

**CITY OF RICHMOND**  
**SINGLE AUDIT REPORT**  
**FOR THE YEAR ENDED JUNE 30, 2015**

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**CITY OF RICHMOND**  
**SINGLE AUDIT REPORT**  
**For The Year Ended June 30, 2015**

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**CITY OF RICHMOND**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For The Year Ended June 30, 2015**

**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: Unmodified

Internal control over major programs:

- Material weakness(es) identified?   Yes  X  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>
14.218	Community Development Block Grants/Entitlement Grants
17.258, 17.259, 17.278	Workforce Investment Act (WIA) Cluster
16.726	Juvenile Mentoring Program
12.612	Community Base Reuse Plans, Project Grant/Cooperative Agreement
97.056	Port Security Grant Program
11.307	Economic Adjustment Assistance

Dollar threshold used to distinguish between type A and type B programs: \$554,291

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 30, 2015 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.

<b>Finding SA2015-001:</b>	<b><u>Schedule of Expenditures of Federal Awards (SEFA) Preparation</u></b>
<b>CFDA Number:</b>	11.307, 97.056, 20.521 & 66.818
<b>CFDA Title:</b>	Economic Adjustment Assistance Port Security Grant Program New Freedom Program Brownfields Assessment and Cleanup Cooperative Agreement
<b>Federal Agency:</b>	Department of Commerce - Economic Development Administration Department of Homeland Security Department of Transportation Environmental Protection Agency
<b>Pass-Through Entity:</b>	Marine Exchange of San Francisco Bay Metropolitan Transportation Commission Department of Toxic Substances Control

**Criteria:** In accordance with OMB Circular A-133 Subpart C §\_\_\_.310 (b) (3), the City should report all Federal awards expended for each individual Federal program and the CFDA number, or other identifying number when the CFDA information is not available, in the Schedule of Expenditures of Federal Awards (SEFA) each year.

**Condition:** During our testing of the fiscal year 2015 SEFA provided for audit we noted the following:

1. Federal expenditures for the Economic Adjustment Assistance grant (CFDA #11.307) were overstated by \$104,108.
2. The CFDA number reported for the Port Security Grant Program (CFDA #97.056) was incorrectly reported as 27.056.
3. The New Freedom Program (CFDA #20.521) expenditures of \$80,686 included \$74,161 of fiscal year 2014 expenditures that had not been reported in the fiscal year 2014 SEFA.
4. The CFDA title for the Brownfields Assessment and Cleanup Cooperative Agreement (CFDA #66.818) was incorrectly reported as CalReUse.

**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.

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

**Finding SA2015-001: Schedule of Expenditures of Federal Awards (SEFA) Preparation (Continued)**

**Cause:** The City’s grant application, monitoring and reporting system is decentralized by department. Once the grant amounts reported by the different departments are reconciled to the accounting records maintained by the Finance department, adjustments are needed to report the correct amounts.

**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:** Connie Valentine, Grant Manager

**Corrective action:** The employees are vigilant in making sure the amounts reported are accurate. Copies of documents received from grantor and documents submitted to grantor are now requested by Grant Manager from Project Managers to double check the amounts and CFDA numbers.

**Finding SA2015-002: 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:** Section L(1) Financial Reporting of the OMB Circular A-133 Compliance Supplement for the Community Development Block Grant Program requires submission of the SF-425 Annual Federal Financial Report, the C04PR03 – Activity Summary Report and the C04PR26 – CDBG Financial Summary 90 days after the end of the program year.

**Condition:** The City did not submit the SF-425, C04PR03 or C04PR26 for program year 2014 prior to September 30, 2015, which is 90 days after the City’s program year. Although the C04PR03 and C04PR26 reports were both filed on December 14, 2015, the SF-425 reports have yet to be filed.

**Effect:** The City is not in compliance with the financial reporting requirements of the OMB Circular A-133 Compliance Supplement and the grant program.

**Cause:** The Finance Department is aware the City failed to submit the reports timely and is currently working with the grantor to resolve the issue.

**Recommendation:** The City must develop procedures to ensure that all financial and performance reports are filed on a timely basis in accordance with grant program requirements. In addition, the SF425 should be filed as soon as possible.

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

**Finding SA2015-002: Timely Submission of Financial Reports (Continued)**

**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 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.

SF 425 reports for the four quarters of fiscal year 2015 and two quarters for fiscal year 2016 have been prepared and ready for submission to HUD. The proposed submission of the corrected reports to HUD will be completed by May 31, 2016, if not earlier.

Correct staff with financial reporting backgrounds and with the assistance of a contracted consultant will prepare all the financial reports (SF 425 and PR 26) on time from now on.

**Finding SA2015-003: 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 2014, which includes the activity for fiscal year 2015, reported the incorrect balance on line 01, Unexpended CDBG Funds at End of Previous Program Year. Per review of the adjusted C04PR26 for the previous program year 2013 (see prior year finding 2014-003), the balance should have been \$1,864,184. We understand that line 01 is a pre-populated amount from the IDIS system, which is why the error persists. However, 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.

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

**Finding SA2015-003: Accurate Preparation of IDIS Financial Summary Report (Continued)**

**Recommendation:** The City must continue to work with the HUD representatives make the necessary corrections to the IDIS system so the C04PR26 contains accurate program data.

**View of Responsible Officials and Planned Corrective Actions:**

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

**Corrective action:** The PR 26 report prepared for program year 2014 which included the activities in fiscal year 2015 is correct. At the time of the reporting, all but at least two (2) line items (adjustments) were IDIS system populated and the line items were verified prior to submission to HUD. The two line item adjustments (e.g. Line 7 & 44) open for editing at that time of the reporting were adjustments to report program income not yet reported. HUD accepted the PR 26 report with few explanations on the adjustments made with the submission of the CAPER.

The \$3,483,431.62 was the correct balance (not pre-populated) and was confirmed by HUD. This was the reason why the City’s CDBG fund was put in “special conditions” (same with HOME), because the City was not in compliance with the spending requirement. The 2013 PR 26 was incorrectly prepared and will need to be revised also. In addition, \$2.2 million was obligated to ADA projects to reduce the \$3.4 million sitting in the LOCS to rectify to the suggested balance of \$1.5 million. City staff will work with HUD to make the corrections for future reporting.

**Finding SA2015-004: Timely Submission of Financial and Performance Reports**

**CFDA Number:** 97.056

**CFDA Title:** Port Security Grant Program  
**Federal Agency:** Department of Homeland Security  
**Pass-Through Entity:** Marine Exchange of San Francisco Bay

**Criteria:** The Grant Amendment Letter for award EMW-20120PU-00343-SO1 requires the City to file Quarterly Federal Financial Reports (SF-425) using Federal Emergency Management Agency’s (FEMA) Payment and Reporting System (PARS) that contains accurate financial information within 30 days of the quarter then ended. In addition, the City is required to file a Final Federal Financial Report within 90 days of the end of the award period, and a Final Financial Report is due 30 days after the termination of the last year of the grant.

**Condition:** The City submitted a SF-425 for the quarter ended December 31, 2014 on February 17, 2015, which is outside of the 30-day reporting window. In addition, the Final Federal Financial Report due within 90 days of the end of award period of May 31, 2015, or August 30, 2015, was not submitted until February 12, 2016.

**Effect:** The City is in compliance with the timely grant reporting requirements, which could adversely impact future grant funding.

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

**Finding SA2015-004: Timely Submission of Financial and Performance Reports (Continued)**

**Cause:** The Program Manager tasked with completing the report was on leave for extended periods of time, which led to missing reporting deadlines.

**Recommendation:** The City must establish procedures to ensure future Federal Financial Reports and Final Federal Financial Report are filed timely.

**View of Responsible Officials and Planned Corrective Actions:**

**Contact person:** Richard Abercrombie, Fire Captain  
Christine Sanok, Administrative Services Analyst

**Corrective action:** The Fire Department will ensure that a schedule of due dates for the Federal Financial Reports is established at the time a grant is awarded. A follow-up with the appropriate Program Manager will be conducted to ensure reports are submitted on a timely fashion.

## 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 30, 2015 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 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 IV - STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS (Continued)**

Prepared by Management

**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.
- Current status:** See Finding 2015-001.

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

**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.

**Current status:** See Finding 2015-002.

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

Prepared by Management

**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.

**Current status:** See Finding 2015-003.

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

**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.

**Current status:** The City has not had to submit any other Final Report of Expenditures during Fiscal year 2015.

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

**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.

**Current status:** Implemented - City staff was assigned to the project to assist and prepare invoices in a timely manner. The City continues to explore ways to reduce the period between reimbursement requests, but note that staff resources are limited.

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

Prepared by Management

**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.

**Current status:** The City can only submit reimbursement requests to the grantor if deliverables are available to be submitted. Deliverables are submitted to the City by contractors hired to perform professional services, and the January 2015 invoices were submitted accordingly.

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

Prepared by Management

**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 property 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.

**Current status:** The City has yet to remedy this finding, but is currently working with the Department of Housing and Urban Development to file the appropriate reports.

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

Prepared by Management

**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.

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

**Finding SA2014-008    Subrecipient Monitoring (Continued)**

**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.
- Current status:** The City is working towards monitoring its sub-recipients as required. In fiscal year 2015, the City had only vendors for fiscal year 2015 that are servicing the City for its Americans with Disabilities Act projects; the program had no subrecipients in fiscal year 2015.
- Also, a Grants Manual and Procedures that specifically describe the CDBG process has been approved and adopted by the City Council. This grants manual contains a “Subrecipient Monitoring Procedures/Checklist”, the program staff can use and specifically stored in the Housing Department.

**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.

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

**Finding 2013-02      Financial Reporting (Continued)**

**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.
- Current Status:** For the SF-425 report being completed accurately and submitted timely, see Finding 2015-002.
- For NSP performance reports, the City submitted its reports and is awaiting confirmation from the grantor the issue is settled.

**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

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

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

**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 \$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.

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

Prepared by Management

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

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.

**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 Finding 2015-001.

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

Prepared by Management

**Finding 2012-03      Accurate Preparation 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 (C04PR26) using the Housing and Urban Development's Integrated Disbursement and Information System (IDIS) that contains accurate financial information. In addition, in accordance with the OMB Circular A-133 Compliance Supplement Agency Program Requirements, the 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 2011, which includes the activity for fiscal year 2012, reported a zero balance on line 01, Unexpended CDBG Funds at End of Previous Program Year. However, the balances should have been \$103,759. 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:** City staff along with their HUD representative is still becoming familiar with the system and the City has been unable to change the balance in line 01.

**Recommendation:** The City should work with the HUD representative to improve on the accuracy of the reporting.

**View of Responsible Officials and Planned Corrective Actions:**

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

**Corrective action:** The PR26 report will be prepared by Ana Cortez, Program Manager, Housing, based on the financial information provided by the Finance Department. It will then be reviewed by the Senior Accountant/Accounting Manager for accuracy and approved by the Finance Director before being filed with HUD.

**Current status:** See Finding 2015-003.

**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:**      See Finding 2015-002.

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 City of Richmond was no longer certified to receive new HOME Entitlements in fiscal year 2015 and the prior year unspent entitlements were de-funded/de-obligated by HUD, a portion or all of which is involved in the process of negotiation between the City and HUD to apply them against prior grantor disallowed costs through grant reduction.

**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 City of Richmond was no longer certified to receive new HOME Entitlements in fiscal year 2015 and the prior year unspent entitlements were de-funded/de-obligated by HUD, a portion or all of which is involved in the process of negotiation between the City and HUD to apply them against prior grantor disallowed costs through grant reduction.

**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. In May 2015, the City completed a test and denoted the following:

Comparison testing as recommended by the grantor was performed for administrative (admin) staff cost (by year), which was allocated/charged to CDBG from fiscal years 2009 through 2013 with fiscal years 2010 and 2011 excluded. (This was due to the NSP1 staff costs combined with CDBG during these two years.) The total administrative staff cost charged to CDBG in fiscal years 2009, 2012, 2013 and/or even 2014 regardless of the dramatic drop in staffing in 2009 and 2013 (due to lay off and retirement) were within ,or even less than, the maximum cap of 20%. At least one staff charged to CDBG was dedicated to project development which has no funding limitation. It was noted one other staff charged to admin also spent time in project development, possibly at least 65% of the time, but this was not identified due to a lack of time study (timesheet) at that time. As a result of this test, it appears the staff costs charged to admin were reasonable and eligible.



**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**

**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.

**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:**                    See Finding 2015-003.

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

Prepared by Management

**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.

**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. In March 2015, EDA responded: “EDA has no objection to the accounting software used by the City of Richmond with regard to the EDA RLF.” City appears to have remedied the finding with the grantor.

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CITY OF RICHMOND  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 For the Fiscal Year Ended June 30, 2015

Federal Grantor/ Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Grant or Pass-Through Identifying Number	Federal Expenditures
<b>Department of Housing and Urban Development Direct Programs</b>			
Community Development Block Grants/Entitlement Grants			
Program expenditures	14.218	B-11-MC-060015	\$1,092,323
Program expenditures	14.218	B-12-MC-060015	387,365
Loan program cash balance at the end of the year	14.218	B-11-MC-060015	570,709
Neighborhood Stabilization Program I: Program cash balance at the end of the year	14.218	B-11-MN-060006	64,920
<b>Program Subtotal</b>			<b>2,115,317</b>
<b>HOME Investment Partnerships Program</b>			
Loan program cash balance at the end of the year	14.239	M-13-MC-06-0209	495,289
<b>Total Department of Housing and Urban Development</b>			<b>2,610,606</b>
<b>Department of Labor, Employment Training Administration Direct Programs</b>			
Workforce Investment Act - Pilots, Demonstrations and Research Projects			
Reintegration of Ex-Offenders	17.270	DOL CCFExO	17,389
<b>Workforce Investment Act Cluster</b>			
<b>Pass-Through Programs From:</b>			
State of California Employment Development Department			
Workforce Investment Act - Adult Program	17.258	K491036/K594779	580,585
Workforce Investment Act - Youth Activities	17.259	K594779/K698380	398,626
Workforce Investment Act - Dislocated Worker Formula Grants	17.278	K491036/K594779	336,822
Workforce Investment Act - Dislocated Worker Rapid Response	17.278	K491036/K594779	160,414
Workforce Investment Act - Rapid Response Layoff Aversion	17.278	K594779	24,432
Workforce Investment Act - Title I Rapid Response Project Hire III	17.278	K386315	576,594
<b>Program Subtotal</b>			<b>2,077,473</b>
<b>Total Department of Labor, Employment Training Administration</b>			<b>2,094,862</b>
<b>Environmental Protection Agency Direct Programs</b>			
Environmental Workforce Development and Job Training Cooperative Agreements			
	66.815	JT-99T05001-0	108,954
<b>Environmental Protection Agency Pass-Through Programs From:</b>			
Department of Toxic Substances Control			
Brownfield Assessment and Cleanup Cooperative Agreements	66.818	BRLF-004-2013	200,000
Bay Area Stormwater Management Agencies Association			
Congressionally Mandated Projects	66.202	CW4CB	311,932
<b>Total Environmental Protection Agency</b>			<b>620,886</b>
<b>Department of Justice Direct Programs:</b>			
Office of Juvenile Justice and Delinquency Prevention			
Juvenile Mentoring Program			
East Bay Mentoring Partnership	16.726	2012-JU-FX-28	586,229
<b>Department of Justice Pass-Through Programs From:</b>			
Contra Costa County Sheriff's Department			
Edward Byrne Memorial Justice Assistance Grant Program			
2013 JAG Grant	16.738	2013DJ-BS-0683	79,696
2011 JAG Grant	16.738	2011DJ-BX-3372	65,218
<b>Program Subtotal</b>			<b>144,914</b>
State of California Office of Emergency Services			
Violence Against Women Formula Grants			
ARRA - Family Services VI	16.588	LE11047830	85,695
ARRA - Family Services VII	16.588	LE14077830	92,226
<b>Program Subtotal</b>			<b>177,921</b>
<b>Total Department of Justice</b>			<b>909,064</b>

(Continued)

CITY OF RICHMOND  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Fiscal Year Ended June 30, 2015

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 <b>Direct Program:</b> Community Base Reuse Plans, Project Grant/Cooperative Agreement Naval Fuel Depot Point Molate Pollution Remediation	12.612	N62473-08-MD-V0020	<u>10,359,428</u>
Department of Transportation <b>Pass-Through Programs From:</b> Highway Planning and Construction (Federal-Aid Highway Program) State of California Department of Transportation Safe Routes to School Cycle II Barrett Avenue Bike Lanes Caltrans District 4 Metropolitan Transportation Commission South Richmond Specific Plan & Program EIR	20.205 20.205 20.205 20.205	SRTS-5137 (041) CA95-X-190-00/BRLF005-2013 CML-5137(043)/CML-5137(039) STPL 6084 (146).	535 19,029 173 <u>131,188</u>
Program Subtotal			<u>150,925</u>
New Freedom Program Metropolitan Transportation Commission New Freedom Cycle 4 R-Transit	20.521	REG150003	<u>80,686</u>
Job Access and Reverse Commute Program Metropolitan Transportation Commission Job Access And Reverse Commute Program Lifeline Transportation Program	20.516 20.516	CA-37-X177 CML-5137(045)	25,000 <u>149,072</u>
Program Subtotal			<u>174,072</u>
Regents of the University of California Minimum Penalties for Repeat Offenders for Driving While Intoxicated Sobriety Checkpoint Mini-Grant Program III	20.608	SC14343	<u>15,200</u>
<b>Total Department of Transportation</b>			<u>420,883</u>
Department of Homeland Security <b>Direct Program:</b> Federal Emergency Management Agency Port Security Grant Program Port Security Police Boat <b>Pass-Through Program From:</b> Marine Exchange of San Francisco Bay Port Security Grant Program Fire Boat	97.056 97.056 97.056	EMW-2012-PU-00343-S01 EMW-2012-PU-00346-S01 EMW-2011-PU-K00351	454,247 70,031 <u>108,166</u>
<b>Total Department of Homeland Security</b>			<u>632,444</u>
Institute of Museum and Library Services <b>Pass-Through Program From:</b> California State Library National Leadership Grant National Leadership Grant	45.312 45.312	LG-0514-0126-14 LG-5012-0563-12	23,222 <u>2,742</u>
Program Subtotal			<u>25,964</u>
Department of Commerce <b>Direct Program:</b> Economic Development Administration Economic Adjustment Assistance (Note 5)	11.307	07-39-2437.01	<u>747,711</u>
Department of Education <b>Pass-Through Program From:</b> State of California Adult Education- Basic Grants to States Workforce Investment Act Title II	84.002	V002A140005	<u>54,504</u>
<b>Total Expenditures of Federal Awards</b>			<u><u>\$18,476,352</u></u>

See Accompanying Notes to Schedule of Expenditures of Federal Awards

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**CITY OF RICHMOND**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**For The Year Ended June 30, 2015**

**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 - SUBRECIPIENTS**

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>
17.258	Workforce Investment Act - Adult Program	\$75,637
17.278	Workforce Investment Act - Dislocated Worker Formula Grants	54,300
17.278	Workforce Investment Act - Title I Rapid Response	94,304
16.726	Juvenile Mentoring Program	542,256

**NOTE 5 – 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, 2015	\$310,572
Cash and investment balance in the RLF as of June 30, 2015	364,142
Administrative expenses paid out of RLF income during the fiscal year	9,196
Unpaid principal of all loans written off during the fiscal year	<u>169,349</u>
Subtotal	853,259 A
Federal share of the RLF	<u>87.63% B</u>
Expenditures of Federal Awards (A * B)	<u><u>\$747,711</u></u>

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

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, 2015, and the related notes to the financial statements, and have issued our report thereon dated December 30, 2015. Our report included emphasis of a matter paragraphs disclosing general fund cash and fund balance and other fund balances and the implementation of new accounting principles. Our report includes a reference to other auditors who audited the financial statements of the Richmond Housing Authority and RHA 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 Status of Prior Year Material Weaknesses included as part of our separately issued Memorandum on Internal Control dated December 30, 2015 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 Status of Prior Year Significant Deficiencies included as part of our separately issued Memorandum on Internal Control dated December 30, 2015 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***

City's response to the findings identified in our audit are described in our separately issued Memorandum on Internal Control dated December 30, 2015, which is an integral part of our audits and should be read in conjunction with this report. 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.



Pleasant Hill, California  
December 30, 2015

**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, 2015. 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 Expenditures of Federal Awards during the year ended June 30, 2015. Our audit, described above, 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.

### ***Opinion on Each Major Federal Program***

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 major federal programs for the year ended June 30, 2015.

### ***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 2015-001 through 2015-004. 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 of the City 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.

*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 a 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. *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.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section 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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as items 2015-001, 2015-002, 2015-003 and 2015-004 that we consider 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, 2015, and have issued our report thereon dated December 30, 2015, 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 basic financial statements as a whole.

*Mane & Associates*

Pleasant Hill, California  
March 30, 2016

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