that all financial and performance reports are filed on an annual basis in accordance with the program requirements.

View of Responsible Officials and Planned Corrective Actions

Contact persons: Yolanda Skelton, Senior Accountant
Latha Ravinder, Accounting Manager

Corrective action: The Department of Finance and Budget and the Department of Housing implemented policies and procedures consistent with U.S. Department of Housing and Urban Development and identified key staff as responsible parties to ensure financial and performance reports are filed on an annual basis.

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

Finding 2013-02 Financial Reporting (Continued)

Current Status: The City plans to revise prior years' reports and complete fiscal year 2014 SF-425 reports to incorporate cumulative expenditures, as required by reporting requirements. The City expects the revisions to prior year reports, as well as the completion of fiscal year 2014 report to be complete by May 31, 2015.

See also Current Year Finding SA2014-002.

Finding 2013-03 Timely Submission of Grant Award Package

CFDA Number: 20.205

CFDA Title: Highway Planning and Construction

Federal Agency: Department of Transportation

Pass-Through Entity: State of California Department of Transportation

Criteria: The Special Covenants of the Program Supplement SRTS-5137 (041) for the Safe Route to School project and the Program Supplement STPL-5137 (042) for the Dornan Drive Tunnel project require that award information for construction contracts is to be submitted to the District Local Assistance Engineer (DLAE) within 60 days of project contract award.

Condition: The City awarded the construction contract for the Safe Route to School project on January 24, 2013, and awarded the construction contract for the Dornan Drive Tunnel project on December 18, 2012. The award packages for these construction contracts were submitted to the DLAE on April 5, 2013 and March 20, 2013, respectively, which were each after the 60 day timeframe.

Effect: The City is not in compliance with the Special Covenant requirements of the respective Program Supplements.

Cause: Due to staff turnover, the timely submissions of the award packages were not achieved.

Recommendation: The City should ensure that it complies with the Special Covenants of the grant requirements by submitting the award information to the DLAE within 60 days of project contract award.

View of Responsible Officials and Planned Corrective Actions:

Contact person: Andy Yeung, Senior Civil Engineer

Corrective action: The project manager will put two reminders on his/her outlook calendar to submit the grant award package. The reminders will be set as follows:
First reminder 20 days before the due date
2nd reminder 10 days before the due date

Current Status: The project manager continues to set Outlook calendar reminders, as described above, to ensure that grant award packages for future projects are submitted on time and the City remains in compliance with grant requirements. In its December 11, 2014 letter to the City, the grantor indicated the finding is considered resolved.

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

Finding 2013-04 **Compliance with Grant Survey Provisions**

CFDA Number: 20.205

CFDA Title: Highway Planning and Construction

Federal Agency: Department of Transportation

Pass-Through Entity: State of California Department of Transportation

Criteria: Special Covenants of Program Supplement SRTS-5137 (041) for the Safe Route to School project require that the City complete a Student Tally and Parent Survey within two months of beginning the project and within two months after completing the project.

Condition: The City did not complete the Student Tally and Parent Survey that was required to be completed within two months of beginning of the project, but they did complete the Survey within two months of completing the project.

Effect: The City is not in compliance with Special Covenant requirements of the Program Supplement.

Cause: The staff was not aware that the survey needed to be completed prior to the beginning of the project.

Recommendation: The City should ensure that it complies with all the Special Covenant requirements specified in the grant award document.

View of Responsible Officials and Planned Corrective Actions:

Contact persons: Joel Camacho, Associate Civil Engineer

Corrective action: Staff was not aware of this requirement. The main school of this project, Nystrom, was temporarily closed for the construction. This school is still closed up to now, March 27, 2014.

Current Status: City staff completed the required survey at the end of the project within two months of completing the project. In addition, Project Managers were reminded to review and comply with all grant requirements. In its December 11, 2014 letter to the City, the grantor indicated the finding is considered resolved.

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

Finding 2013-05 **American Recovery and Reinvestment Act of 2009 Reporting Requirements**

CFDA number: 97.116

CFDA Title: ARRA – Port Security Grant – Fiber Optic Network

Federal Agency: Department of Homeland Security

Criteria: Under the Special Conditions section of the American Recovery and Reinvestment Act-funded (ARRA) grant agreement for the Port Security Grant (2009-PU-R1-0215), the City is required report on the use of ARRA funds throughout the award period. The reports are due no later than ten calendar days after each calendar quarter in which the City receives the award funded in whole or in part by ARRA.

In addition, the City is required to file SF-425 reports quarterly.

Condition: We requested copies of the above reports for testing, but City staff could not locate the current year reports or provide proof that they had been submitted to the grantor timely.

Effect: There is no evidence that these reports were submitted and, therefore, pertinent information may not have been reported to the Department of Homeland Security.

Cause: City personnel responsible for filing the reports could not locate the reports.

Recommendation: We recommend that the City submit the above reports within the required timeframes and retain copies of the reports and evidence they were submitted timely.

View of Responsible Officials and Planned Corrective Actions

Contact person: Michael Williams, Development Project Manager

Corrective action: The City shall cause all required reports to be submitted in a timely manner and shall retain accessible copies of said reports.

Current Status: The City submitted required report to the Department of Homeland Security, dated December 17, 2014, along with supporting documentation required to clear this finding. Department of Homeland Security is satisfied that the City has sufficiently addressed the finding. The City received communication from the grantor on February 2, 2015 stating that the issue is considered corrected.

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

Prepared by Management

Finding 2012-01 **SEFA Preparation**

CFDA Number: 14.218, 14.253, 14.239, 14.257, 66.815, 66.818, 16.710, 16.588, 97.116, 20.513,
20.205, 20.500, 20.507, 11.307

CFDA Title: Community Development Block Grant Entitlement Grants Cluster, including
ARRA-funded CDBG-R
HOME Investment Partnerships Program
ARRA - Homelessness Prevention and Rapid Re-Housing Program (HPRP)
Environmental Workforce Development and Job Training Cooperative
Agreements
Brownfield Assessment and Cleanup Cooperative Agreements
ARRA-Public Safety Partnership and Community Policing Grants
ARRA-Violence Against Women Formula Grants
ARRA-Port Security Grant Program
Capital Assistance Program for Elderly Persons and Persons with Disabilities
ARRA-Highway Planning and Construction
Federal Transit - Capital Investment Grants
Federal Transit - Formula Grants (Urbanized Area Formula Program)
Economic Adjustment Assistance

Federal Agency: Department of Housing and Urban Development
Environmental Protection Agency
Department of Justice
Department of Transportation
Department of Commerce

Pass-Through Entity: State of California Office of Emergency Services
Contra Costa County Sheriff's Department
State of California Department of Transportation
Bay Area Rapid Transit

Criteria: In accordance with the requirements of OMB Circular A-133 and the Single Audit Act, the City should report all Federal expenditures in the Schedule of Expenditures of Federal Awards (SEFA) each fiscal year.

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

Prepared by Management

Finding 2012-01 **SEFA Preparation (Continued)**

Condition: The SEFA initially provided for audit was materially misstated, and the prior year SEFA did not include expenditures for all prior year programs. When we received the initial SEFA for the Single Audit work, the federal award expenditures totaled \$11,745,794 and the dollar threshold used to distinguish between type A and type B programs was \$352,373. As we began tracing the reported amounts to supporting documentation and comparing the grants listed to the prior year SEFA, we noted a number of material discrepancies. After more than five revisions, the federal award expenditures totaled \$23,329,854 and the dollar threshold used to distinguish between type A and type B programs was \$699,896. The significant errors noted on the original SEFA include:

- Community Development Block Grant program expenditures were reported as \$1.2 million, but they were increased to \$1.5 million on the final SEFA.
- Community Development Block Grant Neighborhood Stabilization Program expenditures of \$884 thousand were not included.
- ARRA-funded CDBG-R program expenditures of \$14 thousand were not included.
- Unexpended cash balances of the loan programs for the Community Development Block Grant Program and HOME Investment Partnerships Program totaling \$1.3 million were not included.
- Homelessness Prevention and Rapid Re-Housing Program expenditures of \$146 thousand were not included.
- Environmental Workforce Development and Job Training Cooperative Agreements program expenditures of \$112 thousand were not included.
- The Brownfield Assessment and Cleanup Cooperative Agreements program was included with expenditures of \$262 thousand, however it was discovered that expenditures for fiscal year 2011 had not been included in the prior year SEFA, and expenditures for fiscal years 2011 and 2012 of \$906 thousand are now reported on the SEFA.
- The Public Safety Partnership and Community Policing Grant expenditures on the SEFA changed from \$1.3 million to \$1.66 million and were finally reported as \$1.3 million.
- The ARRA-funded Violence Against Women Formula Grants program expenditures of \$191 thousand were not included.
- The ARRA-funded Port Security Grant Program expenditures were reported as \$307 thousand, but the actual expenditures were \$303 thousand.
- Capital Assistance Program for Elderly Persons and Persons with Disabilities program expenditures of \$290 thousand were not included.
- Highway Planning and Construction program expenditures of \$226 thousand were not included.
- The Federal Transit - Capital Investment Grants and Federal Transit - Formula Grants (Urbanized Area Formula Program) was not included, and it was later determined that expenditures for fiscal years 2010 and 2011 had not been included on the prior year SEFA, and expenditures for fiscal years 2011, 2011 and 2012 of \$8.5 million are now reported on the SEFA.
- Economic Adjustment Assistance program expenditures and the balance of unexpended cash balance of the revolving loan program totaling \$371 thousand were not included.

As noted above, the City did not report expenditures of Federal awards for the Brownfield Assessment and Cleanup Cooperative Agreements and The Federal Transit - Capital Investment Grants and Federal Transit - Formula Grants (Urbanized Area Formula Program) for fiscal years 2010 and 2011 in those SEFA's. The program expenditures from 2010 and 2011 for these two programs are being reported in the June 30, 2012 SEFA.

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

Prepared by Management

Finding 2012-01 SEFA Preparation (Continued)

Effect: Excluding annual program expenditures from the SEFA or incorrect reporting not only misstates the SEFA, it results in noncompliance with the requirements of individual grant agreements and OMB Circular A-133. As a result, future federal funding could be adversely affected. In addition, when we began the single audit work we based it on the initial SEFA and the calculation of the Type A versus Type B threshold, which resulted in our testing a major program that would not have been needed based on the final SEFA.

Cause: The administration of the City's grants changed during the fiscal year and the new Grants Manager did not have full knowledge of all of the City's federal grant programs. In addition, the Grants Manager was unaware of the prior year grant expenditures for the two programs noted.

Recommendation: The City must develop procedures and policies to centralize the reporting of grant activity with the Grants Manager to ensure that all data is readily available when year-end grant activity reporting is necessary. These procedures should facilitate the preparation of the SEFA so that annual expenditures for all grant programs are accurately included on the SEFA. In addition, all City departments should be notified that they must communicate the receipt of all federal funding to the Finance Department to ensure centralized tracking of all grant programs for Single Audit Reporting. Finally, the Grants Manager should be trained in grants management so she has a better understanding of reporting requirements, including the preparation of the SEFA.

View of Responsible Officials and Planned Corrective Actions:

Contact person: Connie Valentine, Sr. Budget Analyst/Grant Manager (510) 620-6701

Corrective action: The City's grant policy was submitted on May 3, 2013 to the Finance Committee and distributed to all project managers. This included the City's procedure in handling grants. Training has started by the Grant Manager for different departments to show how MUNIS GL System can be used in effectively monitoring and reporting grants.

Current status: The City grant policy was established on May 3, 2013 and included procedures to ensure compliance to government regulations. A grant information form was developed and is now being used to established the important data in the grant such as the grant scope, amount of grant, name of grantor, CFDA number, match needed, account string, etc. Procedures in preparing the SEFA, and handling/recording of capital assets were also instituted. Per written correspondence from the Governor's Office of Emergency Services (Cal OES), received by the City on August 22, 2014, Cal OES is satisfied with the institution of these measures and considers the issue corrected, as it pertains to CFDA #16.588.

See also Current Year Finding SA2014-001.

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

Prepared by Management

Finding 2012-04 **Timely Submission of Financial Reports**

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

Criteria: Section L(1) Financial Reporting of the OMB Circular A-133 Compliance Supplement for the Community Development Block Grant Program requires the grantee to submit a C04PR03 – Activity Summary Report and a C04PR26 – CDBG Financial Summary 90 days after the end of the of a grantee’s program year.

Condition: The City did not submit the C04PR03 – Activity Summary Report nor the C04PR26 – CDBG Financial Summary for program year 2011 prior to the 90 day deadline of the City’s program year or September 30, 2012. The reports were filed on February 15, 2013.

Effect: The City is not in compliance with the financial reporting requirements of the program.

Cause: The City of Richmond Project Managers are aware of the submittal of deadlines for the two reports, but were unable to complete the reports on time due to staff turnover.

Recommendation: The City should ensure that all financial reports are submitted in accordance with the requirements of the program requirements.

View of Responsible Officials and Planned Corrective Actions:

Contact person: Yolanda Skelton, Senior Accountant (510) 412-2077
 Latha Ravinder, Accounting Manager (510) 620-6739

Corrective action: The City is in the process of adopting Federal policies and procedures per department of Housing and Urban Development financial reporting guidelines.

Current status: These reports are now part of the Consolidated Annual Performance and Evaluation Report (CAPER) submission, which is due September 30th of each year. By making this change, the City will ensure that the documents are submitted within 90 days of the program year end date. As a result of HUD audit and monitoring findings in 2012 for inaccurate reporting and/or lack of reporting of program income, the City plans to revise these reports to comply with these findings. Revision of reports is expected to be completed by May 31, 2015. The fiscal year 2014 CAPER was submitted prior to the September 30th deadline together with the PR26 report, which was later revised and resubmitted on January 16, 2015. The City has procured the services of Training and Development Assistance (TDA) to assist the City with financial reporting.

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

Prepared by Management

Finding 2012-05 **Cash Management - Draw Down of HOME Investment Partnerships Program Funds**

CFDA Number: 14.239
CFDA Title: HOME Investment Partnerships Program
Federal Agency: Department of Housing and Urban Development

Criteria: In accordance with 24 Code of Federal Regulation (CFR) Section 92.502, HOME funds drawn from the United States Treasury must be expended for eligible costs within fifteen days. In addition, HOME Funds in the City's account should be disbursed before requests are made for HOME funds from the grantor.

Condition: The City drew down HOME monies in the amount of \$132,882 for payroll expense occurring in September 2011, February 2012, and March 2012 and although the funds were disbursed within the fifteen days of draw down, they were drawn down prior to the expenditure of those funds. However, eligible loan expenditures amounting to \$11,197 were drawn down from the grantor related to the Filbert Townhomes project on February 22, 2012, but were not expended until March 9, 2012, outside the fifteen day window. Finally, the City requested reimbursement for grant related expenditures for the Lillie Mae Jones Plaza Housing Development project during fiscal year 2012 despite unexpended program income cash balances in the City's loan program account at that time.

Effect: The City is not in compliance with the provisions of 24 CFR Section 92.502.

Cause: Limited staff and the need to pay for the acquisition of properties related to the HOME program caused the City to mistakenly draw down the monies in advance in prior year, and with the departure of key grant staff in February 2012, the City has made an effort to draw down less frequently because there is no one replacing her to review the drawdowns.

Recommendation: The City should develop procedures to expend drawn down funds within fifteen days of receipt in order to be in compliance with the CFR. The City should work with the grantor to determine whether interest earned on the advanced funds need to be returned to the grantor. In addition, the City should develop procedures to ensure that unexpended program income of the HOME funds is recycled into new loans prior to requesting draw down from the grantor.

View of Responsible Officials and Planned Corrective Actions:

Contact persons: Yolanda Skelton, Senior Accountant (510) 412-2077
 Latha Ravinder, Accounting Manager (510) 620-6739

Corrective action: The City will develop procedures to ensure that we expend draw down funds from HOME Investment Partnership Program within three days in compliance with 24 CFR Section 92.502. The Senior Accountant will coordinate with the Community Development Program Manager to ensure that funds drawn are reconciled and consistent with the actual recorded current year expenditures in the general ledger.

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

Prepared by Management

Finding 2012-05 **Cash Management - Draw Down of HOME Investment Partnerships Program Funds (Continued)**

Current Status: The Program Manager's access to the accounting system has been limited to creating projects/activities and funding the activities in the accounting system. It is then the responsibility of Finance staff to create grant draws/vouchers from the project/activity when expenditures are incurred. Additionally, the City has adopted new systems to review invoices and make draws that institute two levels of review. This check and balance and separation of duties are expected to provide additional controls and impede premature draws.

Finding 2012-06 **Review of Reimbursement Requests**

CFDA Number: 14.239
CFDA Title: HOME Investment Partnerships Program
Federal Agency: Department of Housing and Urban Development

Criteria: The OMB Circular A-133 Compliance Supplement and the A-102 Common Rule require that non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. In addition to other implications, this means that grant reimbursement requests should be reviewed and approved by someone other than the preparer to ensure that they include only eligible costs of the program.

Condition: The Finance Director of the Richmond Community Redevelopment Agency left the City in February 2012. She was responsible for reviewing and approving grant drawdowns of the HOME program, and we understand that responsibility has not been assigned to another employee. However, the City drew down HOME funds in March 2012; therefore it does not appear that the draw down was reviewed by an appropriate employee.

Effect: The City is not in compliance with the internal control requirements of the OMB Circular A-133 Compliance Supplement and the A-102 Common Rule. This means that there is a risk of ineligible costs being charged to the grant. In addition, the City has incurred grant expenditures that have not yet been drawn down from the grant which puts a cash flow strain on the City's non-grant funding sources.

Cause: The person previously in charge of reviewing the City's drawdowns left the City in February 2012. Since then, the City has made an effort to not draw down funds while there is no one to review them.

Recommendation: The City should immediately find someone on staff that is capable and eligible to review and approve HOME draw down funds prior to their submission to the grantor. In addition, that person should review and approve any grant draw down requests that were filed after the departure of the Finance Director of the Richmond Community Redevelopment Agency.

View of Responsible Officials and Planned Corrective Actions:

Contact persons: Yolanda Skelton, Senior Accountant (510) 412-2077
 Latha Ravinder, Accounting Manager (510) 620-6739

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

Prepared by Management

Finding 2012-06 Review of Reimbursement Requests (Continued)

Corrective action: The City plans on assigning someone new the duties of reviewing draw downs.

Current status: The Program Manager's access to IDIS has been limited to creating projects/activities and funding the activities in the accounting system. It is then the responsibility of Finance staff to create grant draws/vouchers from the project/activity when expenditures are incurred. Additionally, the City has adopted new systems to review invoices and make draws that institute two levels of review. This check and balance and separation of duties are expected to provide additional controls and impede premature draws. The City has also elicited the help of Training and Development Assistance (TDA) to develop a grant accounting and procedures manual focused on grant management, particularly the proper use of grant fund and cost eligibility. The manual is currently being adopted and implemented for all grants, including HUD grants.

Finding 2012-07 Annual Filing of HUD 60002 Performance Report

CFDA Number: 14.239
CFDA Title: Home Investment Partnerships Program
Federal Agency: Department of Housing and Urban Development

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 for each grant over \$200,000 that involves housing rehabilitation, housing construction, or other public construction.

Condition: The City was required to file a fiscal year 2012 HUD 60002 report for the Lillie Mae Jones project, but documentation that the required report was filed was not provided to us for audit.

Effect: The City could not demonstrate compliance with the performance reporting requirements of the program.

Cause: The City of Richmond/Redevelopment Agency Development Project Managers are aware of the required submittal of the HUD 60002 Section 3 Summary Report, and indicated that the report for the Lillie Mae Jones project had been filed, but the report and documentation it had been filed was not provided to us.

Recommendation: The City should ensure that all performance reports are filed on an annual basis in accordance with the program requirements and that documentation of the report and filing are readily available for audit.

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

Prepared by Management

Finding 2012-07 Annual Filing of HUD 60002 Performance Report (Continued)

View of Responsible Officials and Planned Corrective Actions:

- Contact persons:** Yolanda Skelton, Senior Accountant (510) 412-2077
Charice Duckworth, Development Project Manager (510) 412-2052
- Corrective action:** The report in question will be located. In the future, City staff will ensure that compliance documentation is readily available for audit.
- Current status:** Housing Department and Finance staff have cooperatively worked together in the preparation of HUD 60002 for submission annually. There were no activities incurred in the current year (2014) and 2013 due to the imposition of special conditions for HOME funds by HUD. Nonetheless, a report showing “not applicable” has been submitted with the CAPER this fiscal year to complete HUD requirement. If a report for 2012 is required to clear this finding, the City will strive to complete one in the next fiscal year.

Finding 2012-08 Payroll Costs Charged to Grant Should be Based on Actual Time

CFDA Number: 14.239
CFDA Title: Home Investment Partnerships Program
Federal Agency: Department of Housing and Urban Development

Criteria: Attachment B of OMB Circular A-87 indicates that budget estimates or other distribution percentages determined before the services are performed do not qualify as support for salaries and wages charges to Federal awards, but may be used for interim accounting purposes, provided that:

- a. The City’s system for establishing the estimates produces reasonable approximations of the activity actually performed;
- b. 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
- c. The budget estimates or other distribution percentages are revised at least quarterly, if necessary, to reflect changed circumstances.

Condition: During our testing of payroll charged to the grant for two of the three employees charged to the grant for the months ended September 2011, December 2011 and March 2012, we noted that the payroll costs were based on flat percentages of 20% and 15% of the employees’ gross pay. The City does not complete a review at least quarterly to ensure that the estimates are a reasonable approximation of the actual activity performed.

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

Finding 2012-08 **Payroll Costs Charged to Grant Should be Based on Actual Time (Continued)**

Effect: The City is not in compliance with the compensation documentation requirements of OMB Circular A-87.

Questioned Costs: We question costs of \$54,708, which consists of all payroll and fringe benefits charged to the grant in fiscal year 2012.

Cause: The City thought the percentage allocations were an allowable basis for charging payroll costs to the grant.

Recommendation: The City should either charge payroll and fringe benefits to the grant based on the actual time spent working on the grant, or complete the required quarterly comparisons of actual activity and adjust the grant costs accordingly as required by the provisions of OMB Circular A-87. In addition, the City should determine what portion of the payroll and fringe benefit costs charged in fiscal year 2012 are allowable and adjust the grant accordingly.

View of Responsible Officials and Planned Corrective Actions:

- Contact persons:** Yolanda Skelton, Senior Accountant (510) 412-2077
- Corrective action:** During fiscal year 2012 the actual time was not used to charge the grants and instead percentage allocations were used, but City staff has since implemented an “actual time” allocation system starting in July 2012.
- Current status:** Implemented in fiscal year 2013 and going forward, Housing Department and Finance staff are required to submit timesheets to record the number of hours spent on projects and functions. These timesheets are submitted quarterly to Finance and were used to allocate staff payroll costs (salaries and benefits) to projects/grant funds to ensure that only actual productive hours are charged to the grant for cost eligibility in compliance with OMB Circular A-87. HUD’s recommendation is to conduct a 90-day study to test whether the expenditure is reasonable compared to the ones submitted in 2012. Completion of the test is expected by May 31, 2015 and the results will determine the eligibility of costs.

Finding 2012-09 **Providing Subrecipient Documentation for Audit in a Timely Manner**

- CFDA Number:** 14.239
- CFDA Title:** Home Investment Partnerships Program
- Federal Agency:** Department of Housing and Urban Development

Criteria: Section M (Subrecipient Monitoring) of the OMB Circular A-133 Compliance Supplement for the Home Investment Partnerships (HOME) Program requires that before disbursing funds to a subrecipient, each participating jurisdiction is required to enter into written agreements with the entity which includes provisions dealing with the use of HOME funds, program income, uniform administrative requirements, other program requirements, affirmative marketing, requests for disbursement of funds, reversion of assets, records and reports, and enforcement of the agreement.

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

Prepared by Management

Finding 2012-09 **Providing Subrecipient Documentation for Audit in a Timely Manner (Continued)**

Condition: The HOME program disbursed funds to a nonprofit corporation, Community Housing Development Corporation of North Richmond (CHDC), during fiscal year 2012. We selected two disbursements to CHDC totaling \$18,102 for testing, and although the costs were supported by detailed invoices and appear to be allowable costs under the HOME program, City staff was unable to provide a copy of the subrecipient agreement with CHDC and documentation that the City had performed monitoring procedures related to the subrecipient.

Effect: Although we understand the subrecipient agreement has been executed, City staff did not provide a copy of the agreement for audit and therefore was not able to demonstrate compliance with the subrecipient monitoring requirements of the OMB Circular A-133 Compliance Supplement.

Questioned Costs: We question costs of \$36,507, which consist of all disbursements to CHDC charged to the grant in fiscal year 2012.

Cause: City staff did not provide a copy of the subrecipient agreement for audit in a timely manner.

Recommendation: The City should have all grant documentation readily available for audit.

View of Responsible Officials and Planned Corrective Actions:

Contact persons: Latha Ravinder, Accounting Manager (510) 620-6739

Corrective action: The fiscal year 2012-13 Grant Management Policy was recently presented and accepted by the Finance Committee on May 3, 2013. The City plans on adding a section on “sub recipient monitoring” to the fiscal year 2013-14 Grant Management Policy. This section will address the audit requirements of OMB Circular A-133 as it relates to determining who is a sub recipient, the receipt and maintenance of agreements and compliance with the terms of the agreement among other requirements.

Current status: The City of Richmond is receiving technical assistance from Training and Development Associates (TDA), overseen by HUD, in the areas of grant and financial management as it relates to Community Development Block Grants (CDBG) and entitlement grants. The City is also following and enforcing the Grants Management and Accounting Manual, provided by TDA, to ensure the City is complying with grant regulations and requirements.

The City has provided a copy of the executed subrecipient agreement with CHDC, therefore the finding is considered resolved, and the auditors are no longer questioning the costs.

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

Prepared by Management

Finding 2011-07 **Cash Management - Draw Down of HOME Investment Partnerships Program Funds**

CFDA Number: 14.239
CFDA Title: HOME Investment Partnerships Program
Federal Agency: Department of Housing and Urban Development

Criteria: In accordance with 24 Code of Federal Regulation (CFR) Section 92.502 HOME funds drawn from the United States Treasury account must be expended for eligible costs within fifteen days.

Condition: The City drew down HOME Investment Partnerships Program monies of \$277,354 on September 16, 2010 for the Filbert Townhomes Project. Expenditures in the amount of \$134,282 were disbursed on September 30, 2010 which is within the fifteen day requirement; however the remaining \$143,072 consisted of payments not disbursed until July 2011, December 2011 and February 2012 which is well over fifteen days. We also noted that eligible payroll and Community Housing Development Organization expenditures amounting to \$42,315 were not drawn down in the current year.

Effect: The City is not in compliance with 24 CFR Section 92.502.

Cause: Due to the City's limited staff and the need to pay for the acquisition of properties related to the HOME program caused the City to mistakenly draw down the monies in advance.

Recommendation: The City should expend drawn down funds within fifteen days in order to be in compliance with the CFR and develop procedures to ensure drawdowns are consistent with actual current year expenditures. The City should work with the grantor to determine whether interest earned on the advanced funds need to be returned to the grantor.

View of Responsible Officials and Planned Corrective Actions:

Contact persons: Yolanda Skelton, Senior Accountant (510) 412-2077
Latha Ravinder, Accounting Manager (510) 620-6739

Corrective action: The City will develop procedures to ensure that we expend draw down funds from HOME Investment Partnership Program within fifteen days in compliance with 24 CFR Section 92.502. The Senior Accountant will coordinate with the Community Development Program Manager to ensure that funds drawn are reconciled and consistent with the actual recorded current year expenditures in the general ledger.

Current status: The City is now aware of the 3-day rule, applying to the receipt of grant funds. The separation of duties and checks and balances implemented, as mentioned in Finding 2012-05, will ensure that the invoices are properly examined for eligibility and the drawdown is reviewed for timely reimbursement of funds.

See also the Current Status of Finding 2012-05.

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

Prepared by Management

Finding 2011-08 Annual Filing of HUD 60002 Performance Report

CFDA Number: 14.239
CFDA Title: Home Investment Partnerships Program
Federal Agency: Department of Housing and Urban Development

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 for each grant over \$200,000 that involves housing rehabilitation, housing construction, or other public construction.

Condition: The City was required to file a fiscal year 2011 HUD 60002 report for the Filbert Townhomes and Lillie Mae Jones projects. The City filed the HUD 60002 report for the Filbert Townhomes project, but not for the Lillie Mae Jones project.

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

Cause: The City of Richmond/Redevelopment Agency Development Project Managers are aware of the submittal of the HUD 60002 Section 3 Summary Report, but the Lillie Mae Jones Project Manager resigned before completing the report.

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

View of Responsible Officials and Planned Corrective Actions:

Contact persons: Yolanda Skelton, Senior Accountant (510) 412-2077
 Latha Ravinder, Accounting Manager (510) 620-6739
 Charice Duckworth, Development Project Manager (510) 412-2052

Corrective action: The new Project Manager is currently verifying information to complete and submit the 2011 HUD 60002 Report for the Lillie Mae Jones project.

Current status: Housing Department and Finance staff have cooperatively worked together in the preparation of HUD 60002 for submission annually. There were no activities incurred in the current year (2014) and 2013 due to the imposition of special conditions for HOME funds by HUD. Nonetheless, a report showing “not applicable” has been submitted with the CAPER this fiscal year to complete HUD requirement.

See also Current Year Status of Finding 2012-07.

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

Prepared by Management

Finding 2011-10 **Accurate Preparation of Reimbursement Requests**

CFDA Number: 20.205
CFDA Title: ARRA - Highway Planning and Construction Cluster
Federal Agency: Department of Transportation
Pass Through Entity: State of 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.

Condition: During our tests of reimbursement requests for the Transportation for Livable Communities Downtown Pedestrian Bicycle Enhancement project we found that the City had inaccurately prepared reimbursement request #2 by using \$1,120,757 as the total costs as opposed to \$1,089,184. The \$31,573 difference was due to a partial retention release payment that was double counted in calculating the cumulative project costs. In addition, the \$31,753 had been included and reimbursed on the previous request.

Effect and Questioned Costs: The City was reimbursed for 88.53% of the \$31,573 retention release payment twice therefore we question costs of \$27,951.

Cause: The City believed that the retention was not part of the total costs and needed to be added back to accurately reflect project costs.

Recommendation: The City should return the \$27,951 to the grantor by correcting the error on the next reimbursement request, and should work with the grantor to determine if interest earned on the funds needs to be returned to the grantor. In addition, reimbursement requests should be reviewed in detail and compared to the supporting contractor invoices to ensure they are prepared accurately.

View of Responsible Officials and Planned Corrective Actions:

Contact person: Michael Williams, Project Manager, (510) 307-8147

Corrective action: Staff will research to confirm the veracity of the auditor's finding, and if correct, will work with the grantor to have the amount in question deducted from the amount of the currently unpaid last invoice if feasible. If not, staff will work through the Finance Department to return the overbilling error to the grantor. Future invoices shall be reviewed in detail to ensure they are prepared accurately.

Current status: The final invoice to CalTrans reflected a reduction of the previous amount overbilled in the amount of \$27,951 on April 11, 2012, but was not yet provided to the auditors. CalTrans accepted the revisions to the final invoice and reimbursed the City only for the eligible expenditures. Finding appears to have been resolved with the grantor.

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

Prepared by Management

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

Current status: Finance staff will ensure that financial information reported in PR 26 is correct and accurate. All prior year reports will be revised to incorporate the beginning balances for each year reported due in part as a response with HUD 2012 findings. The expected completion of the revisions is March 31, 2015. Additionally, any discrepancies as a result of the auto population of information in IDIS will be corrected with the assistance of Training and Development Assistance (TDA).

See also Findings 2012-03, 2013-02 and Current Year Finding SA2014-003.

Finding 09-02 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, 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: Yolanda Skelton, Senior Accountant (510) 412-2077

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: PR 26 reports from prior year and current will be corrected and expected date of completion is May 31, 2015. In addition, any imperfection resulting from the auto population of information in IDIS will also be corrected/adjusted with the assistance from TDA and HUD.

See also Findings 2012-03, 2013-02, 2010-06 and Current Year Finding SA2014-003.

Finding 09-04 Certification of Accounting System

CFDA Number: 11.307

CFDA Title: Economic Adjustment Assistance

Federal Agency: Department of Commerce – Economic Development Administration (EDA)

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

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

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

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

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

Finding 09-04 Certification of Accounting System (Continued)

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: Ted Ferrer, Senior Accountant (510) 307-8124

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: City of Richmond has been using Tyler Technologies (MUNIS) accounting system since 2008. The money is held in a separate account by Mechanics Bank. The City requested a statement from EDA in March 2015 to confirm that the City is in compliance with this certification. However, EDA has not yet responded to the request

CITY OF RICHMOND
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2014

Federal Grantor/ Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Grant or Pass-Through Identifying Number	Federal Expenditures
Department of Housing and Urban Development Direct Programs			
Community Development Block Grants/Entitlement Grants (Note 5)			
Program expenditures	14.218	B-10-MC-060015	\$197,198
Program expenditures	14.218	B-11-MC-060015	120,444
Loan program cash balance at the end of the year	14.218	B-11-MC-060015	875,563
Neighborhood Stabilization Program 3:			
Program cash balance at the end of the year	14.218	B-11-MN-060006	23,268
Program expenditures	14.218	B-11-MN-060006	<u>825,715</u>
Program Subtotal			<u>2,042,188</u>
HOME Investment Partnerships Program			
Loan program cash balance at the end of the year	14.239	M-13-MC-06-0209	<u>495,289</u>
Total Department of Housing and Urban Development			<u>2,537,477</u>
Department of Labor, Employment Training Administration Direct Programs			
Workforce Investment Act - Pilots, Demonstrations and Research Projects			
Reintegration of Ex-Offenders	17.270	DOL CCFExO	<u>94,576</u>
Workforce Investment Act Cluster			
Pass-Through Programs From:			
State of California Employment Development Department			
Workforce Investment Act - Adult Program	17.258	K491036/K386315	554,231
Workforce Investment Act - Youth Activities	17.259	K491036/K594779	283,299
Workforce Investment Act - Dislocated Worker Formula Grants	17.278	K386315/K491036	399,654
Workforce Investment Act - Dislocated Worker Rapid Response	17.278	K386315/K491036	67,639
Workforce Investment Act - Dislocated Worker Title I Rapid Response	17.278	K282493	426,933
Workforce Investment Act - Title I Rapid Response Project Hire III	17.278	K386315	<u>193,404</u>
Program Subtotal			<u>1,925,160</u>
Total Department of Labor, Employment Training Administration			<u>2,019,736</u>
Environmental Protection Agency Direct Programs			
Environmental Workforce Development and Job Training Cooperative Agreements			
Environmental Workforce Development and Job Training Cooperative Agreements	66.815	JT-00T63301-0	16,073
Environmental Workforce Development and Job Training Cooperative Agreements	66.815	JT-99T05001-0	<u>91,046</u>
Total Environmental Protection Agency			<u>107,119</u>
Department of Justice Direct Programs:			
Office of Juvenile Justice and Delinquency Prevention			
Juvenile Mentoring Program			
East Bay Mentoring Partnership	16.726	2012-JU-FX-28	<u>363,574</u>
Department of Justice Pass-Through Programs From:			
Contra Costa County Sheriff's Department			
Edward Byrne Memorial Justice Assistance Grant Program			
2011 JAG Grant	16.738	2011DJ-BX-3372	<u>22,711</u>
State of California Office of Emergency Services			
Violence Against Women Formula Grants			
ARRA - Family Services VI	16.588	LE11047830	84,436
ARRA - Family Services V	16.588	LE12057830	<u>148,847</u>
Program Subtotal			<u>233,283</u>
Total Department of Justice			<u>619,568</u>

(Continued)

CITY OF RICHMOND
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2014

Federal Grantor/ Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Grant or Pass-Through Identifying Number	Federal Expenditures
Department of Defense, Department of the Navy Direct Program: Community Base Reuse Plans, Project Grant/Cooperative Agreement Naval Fuel Depot Point Molate Pollution Remediation	12.612		<u>821,286</u>
Department of Health and Human Services Direct Program: Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances Substance Abuse & Mental Health Services Admin (SAMHSA)	93.104	01H79SM060649-01	<u>141,171</u>
Department of Transportation Pass-Through Programs From: Highway Planning and Construction (Federal-Aid Highway Program) State of California Department of Transportation Safe Routes to School - Student Safety I Project Safe Routes to School Cycle II Safe Routes to School - Nystrom Dorman Drive - Tunnel Barrett Avenue Bike Lanes Metropolitan Transportation Commission South Richmond Specific Plan & Program EIR	20.205 20.205 20.205 20.205 20.205 20.205 20.205	SRTSD04_0006 SRTS-5137(041) SRTS-5137(041) STPL-5137(042) CML-5137(044) STPL 6084 (146).	3,900 36,683 194,483 215,508 374,828 <u>337,890</u>
Program Subtotal			<u>1,163,292</u>
Job Access and Reverse Commute Program Metropolitan Transportation Commission Lifeline Transportation Program	20.516	CML-5137(045)	<u>16,940</u>
Regents of the University of California Minimum Penalties for Repeat Offenders for Driving While Intoxicated Sobriety Checkpoint Mini-Grant Program II Sobriety Checkpoint Mini-Grant Program III	20.608 20.608	SC13343 SC14343	9,502 <u>20,662</u>
Program Subtotal			<u>30,164</u>
Total Department of Transportation			<u>1,210,396</u>
Department of Homeland Security Direct Program: Federal Emergency Management Agency Port Security Grant Program Police Boat	97.056	EMW-2012-PU-00346-S01	526,008
Pass-Through Program From: Marine Exchange of San Francisco Bay Port Security Grant Program Fire Boat	97.056	EMW-2011-PU-K00351	<u>910,208</u>
Program Subtotal			<u>1,436,216</u>
Direct Program: Homeland Security Grant Program Bay Area Urban Security Initiative Purchase of mobile storage equipment for fireboat and binoculars UASI Training & Exercise	97.067 97.067	2012-SS-00123 2013-00110	30,259 <u>43,000</u>
Program Subtotal			<u>73,259</u>

(Continued)

CITY OF RICHMOND
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For the Fiscal Year Ended June 30, 2014

Federal Grantor/ Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Grant or Pass-Through Identifying Number	Federal Expenditures
Pass-Through Program From:			
Contra Costa County CFDA			
Disaster Grants - Public Assistance (Presidentially Declared Disasters)			
FY10 SHSG Project J Grant			
	97.036	HSGP210-0085; CAL-EMA ID 013-00000	<u>9,239</u>
Total Department of Homeland Security			<u>1,518,714</u>
Institute of Museum and Library Services Pass-Through Program From:			
California State Library			
Grants to States			
National Leadership Grant			
	45.310	LG-5012-0563-12	<u>28,938</u>
Department of Commerce Direct Program:			
Economic Development Administration			
Economic Adjustment Assistance (Note 6)			
	11.307	07-39-2437.01	<u>778,830</u>
Total Expenditures of Federal Awards			<u><u>\$9,783,235</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, 2014**

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. Federal awards expended by the Richmond Housing Authority, if any, are excluded from the Schedule and are subject to a separate Single Audit performed by other auditors.

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	\$158,716
17.258	Workforce Investment Act - Adult Program	76,592
17.278	Workforce Investment Act - Dislocated Worker Formula Grants	112,858
17.278	Workforce Investment Act - Title I Rapid Response	112,286

NOTE 5 – COMMUNITY DEVELOPMENT BLOCK GRANTS/ENTITLEMENT GRANTS

The City incurred total program expenditures of \$1,753,161 during fiscal year 2014. However, the City is required to submit expenditures for grantor approval prior to drawing down funds from the grant, and the grantor tentatively denied or did not yet approved fiscal year 2014 expenditures totaling \$609,804. The City is disputing the decision of the grantor’s field staff and has requested that the decision be reviewed. Therefore, the net amount of approved program expenditures totaling \$1,143,357 have been reported on the Schedule and the remaining balance of expenditures will be included on the subsequent Schedule(s) as they are approved by the grantor.

CITY OF RICHMOND

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended June 30, 2014**

NOTE 6 – EDA REVOLVING LOAN GRANT

The calculation of expenditures of federal awards for the Economic Development Administration Economic Adjustment Assistance Revolving Loan Fund (RLF) Grant Program follows:

Balance of RLF loans Outstanding as of June 30, 2014	\$524,118
Cash and investment balance in the RLF as of June 30, 2014	304,632
Administrative expenses paid out of RLF income during the fiscal year	3,968
Unpaid principal of all loans written off during the fiscal year	<u>56,053</u>
Subtotal	888,771 A
Federal share of the RLF	<u>87.63% B</u>
Expenditures of Federal Awards (A * B)	<u><u>\$778,830</u></u>

**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***

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

We have audited, in accordance with the auditing standards generally accepted 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, the basic financial statements of the City of Richmond as of and for the year ended June 30, 2014, and the related notes to the financial statements, and have issued our report thereon dated December 23, 2014. Our report included emphasis of a matter paragraphs disclosing General Fund cash and fund balance and other fund cash balances, the implementation of a new Governmental Accounting Standards Board pronouncement, restatements of property held for resale, cash and investments, capital assets, deposits payable and pensions, and the discontinuation of RHA Properties operations. Our report includes a reference to other auditors who audited the financial statements of the Richmond Housing Authority and Richmond Housing Authority Properties as described in our report on the City's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City's internal control. Accordingly, we do not express an opinion on the effectiveness of City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, we identified certain deficiencies that we consider to be material weaknesses and 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 identified certain deficiencies in internal control, we consider to be material weaknesses as listed on the Schedule of Material Weaknesses and the Current Year Status of Prior Year Schedule of Material Weaknesses included as part of our separately issued Memorandum on Internal Control dated December 23, 2014 which is an integral part of our audits and should be read in conjunction with this report.

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 identified certain deficiencies in internal control, we consider to be significant deficiencies as listed on the Schedule of Significant Deficiencies and the Current Year Status of Prior Year Schedule of Significant Deficiencies included as part of our separately issued Memorandum on Internal Control dated December 23, 2014, which is an integral part of our audits and should be read in conjunction with this report.

Compliance and Other Matters

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

City's Response to Findings

The City's response to the findings identified in our audit are described in our separately issued Memorandum on Internal Control dated December 23, 2014, which is an integral part of our audits and should be read in conjunction with this report. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Mane & Associates

Pleasant Hill, California
December 23, 2014

**INDEPENDENT AUDITOR'S REPORT ON
COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM;
REPORT ON INTERNAL CONTROL OVER COMPLIANCE;
AND REPORT ON THE SCHEDULE OF EXPENDITURES
OF FEDERAL AWARDS REQUIRED BY OMB CIRCULAR A-133**

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

Report on Compliance for Each Major Federal Program

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, 2014. 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.

The City of Richmond's basic financial statements include the operations of the Richmond Housing Authority, which received federal awards not included in the accompanying Schedule of Federal Awards during the year ended June 30, 2014. Our audit, described below, did not include the operations of the Richmond Housing Authority, because it engaged other auditors to perform an audit in accordance with OMB Circular A-133.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

Basis for Qualified Opinions on CFDA 14.218 Community Development Block Grants/Entitlement Grants, CFDA 14.239 HOME Investment Partnerships Program, CFDA 11.307 Economic Adjustment Assistance and CFDA 20.205 Highway Planning and Construction (Federal-Aid Highway Program)

As described in the accompanying Schedule of Findings and Questioned Costs, the City did not comply with the Reporting requirements for the Community Development Block Grants/Entitlement Grants Program (CFDA 14.218), HOME Investment Partnerships Program (CFDA 14.239), Economic Adjustment Assistance Program (CFDA 11.307) and Highway Planning and Construction (Federal-Aid Highway Program) (CFDA 20.205) as described in finding number SA2014-001. Compliance with such requirements is necessary, in our opinion, for the City to comply with the requirements applicable to those programs.

Qualified Opinions on CFDA 14.218 Community Development Block Grants/Entitlement Grants, CFDA 14.239 HOME Investment Partnerships Program, CFDA 11.307 Economic Adjustment Assistance and CFDA 20.205 Highway Planning and Construction (Federal-Aid Highway Program)

In our opinion, except for the noncompliance described in the Basis for Qualified Opinions paragraph, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Community Development Block Grants/Entitlement Grants, HOME Investment Partnerships Program, Economic Adjustment Assistance Program and Highway Planning and Construction (Federal-Aid Highway Program) for the year ended June 30, 2014.

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs for the year ended June 30, 2014.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, 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 SA2014-001 through SA2014-008. Our opinion on each major federal program is not modified with respect to these matters.

City's Response to Findings

The City's responses to the noncompliance findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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 material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

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 SA2014-001 to be a material weakness.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items SA2014-002 and SA2014-003 to be significant deficiencies.

The City's responses to the internal control over compliance findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the basic financial statements of the City as of and for the year ended June 30, 2014, and have issued our report thereon dated December 23, 2014, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements 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 financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.



Pleasant Hill, California
March 18, 2015

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