

City of Redwood City

Redwood City, California

Single Audit Reports

For the year ended June 30, 2010

City of Redwood City

Single Audit Reports

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Caporicci & Larson, Inc.
A Subsidiary of Marcum LLP
Certified Public Accountants

**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 Mayor and Members of City Council
of the City of Redwood City
Redwood City, California

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Redwood City (City) as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements and have issued our report thereon dated December 3, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiency in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs, as item FS 2010-01, that we consider to be significant deficiency in internal control over financial reporting. 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.

To the Honorable Mayor and Members of City Council
of the City of Redwood City
Redwood City, California
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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The result of our tests disclosed an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, which is described in the accompanying schedule of findings and questioned costs as Finding 10-1.

City's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit City's response and, accordingly, we express no opinion on it. This report is intended solely for the information and use of management, the City Council, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Caproni & Larson, Inc.

San Francisco, California
December 3, 2010



Caporicci & Larson, Inc.
A Subsidiary of Marcum LLP
Certified Public Accountants

**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

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

Compliance

We have audited the compliance of City of Redwood City (City), with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2010. City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of City's management. Our responsibility is to express an opinion on City's compliance based on our audit.

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 City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of City's compliance with those requirements.

In our opinion, the City, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2010. However, the results of our auditing procedures disclosed one instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item Finding 10-1.

To the Honorable Mayor and Members of City Council
of the City of Redwood City
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Internal Control over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 City's internal control over compliance.

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is 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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item Finding 10-1 to be a significant deficiency.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Redwood City as of and for the year ended June, 30, 2010, and have issued our report thereon dated December 3, 2010. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

To the Honorable Mayor and Members of City Council
of the City of Redwood City
Redwood City, California
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The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit City's responses and, accordingly, we express no opinion on the responses.

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

Cappioli & Larson, Inc.

San Francisco, California
December 3, 2010

City of Redwood City
Single Audit Reports
Schedule of Expenditures of Federal Awards
For the year ended June 30, 2010

Program Name	Grantor/ Pass-Through Entity Grant Number	Catalog of Federal Domestic Assistance Number	Program Expenditures
Federal Awards			
U.S. Department of Housing and Urban Development:			
<i>Direct Programs</i>			
Community Development Block Grant	B-09-MC-06-0014	14.218	\$ 1,886,199
Home Fund Grant	M-09-MC-06-0235	14.239	195,149
Total U.S. Department of Housing and Urban Development			2,081,348
U.S. Department of Justice:			
<i>Direct Programs</i>			
Bullet Proof Vest Grant	2003-BUBX-030114961	16.607	6,391
<i>Passed through the State of California Office of Traffic Safety</i>			
DUI Enforcement & Awareness	OTS-AL0988	20.600	38,830
Selective Traffic Enforcement Program (STEP)	OTS-PT1019	20.600	82,657
<i>Passed through the Regents of the University of California</i>			
Click it or Ticket Program	OTS-CT10340	20.600	21,723
	Total CFDA # 20.600		143,210
Total U.S. Department of Justice			149,601
U.S. Department of Education:			
<i>Direct Program</i>			
21 Century Community Learning Grant	RCSD Agreement 200809-493	64.287	179,584
Total U.S. Department of Education			179,584
U.S. Department of Homeland Security:			
<i>Direct Program</i>			
Port Security Grant	2009-PU-T9-0116	97.056	10,120
Total U.S. Department of Homeland Security			10,120
Sub Total Federal Expenditures			\$ 2,420,653

* Denotes as Major Program.

See Notes to Schedule of Expenditures of Federal Awards.

City of Redwood City
Single Audit Reports
Schedule of Expenditures of Federal Awards
For the year ended June 30, 2010

Program Name	Grantor/ Pass-Through Entity Grant Number	Catalog of Federal Domestic Assistance Number	Program Expenditures
<u>Total Federal Expenditures from previous page</u>			<u>\$ 2,420,653</u>
U.S. Department of Transportation:			
<i>Pass-Through State Department of Transportation</i>			
Highway Planning and Construction- ARRA	ESPL-5029(021)	20.205 *	523,000
Highway Planning and Construction- CMAQ	ESPL-5029(021)	20.205 *	632,783
Highway Planning and Construction- ARRA	ESPL-5029(020)	20.205 *	688,775
Total U.S. Department of Transportation			<u>1,844,558</u>
U.S. Department of Energy:			
<i>Direct Programs</i>			
Energy Efficiency Conservation Block Grant- ARRA	DE-SC0002187	81.128 *	134,491
Total U.S. Department of Energy			<u>134,491</u>
Total Federal Financial Awards			<u>\$ 4,399,702</u>

* Denotes as Major Program.

See Notes to Schedule of Expenditures of Federal Awards.

City of Redwood City
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Notes to Schedule of Expenditures of Federal Awards
For the year ended June 30, 2010

1. REPORTING ENTITY

The financial reporting entity, as defined by GASB Codification, consists of the primary government, the City of Redwood City (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 City Council acts as the governing body and is able to impose its will on the following organizations, establishing financial accountability:

- The Redevelopment Agency of the City of Redwood City

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

Funds received under the various grant programs have been recorded within the special revenue funds of the City. The City utilizes the modified accrual method of accounting for the special revenue funds. The accompanying Schedule of Expenditures of Federal Awards (Schedule) has been prepared on the modified accrual basis of accounting.

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 is 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.

City of Redwood City
Single Audit Reports
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2010

A. SUMMARY OF AUDIT RESULTS

1. The auditors' report expresses an unqualified opinion on the basic financial statements of the City of Redwood City.
2. A significant deficiency relating to the audit of the financial statements is reported in Part B of this schedule. The significant deficiency is not considered material weaknesses.
3. No instances of noncompliance material to the financial statements of City of Redwood City were disclosed during the audit.
4. Significant deficiency relating to the audit of the major federal award program is reported in the basic financial statements.
5. The auditors' report on compliance for the major federal award program for the City of Redwood City expresses an unqualified opinion.
6. Audit findings relative to the major federal award program for the City of Redwood City are reported in Part C of this Schedule.
7. The programs tested as major programs were as follows:

<u>Major Program</u>	<u>Expenditures</u>
U.S. Department of Transportation:	
Highway Planning and Construction- ARRA	\$ 523,000
Highway Planning and Construction- CMAQ	632,783
Highway Planning and Construction- ARRA	688,775
U.S. Department of Energy:	
Energy Efficiency Conservation Block Grant- ARRA	134,491
Total Major Program Expenditures	\$ 1,979,049
Total Federal Expenditures	\$ 4,399,702
Percent of Total Federal Award Expenditures	44.98%

8. The threshold for distinguishing Types A and B programs was \$300,000.
9. The City of Redwood City was determined to be a low risk auditee.

City of Redwood City
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B. FINDINGS - FINANCIAL STATEMENTS AUDIT

FS-2010-01 Prior Period Adjustment

- Criteria: All explicit and measurable equity interest in a joint venture should be reported as an asset by participating governments of the joint venture.
- Condition: The City recorded a prior period adjustment in the amount of \$9.2 million to its investment in sewer authority to correct the City's equity interest of the South Bayside System Authority.
- Cause: The City was selectively reporting certain equity interest, not all equity interest, on its financial statements in previous years.
- Effect: The previous years' financial statements have been materially misstated.
- Recommendation: The City needs to record all equity interest of other entities in accordance with accounting principles generally accepted in the United States of America.
- Management Response: During fiscal year 2009-10, the City recorded a prior period adjustment to increase the City's investment in the South Bayside System Authority (SBSA) as it changed its methodology in calculating the amount of its investment.

In prior fiscal years, the City only reflected its contributions to SBSA's Plant, Pump Station and Stage 2 Construction Fund, due to the pre-GASB 34 accounting which segregated contributed capital in the fund equity section. After the implementation of GASB 34 by SBSA, the concept of contributed capital was eliminated. However, the City continued to reflect its equity interest in SBSA on the same limited basis that existed prior to GASB 34.

During fiscal year 2009-10, the City's auditors, Caporicci & Larson, recommended that the City expand the recording of its equity interest in SBSA based on its share of all of the funds maintained by SBSA. The City has recorded the prior period adjustment in the amount of \$9,200,926 to record its equity interest in all of the additional funds not previously included in this calculation.

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C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAM AUDIT

Finding 10-1 U.S. DEPARTMENT OF ENERGY
Energy Efficiency Conservation Block Grant (CFDA Number 81.128)-
Cash Management- Drawdown of all funds before expenses incurred

Criteria: Federal funds should be drawdown on the basis that the expenditures have
been incurred, or will be incurred shortly.

Condition: The Program drawdown all funds prior to incurring the expenditures related
to the grant.

Cause: The Program staff was unaware of this requirement.

Questioned Costs: None. The Program is required to return the unexpended funds back to the
Department of Energy

Context and Effect: Funds should be drawdown on the basis that the expenditure was incurred
or will be incurred within short amount of time.

Recommendation: The City should implement controls to ensure its compliance with federal
fund drawdown requirements.

Management Response: The Energy Efficiency and Conservation Block (EECBG), was part of the
federal stimulus program started in the spring of 2009. Given this was a new
program, the Department of Energy (DOE) had not yet developed all of the
policies and procedures related to administration of the program/funding.
Therefore, the information and technical assistance provided by the DOE was
less than clear and sometimes inconsistent.

After receiving notification that the City's application and budget for EECBG funds had been approved, City staff established an account in the ASAP (Automated Standard Application for Payment) system. Following the instructions provided, City staff was allowed to draw down the entire allocation, through the ASAP system.

Staff was later advised that only the portion that had been spent was to be drawn down, and City Staff contacted DOE staff to determine how best to return the funds. Bryce Robinson, Contract Specialist for the Department of Energy, sent City Staff an email clearly indicating that City Staff was not to return the funds that had been drawn down. He indicated that other grantees had also drawn down their entire allocation. He indicated that the Department of Energy was working out the details on how to handle this situation, and would advise City staff how to handle once DOE developed the proper process and procedure.

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

Management Response, Continued

In August 2010, the DOE requested that all agencies who drew down their entire allocation return their funds. City staff returned all unexpended funds at the end of the quarterly reporting period.

D. PRIOR YEAR FINDINGS AND QUESTIONED COSTS

No prior year findings were noted.