

City of Richmond

Richmond, California

Single Audit Report

For the year ended June 30, 2020



City of Richmond Single Audit Report

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**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**

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and Members of City Council
of the City of Richmond
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 financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Richmond, California (City), as of and for the year ended June 30, 2020, and the related notes to the financial statements. We were engaged to audit the financial statements of the discretely presented component units as of and for the year ended June 30, 2020. These financial statements collectively comprise the City's basic financial statements, and have issued our report thereon dated April 16, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and questioned costs, we did identify certain deficiencies in internal control 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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2020-001 to be material weaknesses.

To the Honorable Mayor and Members of City Council
of the City of Richmond
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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 consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2020-002 to be significant deficiencies.

Compliance and Other Matters

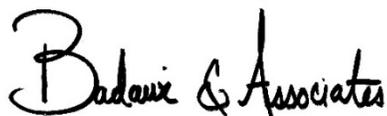
As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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 Response to Findings

The City's response to the findings identified in our audit is 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 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 results of that testing, and not to provide an opinion on the effectiveness of the entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Badawi and Associates
Certified Public Accountants
Richmond, California
April 16, 2021



**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH THE UNIFORM
GUIDANCE AND ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

INDEPENDENT AUDITOR'S REPORT

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

Report on Compliance for Each Major Federal Program

We have audited the City of Richmond, California (City)'s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have direct and material effect on each of the City's major federal programs for the year ended June 30, 2020. 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's basic financial statements include the operations of the Richmond Housing Authority, which expended in federal awards which is not included in the City's schedule of expenditures of federal awards during the year ended June 30, 2020. Our audit, described below, did not include the operations of Richmond Housing Authority because the federal awards expended by this entity are subject to a separate Single Audit.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards 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 the audit requirements of Title 2 U.S. *code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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.

To the Honorable Mayor and Members of City Council
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Richmond, California
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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, 2020.

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 the Uniform Guidance, 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.

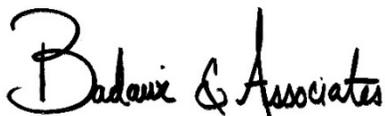
Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

To the Honorable Mayor and Members of City Council
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Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of and for the year ended June 30, 2020, and the related notes to the financial statements. We were engaged to audit the financial statements of the discretely presented component units as of and for the year ended June 30, 2020. These financial statements collectively comprise the City's basic financial statements. We issued our report thereon dated January 14, 2021, which contained unmodified opinions on the governmental activities, General Fund, Community Development and Loan Programs Special Revenue Fund, Port of Richmond Fund, Municipal Sewer Fund and aggregated remaining funds, and disclaimer opinions on the business-type activities, Richmond Housing Authority Enterprise Fund, and the aggregate discretely presented component units. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic 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 basic 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 basic financial statements or to the basic 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.

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Badawi and Associates
Certified Public Accountants
Richmond, California
April 16, 2021, except for the schedule of expenditures
of federal awards on pages 7 to 9, which are as of January 14, 2021

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City of Richmond
Schedule of Expenditures of Federal Awards
For the year ended June 30, 2020

Grantor Agency and Grant Title	Federal Catalog Number	State/Other Pass-through Number	FY 2020 Program Expenditures
U.S. Department of Commerce:			
Economic Development Cluster			
Direct Program:			
Economic Development Administration	11.307		\$ 686,039
		Economic Development Cluster Total	686,039
Total U.S. Department of Commerce			686,039
U.S. Department of Defense			
Direct Program:			
Community Base Reuse Plans, Project Grant/Cooperative Agreement			
Naval Fuel Depot Point Molate Pollution Remediation	12.612		582,578
Total U.S. Department of Defense			582,578
U.S. Department of Housing and Urban Development:			
CDBG Entitlement Grants Cluster			
Direct Programs:			
Community Development Block Grant	14.218		587,140
		CDBG Entitlement Grants Cluster Total	587,140
Total U.S. Department of Housing and Urban Development			587,140
U.S. Department of Justice			
Office of Violence Against Women			
Pass-through from CA-Office of Emergency Services			
Sexual Assault Law Enforcement	16.588	ST18017830	63,632
Office of Community Oriented Policing Services			
Pass-through from CA-Department of Justice			
Community Policing Development Program	16.710	2016-CK-WX-K016	77,659
COPS Peer Support Enhancement	16.710	2019MHWXK001	30,000
		Program Subtotal	107,659
Bureau of Justice Assistance			
Direct Program			
Edward Byrne Memorial Justice Assistance Grant 2016	16.738		73,600
Edward Byrne Memorial Justice Assistance Grant 2017	16.738		9,454
Edward Byrne Memorial Justice Assistance Grant 2018	16.738		24,568
		Program Subtotal	107,622
Total U.S. Department of Justice			278,913

City of Richmond
Schedule of Expenditures of Federal Awards
For the year ended June 30, 2020

Grantor Agency and Grant Title	Federal Catalog Number	State/Other Pass-through Number	FY 2020 Program Expenditures
U.S. Department of Labor			
Workforce Innovation and Opportunity Act (WIOA) Cluster			
Pass-through from California Employment & Training Administration			
WIOA - Adult program	17.258	K9111039/ AA011024- 201/202	361,035
Vet Hire VEAP	17.258	K9111039-1151	338,194
English Language Learners	17.258	K9111039-1153	150,684
		Program Subtotal	849,913
WIOA Youth	17.259	K9111039/ AA011024/ AA111024-301/302	303,365
Rapid Response Layoff Aversion	17.278	AA011024-292/293	25,188
WIOA Dislocated Worker	17.278	AA011024-501/502	241,592
WIOA Rapid Response	17.278	AA011024-540/541	99,764
WIOA COVID-19 Project Hire	17.278	AA011024-1201	106,171
WIOA COVID-19 English Language Learners	17.278	AA011024-1187	28,508
		Program Subtotal	501,223
		Workforce Innovation and Opportunity Act (WIOA) Cluster Total	1,654,501
Pass-through from California Employment & Training Administration			
Storm 2017 NDWG	17.277	K9111039 - 1091	89,199
COVID-19 Employment Recovery NDWG	17.277	AA011024-1194	15,740
		Program Subtotal	104,939
Direct Program			
Youth Build 2020	17.274		20,517
		Total U.S. Department of Labor	1,779,957
U.S. Department of Transportation			
Pass-through from CA-Department of Transportation			
Highway Planning & Construction			
Yellow Brick Road	20.205	ATPL-5137(049)	42,256
Cutting Carlson Phase II	20.205	STPLR-7500(235)	254,940
		Program Subtotal	297,196
Pass-through from CA-Office of Traffic Safety			
Selective Traffic Enforcement Program	20.608	PT20115	90,433
		Total U.S. Department of Transportation	387,629

City of Richmond
Schedule of Expenditures of Federal Awards
For the year ended June 30, 2020

Grantor Agency and Grant Title	Federal Catalog Number	State/Other Pass-through Number	FY 2020 Program Expenditures
U.S. Institute of Museum and Library Services			
Pass-through from CALIFA GROUP			
CENIC Broadband	45.310	40-8622	19,065
Pass-through from California State Library			
Promoting Adult Continuing Education (PACE)	45.310	LS-00-18-0005-18	5,817
Total U.S. Institute of Museum and Library Services			24,882
U.S. Environmental Protection Agency			
Direct Program			
Environmental Workforce Development and Job Training Program			
EPA Workforce	66.815		67,712
EPA Workforce 2019	66.815		34,985
		Program Subtotal	102,697
Brownfield Assessment and Clean-up Cooperation Agreement			
Brownfield Assessment and Clean-up Cooperation Agreement	66.818		130,290
Brownfield Revolving Loan Fund	66.818		84,000
		Program Subtotal	214,290
Total U.S. Environmental Protection Agency			316,987
U.S. Department of Homeland Security			
Pass-through from CA-Office of Emergency Services			
Public Assistance Grants			
Via Verde Emergency Repairs	97.036	FEMA-4308-DR-CA	219,111
Disaster Grant (COVID-19)	97.036	DR-4482-CA	53,247
		Program Subtotal	272,358
Pass-through from Contra Costa County			
Emergency Management Performance Grants			
Emergency Management Performance Grant	97.042	013-0000	20,000
Total U.S. Department of Homeland Security			292,358
U.S. Department of Education			
Office of Career, Technical, and Adult Education			
Pass-through from CA - Department of Education			
Adult Education - Basic Grants to States			
WIOA Title II	84.002	V002A 170005	41,480
Total U.S. Department of Education			41,480
Total Federal Expenditures			\$ 4,977,963

See accompanying Notes to Schedule of Expenditures of Federal Awards

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City of Richmond
Single Audit Report
Notes to Schedule of Expenditures of Federal Awards
For the year ended June 30, 2020

1. REPORTING ENTITY

The financial reporting entity, as defined by Governmental Accounting Standards Board (GASB), consists of the primary government, which is the City of Richmond (City), organizations for which the primary government is financially accountable, and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The Schedule of Expenditure of Federal Awards (the Schedule) includes expenditures of federal awards for the City 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 this entity, if any, are excluded from the Schedule and are subject to a separate Single Audit.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

Funds received under the various grant programs have been recorded within the general, special revenue, capital projects, and enterprise funds of the City. The City utilizes the modified accrual basis of accounting for the general, special revenue, and capital project funds. The accrual basis of accounting is used for the enterprise fund. The accompanying Schedule of Expenditures of Federal Awards (Schedule) is presented in accordance with the requirements of the *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

Schedule of Expenditures of Federal Awards

The accompanying Schedule presents the activity of all Federal financial assistance programs of the City. Federal financial assistance received directly from Federal agencies as well as Federal financial assistance passed through the State of California and other agencies are included in the Schedule. The Schedule of Expenditures of Federal Awards was prepared from only the accounts of various grant programs and, therefore, does not present the financial position or results of operations of the City.

3. INDIRECT COSTS

The City did not elect to use the 10% de minimis indirect cost rate.

4. CALCULATION OF FEDERAL EXPENDITURES – CFDA 11.307

Federal expenditures for the Economic Development Administration Economic Adjustment Assistance Revolving Loan Fund (CFDA 11.307) were calculated as follows per program requirements:

Balance of RLF principal outstanding on loans at the end of the recipient's fiscal year	\$ 379,794
Cash and investment balance in the RLF at the end of the recipient's fiscal year	400,494
Administrative expenses paid out of RLF income during the recipient's fiscal year	2,594
	<u>782,882</u>
The Federal share of the RLF.	88%
Federal expenditures for FY2019-20	<u><u>\$ 686,039</u></u>

City of Richmond
Single Audit Report
Schedule of Findings and Questioned Costs
For the year ended June 30, 2020

Section I - Summary of Auditors' Results

Financial Statements

Types of auditors' report issued: Modified

Internal control over financial reporting:

- Material weakness(es) identified? Yes
- Significant deficiency(ies) identified? Yes

Any noncompliance material to the financial statements noted: No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? No
- Significant deficiency(ies) identified? None noted

Types of auditors' report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with section 200.516(a): No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster	Expenditures
11.307	Economic Adjustment Assistance	\$ 686,039
17.258/17.259/17.278	WIOA Cluster	1,654,501
	Total Expenditures of All Major Federal Programs	\$ 2,340,540
	Total Expenditures of Federal Awards	\$ 4,977,963
	Percentage of Total Expenditures of Federal Awards	47.0%

Dollar threshold used to distinguish between type A and type B program: \$750,000

Auditee qualified as low-risk auditee under section 200.520? No

City of Richmond
Single Audit Report
Schedule of Findings and Questioned Costs, Continued
For the year ended June 30, 2020

Section II - Current Year Findings

A. Current Year Findings - Financial Statement Audit

2020-001 - General Fund Financial Position (Material Weakness)

Criteria:

The City's general fund should maintain adequate fund balance reserve to meet required operating obligations. GFOA recommends that General purpose local governments, regardless of size, at a minimum should maintain unrestricted budgetary fund balance in their general fund of no less than two months of regular general fund operating expenditures.

Condition:

The City's unrestricted fund balance in the General Fund was \$21,940,238, which can only cover less than 2 months expenditures in General Fund. The ability of the City to meet required operating obligations is dependent on the City's ability to develop and implement a plan that will successfully increase cash flows.

Cause:

The City has either overspend its budget in the past or the budget was not balanced which depleted available fund balance.

Context and Effect:

Deficiency in fund balances may require significant cost cutting measures to reach a budget that will recoup the fund balance as well as provide the necessary revenues and financing for continued operations of the City.

Recommendation:

We recommend the City continue to analyze all potential cost cutting measures and revenue sources, and review options to establish a budget plan for the General Fund to recoup the fund balance as well as provide continued financing for City operations.

Management Response:

For the last six years, the city has ended the fiscal year with a balanced budget and often a surplus; which has enabled the city to achieve a 13% reserve balance. The City is currently working with a consultant on a ten year forecast that will also include council recommendations for the path towards fiscal sustainability.

City of Richmond
Single Audit Report
Schedule of Findings and Questioned Costs, Continued
For the year ended June 30, 2020

2020-002 - Completeness of Accrued Liabilities (Significant Deficiency)

Criteria:

Expenditures/expenses should be recognized in the accounting period in which the liability is incurred.

Condition:

During our expenditures testing for fiscal year 2020, we noted around \$6 million in invoices were for services or goods provided in fiscal year 2019 but were not captured and recognized appropriately in fiscal year 2019. Among the \$6 million, \$5.3 million were capitalized expenditures/expenses.

Cause:

The City doesn't have a proper process in place to capture all the accruals, especially when invoices are received later than the cutoff date. The delay in submission of the invoices from departments also contributes to the failure to capture the accruals timely.

In addition, the misleading instruction on the AP approval email template, "All invoices received after August 16, 2019 will be paid from FY2019/2020", might also cause the failure in capturing all accruals.

Context and Effect:

Failure to capture all liabilities can lead the financial statements to be materially misstated.

Recommendation:

We recommend the City to implement internal controls to capture material accruals for which the invoices received after cutoff date and recognize the liabilities properly.

Management Response:

A policy is now in place to help ensure all transactions have been captured and recorded in the proper period. Staff have also updated the year end memo regarding accruals.

City of Richmond
Single Audit Report
Schedule of Findings and Questioned Costs, Continued
For the year ended June 30, 2020

B. Current Year Findings and Questioned Costs - Major Federal Award Program Audit

No findings and questioned costs in the current year.

City of Richmond
Single Audit Report
Schedule of Findings and Questioned Costs, Continued
For the year ended June 30, 2020

Section III - Prior Year Findings

A. Prior Year Findings - Financial Statement Audit - from Predecessor Auditor's Report

2019-01 - Recording and Depositing Receipts in a Timely Manner

All cash collections must be processed and deposited in a timely manner.

During the final phase of the audit we noted a receipt included in a third party audit confirmation in the amount of \$2,000,000 that was issued to the City on June 20, 2019. However, when attempting to trace the remittance to the City's general ledger, we noted that the check was not recorded in the general ledger or deposited in the bank by the Finance Department until January 6, 2020, more than six months later.

When we inquired about the delay, City staff indicated that the \$2 million check was sent to the Water Resource Recovery Department instead of the Finance Department and was held there without being deposited or communicated to Finance until the City Council adopted a resolution to accept and appropriate the funds for the intended purpose.

This could be an indication that other cash receipts are not being forwarded in a timely manner by the various departments to the Finance Department. We understand that upon receipt of the check in the Finance Department, the policies about proper handling of all checks received was reiterated to the City's various departments including that all checks are to be remitted immediately to the Finance Department for deposit in the bank and recording in the general ledger.

Cash collections, including checks, that are retained in City departments for long periods and not deposited immediately, create a potential risk of theft or misappropriation of funds. City staff indicated that the delay in processing the receipts was due to staff not understanding the need for the check to be processed timely by the Finance Department.

The City must require that all receipts be processed and deposited in the bank in a timely manner, usually within one or two days of receipt. In addition, the City should consider requiring that all receipts be directed to the Finance Department, rather than outside departments, to ensure timely processing.

Current Status: Implemented

City of Richmond
Single Audit Report
Schedule of Findings and Questioned Costs, Continued
For the year ended June 30, 2020

2019-02 – Unprocessed Invoices and Impact of Late Payments

As we have recommended in the past, vendor invoices should generally be processed within 30 days of receipt, unless there is an unresolved dispute with the vendor. If invoices are not paid timely, it could mean that critical payments are delinquent, such as those related to insurance policies, and contracts may lapse and put the City at risk of exposure to claims and other fines or penalties.

We inquired about the existence of any unprocessed invoices applicable to fiscal year 2019 and Accounts Payable staff indicated that there were unprocessed invoices related to the Housing Authority applicable to the period ended June 30, 2019 and prior. Upon inspection of the invoices we noted that there are multiple file folders full of unprocessed invoices related to the Housing Authority.

The invoices were received by Accounts Payable staff, but remained unprocessed, because they had not been approved for payment by the department heads. Accounts Payable staff also stated that they were unsure of how many invoices were contained in the file folders or how much in total the invoices add up to. During our audit work, we also noted that the property insurance policy for the Housing Authority's Hacienda property had expired on June 27, 2019. When we inquired about the subsequent policy, we noted that the coverage had lapsed due to nonpayment of the premium invoices and after the policy premium was paid, the new policy was effective beginning July 1, 2019, leaving the property uninsured for three days.

Although it is not clear whether all of the unprocessed invoices are still due and payable by the Housing Authority, it appears that Housing Authority staff are not actively analyzing the unprocessed invoices. It appears that certain invoices are paid only after the vendor makes continual contact with City/Authority staff.

Housing Authority staff must review the unprocessed invoices to determine whether they were subsequently paid, or if they are still due and payable and make the payments, as applicable. In the future, invoices should be reviewed and approved for payment in a timely manner and any invoices that are in dispute should be documented and resolved.

Current status: See current year finding 2020-002

City of Richmond
Single Audit Report
Schedule of Findings and Questioned Costs, Continued
For the year ended June 30, 2020

2019-03 - Developing Funding Plan for Housing Authority Net Position Deficit and Repayment of Interfund Loans

The Housing Authority's revenue sources should be sufficient to cover all costs of the fund and the Authority's interfund loans should be reviewed to ensure that repayment is likely.

During the year ended June 30, 2019, the Authority's expenses exceeded its revenues by \$4.2 million and at June 30, 2019, the Authority reported an unrestricted net position deficit of \$5.97 million, while the Authority owed \$2.2 million to the General Fund under a long-term advance and owed a short-term loan of \$6.3 million to the Insurance Reserves Internal Service Fund. There were no repayments on the long-term advance during the last three fiscal years, and it is unclear when the short-term loan will be repaid.

We understand the Authority transferred the Housing Choice Section 8 program to the Housing Authority of the County of Contra Costa effective June 30, 2019 and the Housing Authority is working to reposition its public housing assets and expects to recover some of its operational costs, which will go toward reducing the outstanding debt owed to the City. However, this funding will not be realized in the short-term, so the collectability of the interfund loans is questionable.

The Authority should perform a review of its costs to determine if costs can be reduced to eliminate the net position deficit and provide funds for repayment of the interfund borrowing. If the advance and short-term loan are not expected to be repaid within a reasonable period of time, Generally Accepted Accounting Principles require that the interfund balances be reduced and the amount that is not expected to be repaid should be reported as a transfer from the fund that made the loan to the fund that received the loan.

Current Status: Staff is actively working to determine the amount collectable and will write down any amount deemed uncollectable. Starting in FY2019-20, the City actively reviews the RHA budget and determines an amount needed as a subsidy from the City.

City of Richmond
Single Audit Report
Schedule of Findings and Questioned Costs, Continued
For the year ended June 30, 2020

2019-04 – Accurate Identification of Programs in the Schedule of Expenditures of Federal Awards

In accordance with the requirements of OMB Uniform Administrative Requirements Subpart D Section 200.302(b) (1), the City should report all Federal awards expended in the Schedule of Expenditures of Federal Awards (SEFA) each fiscal year.

During our testing of the fiscal year 2019 SEFA provided for audit we noted the following:

- The Community Development Block Grant Program from the Department of Housing and Urban Development did not include current year expenditures in the amount of \$443,259.
- The Via Verdi Emergency Road Repairs grant from the Federal Emergency Management Agency (FEMA) was originally included in the amount of \$523,856, however upon further testing we noted that the amount included non-federal matching costs in the amount of \$130,964. These costs were subsequently removed from the SEFA.
- The Rifle Range Road Emergency Road Repairs grant from FEMA in the amount of \$28,498 was removed from the SEFA as the expenditures included by the City were not federally reimbursable.

Incorrect reporting not only misstates the SEFA, the City is not in compliance with the reporting requirements of the OMB Uniform Administrative Requirements. As a result, future federal funding could be adversely affected.

We understand that City staff overlooked the issues noted above due to the departure of staff previously responsible for the grant programs and preparation of the SEFA.

The City must review its policies and procedures to ensure the correct grants and associated federally reimbursable expenditures are included on the SEFA. And, each year, the prior year SEFA should be compared to the current year SEFA to ensure consistent grant reporting.

Current Status: Implemented

City of Richmond
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2019-05 – Supporting Documentation for Payroll Special Pay Rates

Additional employee pay should be supported by appropriate documentation to determine if it is allowable and calculated accurately. The documentation should be kept on hand for reference and to support calculations for the additional pay.

We selected forty employee payroll disbursements to recalculated gross pay and trace to supporting documentation, trace additional incentive pays to supporting documentation such as a Memorandum of Understanding (MOU) and trace gross pay to the general ledger. We noted six employees who received additional pay for a uniform allowance in the amount of \$17.27, but City staff was unable to provide support for how the uniform allowance was calculated or if it was allowable per the City's policies. We did note that the 1021 MOU (July 1, 2013 – March 31, 2016) includes a provision for uniforms to be provided to employees and certain employees are provided an allowance amount, but it did not apply to any of the six tested employee positions. And, the 21 MOU (July 2013 to June 2016) does not include a uniform allowance, other than a reimbursement of up to \$125 for safety shoes.

Without appropriate supporting documentation we are unable to determine if the uniform allowance paid to the employees is accurate and allowable. And, the lack of documentation increases the risk of unauthorized or inaccurate payments to the employees.

We understand that there has been a turnover in staffing in the Payroll Department and due to that there is some confusion on how to calculate the uniform allowance or the basis for the payment to the employees.

The City should determine whether all applicable employees are eligible to receive a uniform allowance and if so, what the correct supporting documentation for uniform allowances is for the applicable employees and then review uniform allowance payments to ensure they are correct. In addition, all supporting documentation for all City pay types should be kept on file so it can be provided for review when necessary.

Current Status: Not tested as part of current year audit procedures.

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2019-06 - Budgeting for Recurring Activities

Recurring activities should be included in the annual budget and variances between the prior year budgeted amounts and the current year budget should be reviewed to ensure recurring activities were not omitted in error.

When we inquired about why the budget to actual variances in general government expenditures in the General Fund, we noted that the Red Oak Victory berthing expense of \$133,688 was not budgeted due to staff oversight. The General Fund's payment of the berthing expense is an annual cost related to the interfund loan with the Port of Richmond Enterprise Fund that has been in place since fiscal year 2013.

Since the expense is a known actual cost of the General Fund, that means when budgetary activity is analyzed it does not include all anticipated activities. Variances between the budget and actual activity should be primarily comprised of unanticipated activities, not recurring activities and those approved by Council.

Activities approved prior to the adoption of the original budget should be incorporated into the budget on an annual basis. Procedures should be established to analyze variances between prior year actual results and current year budgeted activities to ensure approved recurring activities are included in the annual budget.

Current Status: Implemented

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2019-07 - Investment Policy Compliance and Investment Report Accuracy

During our review of the fiscal year 2019 Investment Policy and the May 2019 Investment Report we noted the following:

a. Investment Policy Compliance

Part 4 of Section X, Authorized Investments and Maximum Maturities, of the City's Investment Policy states that the City may invest in the Local Agency Investment Fund up to a maximum of \$50 million per account.

In addition, Section XI, Investment Pools, states that the City may invest in investment pools up to the maximum permitted by State law, but not to exceed 25% of the cost value (book value) of the total portfolio exclusive of the fiscal agent cash portfolio. Each agency is limited to an investment of \$50 million per account currently, but subject to change.

We reviewed the City's May 2019 Investment Report and noted the following:

- The City's investment in the California Local Agency Investment Fund (LAIF) was \$62,266,277 and amounted to 59.53% of the City's portfolio.
- The City's investment in CalTrust in the amount of \$42,331,647 is below the \$50 million limit, however the investment amounted to 40.47% of the City's investment portfolio.
- Combined, the investments in the investment pools is 100% of the City's total portfolio.

The City's investments are not in compliance with the investment limitations of the Investment Policy.

The City should determine what actions are necessary bring the investment portfolio into compliance with the terms and limitations of the Investment Policy. In the event the current composition is considered acceptable to the City, the Investment Policy should be revised to reflect the new policies. And, the City should develop procedures to review the terms and limitations of the Investment Policy and compare them against the monthly investment report to ensure that the portfolio remains in compliance with the terms and limitations of the Investment Policy.

In addition, Section X of the Investment Policy does limit LAIF to \$50 million, but then says "maximum permitted by State law" within the authorized investment paragraph. The State law has increased the LAIF account limit to \$60 million, therefore the City should consider removing the dollar limitation from the Investment Policy and instead only refer to the maximum permitted by State law.

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2019-07 - Investment Policy Compliance and Investment Report Accuracy (Continued)

b. Investment Report Investment Categorization

The Investment Report should accurately identify each investment based on the information provided by the account statement. CalTrust is an investment pool and should be disclosed as such on the City's monthly Investment Report.

During our review of the May 2019 Investment Report we noted that the CalTrust investment in the amount of \$42,331,647 was classified as a money market fund on the Portfolio Summary instead of the correct category of investment pool.

Investments that are not properly classified in the monthly Investment Report lead to inaccurate reporting.

City staff must develop procedures to ensure the Investment Report and Investment Reconciliation accurately identify each investment based on the information provided by the account statement.

Current Status: Per review of the June 2020 investment report and performance of the investment compliance test, the City's investments are in compliance with the investment limitations of the Investment policy. However, in current fiscal year investment report, the CalTrust pooled investment is still misclassified as Money Market fund.

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B. Prior Year Findings and Questioned Costs - Major Federal Award Program Audit - from Predecessor Auditor's Report

Finding #SA2019-001: Timely Filing of SF-425 Federal Financial Report

CFDA numbers: 14.218 and 66.818

CFDA Title: Community Development Block Grants/ Entitlement Grants (CDBG), Brownfields Assessment and Cleanup Cooperative Agreements

Name of Federal Agency: Department of Housing and Urban Development (HUD), Environmental Protection Agency (EPA)

Federal Award Identification Numbers: B-14-MC-06-0015, 2009SBB92404, 17-09-PS, 99T45401

Name of pass-through Entity: Contra Costa Family Justice Alliance, Contra Costa County

Criteria: The City's CDBG and EPA grant programs require the filing of SF-425 Federal Financial Reports and if those reports are filed on a quarterly basis, the reports are to be submitted no later than 30 days after the end of each reporting period.

Condition: For the quarter ended June 30, 2019, the City did not file the SF-425 Federal Financial Reports for the CDBG and Brownfields Assessment and Cleanup Cooperative Agreements with HUD or the EPA, respectively, until September 27, 2019.

Effect: The City is not in compliance with the timely financial reporting requirements of the CDBG and Brownfields Assessment and Cleanup Cooperative Agreements programs.

Cause: We understand the delays were due to City staff misinterpreting the report filing instructions that require that annual SF425 reports be submitted no later than 90 days after the project or grant period end date. Since the June 30 report was for the fiscal year end, City staff thought that was the same as an annual report and filed the reports within the 90 days of the quarter-end. However, since the City files quarterly reports for each grant, the reports were due within 30 days of the quarter-end.

Recommendation: The City should ensure that the quarterly SF425 reports are filed with each grantor within 30 days of quarter-end.

Current Status: Implemented