

# City of Redwood City

Redwood City, California

*Single Audit Reports*

*For the year ended June 30, 2007*

# City of Redwood City

## Single Audit Reports

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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING 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 City of Redwood City (City) as of and for the year ended June 30, 2007, and have issued our report thereon dated October 19, 2007. 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 control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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 no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

We noted certain matters identified as control deficiencies that we reported to management of the City in a separate letter dated October 19, 2007.

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. However, this report is a matter of public record and its distribution is not limited.

*Capricci & Carlson*

Oakland, California  
October 19, 2007

**INDEPENDENT AUDITORS' 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 the City of Redwood City (the 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, 2007. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in Government Audit 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. Our audit does not provide a legal determination of the 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, 2007.

**Internal Control Over Compliance**

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

To the Honorable Mayor and Members of City Council  
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A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

#### **Schedule of Expenditures of Federal Awards**

We have audited the basic financial statements of the City as of and for the year ended June 30, 2007, and have issued our report thereon dated October 19, 2007. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken 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 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 whole.

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. However, this report is a matter of public record and its distribution is not limited.

*Capricci & Carson*

Oakland, California  
October 19, 2007

**City of Redwood City**  
**Single Audit Reports**  
**Schedule of Expenditures of Federal Awards**  
**For the year ended June 30, 2007**

Program Name	Grantor/ Pass-Through Entity Grant Number	Catalog of Federal Domestic Assistance Number	Program Expenditures
<u>Federal Awards</u>			
U.S. Department of Housing and Urban Development:			
Community Development Block Grant	B-03-MC-06-0014	14.2180*	\$ 23,019
Community Development Block Grant	B-04-MC-06-0014	14.2180*	1,361
Community Development Block Grant	B-05-MC-06-0014	14.2180*	69,767
Community Development Block Grant	B-06-MC-06-0014	14.2180*	670,452
Community Development Block Grant - Program Income		14.2180*	521,236
	Total CDBG		1,285,835
Home Fund Grant	M-03-MC-06-0235	14.239*	93,329
Home Fund Grant	M-04-MC-06-0235	14.239*	53,111
Home Fund Grant	M-05-MC-06-0235	14.239*	6,202
Home Fund Grant	M-06-MC-06-0235	14.239*	159,818
Home Fund Grant - Program Income		14.239*	17,130
	Total HOME		329,590
<b>Total U.S. Department of Housing and Urban Development</b>			<b>1,615,425</b>
U.S. Department of Transportation:			
<i>Passed through the State of California Department of Transportation</i>			
Federal Surface Transportation Program	STPL-CML-5029(015)	20.205*	365,000
<b>Total U.S. Department of Transportation</b>			<b>365,000</b>
U.S. Department of Justice:			
U.S. BJA Law Enforcement Grant 2003	2002-LB-BX-030114961	16.592	190
U.S. BJA Law Enforcement Grant 2004	2003-LB-BX-030114961	16.592	1,026
<b>Total BJA Law Enforcement Grants</b>			<b>1,216</b>
<b>Total U.S. Department of Justice</b>			<b>1,216</b>
<b>Total Federal Financial Awards</b>			<b>\$ 1,981,641</b>

\* Denotes as Major Program.

See Notes to Schedule of Expenditures of Federal Awards.

**City of Redwood City**  
**Single Audit Reports**  
**Notes to Schedule of Expenditures of Federal Awards**  
**For the year ended June 30, 2007**

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**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 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.

**City of Redwood City**  
**Single Audit Reports**  
**Status of Prior Year Findings and Questioned Costs**  
**For the Year Ended June 30, 2007**

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**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. No significant deficiencies relating to the audit of the financial statements are reported in the basic financial statements.
3. No instances of noncompliance material to the financial statements of City of Redwood City were disclosed during the audit.
4. No significant deficiencies 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>
Community Development Block Grant	\$ 1,285,835
HOME	329,590
Federal Surface Transportation Grant	<u>365,000</u>
<b>Total Major Program Expenditures</b>	<b>\$ 1,980,425</b>
<b>Total Federal Expenditures</b>	<b>\$ 1,981,640</b>
<b>Percent of Total Federal Award Expenditures</b>	<b><u>99.94%</u></b>

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.

**B. FINDINGS - FINANCIAL STATEMENTS AUDIT**

No financial statement findings noted.

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

No findings or questioned costs were noted on the City's major programs.

**City of Redwood City**  
**Single Audit Reports**  
**Status of Prior Year Findings and Questioned Costs, Continued**  
**For the Year Ended June 30, 2007**

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**D. PRIOR YEAR FINDINGS**

06-1 U.S. Department of Housing and Urban Development, Community Development Block Grant (CFDA Number 14.2180) - Allowable Costs/Cost Principles Administered by the City's Employment and Training Department.

Criteria: In accordance with the Basic Guidelines section of OMB's cost principles circulars, expenditures should be supported by appropriate documentation.

Condition: During the performance of the audit, it was noted that some of the direct labor amounts charged to this grant program were not supported by functional time cards. Instead the City used budgetary information to allocate payroll costs for those questioned personnel costs.

Questioned Costs: The amount of direct labor costs charged to the grant which were not supported by functional time cards were \$180,671.

Context and Effect: Retaining adequate supporting documentation for expenditures would ensure that the CDBG Program is being charged the correct amount for direct labor.

Recommendation: We recommend that the City retain adequate documentation to support its expenditures.

Status: Implemented. The City is using functional timecards to charge the personnel costs to the CDBG Program.