

CITY OF REDWOOD CITY
SINGLE AUDIT REPORT
YEAR ENDED JUNE 30, 2002

CITY OF REDWOOD CITY
SINGLE AUDIT REPORT
YEAR ENDED JUNE 30, 2002
TABLE OF CONTENTS

	<u>Page</u>
Summary of Findings and Questioned Costs	1
Schedule of Expenditures of Federal Awards.....	3
Notes to Schedule of Expenditures of Federal Awards	4
Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards.....	5
Report on Compliance and Internal Control Over Compliance Applicable to Each Major Federal Award Program.....	6
Schedule of Current Year Findings and Questioned Costs	8

ACCOUNTANCY CORPORATION
1931 San Miguel Drive - Suite 100
Walnut Creek, California 94596
(925) 930-0902 • FAX (925) 930-0135
E-Mail: maze@mazeassociates.com
Website: www.mazeassociates.com

SUMMARY OF FINDINGS AND QUESTIONED COSTS

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

We have audited the basic financial statements of the City of Redwood City, California, for the year ended June 30, 2002 and have issued our unqualified report thereon dated October 25, 2002. These basic financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in the United States of America; *Government Auditing Standards*, issued by the Comptroller General of the United States and the Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non profit Organizations*. We performed a Single Audit as requested by the City to comply with the provisions of the Single Audit Act Amendments of 1996 and OMB A-133 and are required to present the following summary:

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Audit of Basic Financial Statements

Our audit did not disclose any reportable conditions, or material weaknesses or instances of noncompliance material to the basic financial statements. However we did communicate matters to the City Council in our separate Memorandum on Internal Controls dated October 25, 2002.

Audit of Major Programs

Our audit did not disclose any reportable conditions or material weaknesses in internal controls over major programs. We have issued an unqualified opinion on compliance with the requirements applicable to major programs.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

Identification of Major Programs

The U.S. Department of Housing and Urban Development Community Development Block Program, (CFDA # 14.218) and the U.S. Department of Housing and Urban Development HOME Fund Program, (CFDA # 14.239) were determined to be major programs.

Dollar Threshold Used to Distinguish Between Type A and Type B Programs

The threshold for Type A programs was \$300,000.

Organizational Risk Evaluation

The City was assessed as a low risk auditee based on prior years reporting results, our overall knowledge of the City and other criteria specified by the Office of Management and Budget.

FINDINGS RELATED TO FINANCIAL STATEMENTS

There were no findings required to be reported under Generally Accepted Government Auditing Standards.

FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

Our audit disclosed the findings and questioned costs described on the Schedule of Current Year Findings and Questioned Costs.

STATUS OF PRIOR YEAR FINDINGS

Included in this report is the current status of prior year findings prepared by management.

Mage + Associates

November 22, 2002

CITY OF REDWOOD CITY
 SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2002

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			
Program Expenditures	B-00-MC-06-0014		<u>\$353,437</u>
Subgrants:			
Heron Court Neighbor Center			5,000
Tri Cities Children Center			5,000
Fair Housing Counseling			41,000
Elipse-AIDS Program			5,000
Daybreak Homeless Youth Shelter			18,350
Casa De Redwood			116,700
Laraza Homeless Prevention			20,000
Shared Housing			16,000
Legal Aid Society			15,000
Rosener House Adult Day Support Center			15,000
Catholic Charities - San Carlos Adult Day Support Center			10,000
Spring Street Shelter			15,000
Maple Street Shelter			15,000
Canada College Job Training			120,000
Veterans Homeless Shelter			15,000
Center for the Independence of the Disabled			29,998
Homeless Transition Shelter			15,000
Fair Housing Implementation			3,935
North Peninsula Neighborhood Revitalization			47,597
Rolison Repossession			72,450
Total Subgrants			<u>601,030</u>
Loan Program:			
Rehabilitation Balance of Loans at end of year			<u>2,041,225</u>
Total Community Development Block Grant		14.218	<u>2,995,692</u>
U.S. Department of Housing and Urban Development			
Program Expenditures			<u>39,391</u>
Subgrants:			
Casa De Redwood			<u>132,250</u>
Total Subgrants			<u>132,250</u>
Loan Program:			
Balance of Loans at end of year			<u>352,474</u>
Total HOME Fund Grant		14.239	<u>524,115</u>
U.S. Department of Transportation			
Highway Planning & Construction			
RTSOP II	STPL-CML-5029 (008)	20.205	<u>13,760</u>
			13,760
U.S. Department of Justice			
U.S. BJA Law Enforcement Grant 1999	2000-LB-VX-0994		74,576
U.S. BJA Law Enforcement Grant 2000	2000-LB-BX-0384		<u>15,265</u>
Total BJA Law Enforcement Grant		16.592	<u>89,841</u>
Department of Justice COPS MORE (Belmont Pass-through)	98-CM-WX-1212	16.710	<u> </u>
TOTAL FEDERAL FINANCIAL AWARDS			<u><u>\$3,623,408</u></u>
STATE AWARDS			
State of California, Office of Criminal Justice Planning			
Title V Grant, Improve through ADVANCE	99000410		<u>\$22,406</u>

See accompanying notes to Schedule of Expenditures of Federal and State Awards.

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note 1 - Reporting Entity

The Schedule of Expenditure of Federal Awards includes expenditures of federal awards for the City of Redwood City and the Redwood City Redevelopment Agency, which is controlled by and dependent on the City. These governments form the reporting entity included in the basic financial statement of the City Redwood City.

The Redwood City Redevelopment Agency is a separate government entity whose purpose is to prepare and implement plans for improvement, rehabilitation, and development of certain areas within the City. The Agency is controlled by the City and has the same governing board as the City, which also performs all accounting and administrative functions for the Agency. Its financial activities have been aggregated and merged (termed "blended") with those of the City in the basic financial statements in the Redevelopment Agency Special Revenue Fund, the Low and Moderate Income Housing Fund, the Public Financing Authority Series B Construction Capital Projects Fund, the Public Financing Authority Series B Debt Service Fund, and General Fixed Asset and Long-Term Obligations Account Groups. Financial statements for the Redwood City Redevelopment Agency may be obtained from the City of Redwood City located at 1017 Middlefield Road, Redwood City, CA 94063.

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.

Expenditures of Federal Awards reported on the Schedule are recognized when incurred. An exception to this rule is expenditures of federal awards for loan programs. The City operates the Rehabilitation loan program and First Time Home Buyer loan program under which it must insure participants maintain compliance with program requirements on an on going basis. OMB Circular A-133 section .205(b) requires that expenditures for the above program include the balance of loans outstanding plus cash received from the program.

Note 3 - Direct and Pass-Through Federal Awards

Federal awards may be granted directly to the City by the 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 Federal award programs.

ACCOUNTANCY CORPORATION
1931 San Miguel Drive - Suite 100
Walnut Creek, California 94596
(925) 930-0902 • FAX (925) 930-0135
E-Mail: maze@mazeassociates.com
Website: www.mazeassociates.com

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Honorable Mayor and City Council
City of Redwood, California

We have audited the basic financial statements of City of Redwood City as of and for the year ended June 30, 2002, and have issued our report thereon dated October 25, 2002. We conducted our audit in accordance with generally accepted auditing standards 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.

Compliance

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 grants, 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 that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However we did communicate other matters to City Council in our separate Memorandum on Internal Controls dated October 25, 2002.

This report is intended for the information of the City Council, management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

November 22, 2002

Maze + Associates

ACCOUNTANCY CORPORATION
1931 San Miguel Drive - Suite 100
Walnut Creek, California 94596
(925) 930-0902 • FAX (925) 930-0135
E-Mail: maze@mazeassociates.com
Website: www.mazeassociates.com

REPORT ON COMPLIANCE AND INTERNAL CONTROL OVER COMPLIANCE APPLICABLE TO EACH MAJOR FEDERAL AWARD PROGRAM

Honorable Mayor and City Council
City of Redwood City, California

Compliance

We have audited the compliance of the City of Redwood City with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2002. 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 generally accepted auditing standards 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. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City of Redwood 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, 2002. The results of our auditing procedures disclosed no instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133.

**REPORT ON COMPLIANCE AND INTERNAL CONTROL OVER COMPLIANCE
APPLICABLE TO EACH MAJOR FEDERAL AWARD PROGRAM (Continued)**

Internal Control Over Compliance

City management is responsible for establishing and maintaining effective internal control over compliance with 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 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.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Report on Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of City of Redwood City as of and for the year ended June 30, 2002, and have issued our report thereon dated October 25, 2002. Our audit was made for the purpose of forming an opinion on the basic financial statements of the City of Redwood City 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. The information in that schedule 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.

This report is intended for the information of the City Council, management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

Magel + Associates

November 22, 2002

SCHEDULE OF CURRENT YEAR FINDINGS AND QUESTIONED COSTS

Finding 02-01: Other type of finding

During our expenditure testing of the Community Development Block Grant Program (CFDA#14.218) we selected a number of Intergraded Disbursement and Information System transactions charged for a loan made by the City to a subrecipient, the Redwood Oak Corporation. In fiscal 2001/2002, the City requested federal awards totaling \$241,400 from the Department of Housing and Urban Development (HUD) that were used to fund the loan.

However, the loan receivable was not recorded on the City's general ledger. Staff have stated this resulted from miscommunication between the Finance Department and Housing Department.

The City's standard procedure begins with the Housing Department which generates the loan documentation and then is to notify the Finance Department which records the loan in the general ledger. The City should improve the process of recording new loans. For example, The City should verify all new loans have been recorded as receivable by reviewing expenditures detail for loan funding disbursements. Such amounts could then be added to loans receivables as part of the normal close of the books.

Auditee Contact: Alison Freeman, Financial Services Manager

Corrective Action Planned:

The City will make the adjustment to record the \$241,400 as part of FY 01/02 loan receivable balance.