

City of Redwood City

Redwood City, California

Single Audit Reports

For the fiscal year ended June 30, 2018

City of Redwood City
Single Audit Reports
For the fiscal year ended June 30, 2018

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

To the Honorable Mayor and Members of City Council
of the City of Redwood City
Redwood City, 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 the City of Redwood City, California (City), as of and for the fiscal year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 7, 2018.

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 City's internal control. Accordingly, we do not express an opinion on the effectiveness of City's internal control.

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. 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.

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

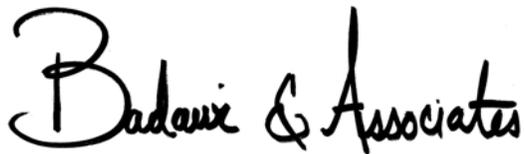
To the Honorable Mayor and Members of City Council
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Compliance and Other Matters

As part of obtaining reasonable assurance about whether City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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 City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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Badawi and Associates
Certified Public Accountants
Oakland, California
December 7, 2018



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

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

Report on Compliance for Each Major Federal Program

We have audited the City of Redwood's (City) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the fiscal year ended June 30, 2018. 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.

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.

Opinion on Each Major Federal Program

In our opinion, City of Redwood 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 fiscal year ended June 30, 2018.

To the Honorable Mayor and Members of City Council
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Other Matters

The results of our auditing procedures disclosed one instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2018-001. Our opinion on each major federal program is not modified with respect to these matters.

The City's response to the noncompliance 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 compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with 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, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2018-001 that we consider to be significant deficiencies.

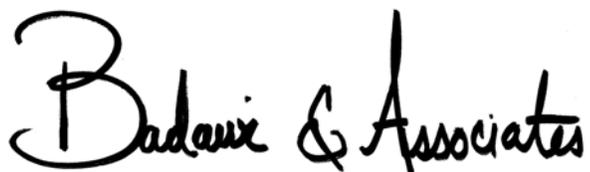
The City's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

To the Honorable Mayor and Members of City Council
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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.

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 City of Redwood City, as of and for the fiscal year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated December 7, 2018, which contained unmodified opinions on those financial statements. 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.

A handwritten signature in black ink that reads "Badawi & Associates". The signature is written in a cursive, flowing style.

Badawi and Associates
Certified Public Accountants
Oakland, California
January 4, 2019 except for the schedule of expenditures
of federal awards, which is as of December 7, 2018

City of Redwood City
Single Audit Reports
Schedule of Expenditures of Federal Awards
For the fiscal year ended June 30, 2018

Program Name	CFDA Number	Grantor/ Pass-Through Entity Grant Number	Program Expenditures	Subrecipient Payments
Federal Awards				
U.S. Department of Housing and Urban Development:				
<i>Direct Programs</i>				
CDBG-Entitlement Grants Cluster				
CDBG Entitlement Grant/ Entitlement Grants	14.218	B-16-MC-06-0014	\$ 56,493	\$ -
CDBG Entitlement Grant/ Entitlement Grants	14.218	B-17-MC-06-0014	293,050	211,055
CDBG Entitlement Grant/ Entitlement Grants	14.218	B-17-MC-06-0014	122,347	-
Total Community Development Block Grant Cluster			471,890	211,055
Home Investment Partnerships Program	14.239	M-17-MC-06-0236	60,450	-
Total Home Investment Partnership Program			60,450	-
Total U.S. Department of Housing and Urban Development			532,340	211,055
U.S. Department of Justice:				
<i>Direct Programs</i>				
Bullet Proof Vest Grant	16.607	2003-BUBX-030114961	341	-
Asset Forfeiture Program	16.111	CA0411300	98,207	-
Total U.S. Department of Justice			98,548	-
U.S. Department of Education:				
<i>Passed through Redwood City School District</i>				
21 Century Community Learning Grant	84.287	201617-148766	281,257	-
Total U.S. Department of Education			281,257	-
U.S. Department of Homeland Security:				
<i>Direct Programs</i>				
Emergency Food and Shelter National Board Program	97.114	086600-018	8,364	-
<i>Passed through Alameda County Sheriff's Office</i>				
Bay Area Urban Area Security Initiative (UASI)	97.067	2017-00078	43,330	-
Total U.S. Department of Homeland Security			51,694	-
U.S. Institute of Museum and Library Services:				
<i>Passed through California State Library</i>				
Grants to States	45.310	5340.01	21,142	-
Total U.S. Institute of Museum and Library Services			21,142	-
U.S. Department of Transportation:				
Highway Planning and Construction Cluster				
<i>Passed through the California Department of Transportation</i>				
Highway Planning and Construction	20.205	STPL-5029(034)	71,319	-
Highway Planning and Construction	20.205	CML-5029(031)	339,925	-
Total Highway Planning and Construction Cluster			411,244	-
Sub Total Federal Expenditures			\$ 1,323,390	\$ 211,055

See Notes to Schedule of Expenditures of Federal Awards.

City of Redwood City
Single Audit Reports
Schedule of Expenditures of Federal Awards
For the fiscal year ended June 30, 2018

Program Name	CFDA Number	Grantor/ Pass-Through Entity Grant Number	Program Expenditures	Subrecipients Payments
Total Federal Expenditures from previous page			\$ 1,323,390	\$ 211,055
U.S. Department of Transportation (Continued):				
Highway Safety Cluster				
<i>Passed through the City of Daly City</i>				
State and Community Highway Safety	20.600	AL1632	30,175	-
<i>Passed through the State of California Office of Traffic Safety</i>				
State and Community Highway Safety	20.600	PT-18121	211,045	-
State and Community Highway Safety	20.600	PT-1798	26,849	-
State and Community Highway Safety	20.600	TR-1708	1,500	-
Total Highway Safety Cluster			269,569	-
<i>Passed through State of California</i>				
Railroad Development	20.314	STPLR-7500(231)	91,944	-
Railroad Development	20.314	STPLR-7500(236)	187,016	-
Railroad Development	20.314	STPLR-7500(237)	294,994	-
Total Railway Development			573,954	-
Total U.S. Department of Transportation			1,254,766	-
National Endowment for Arts				
<i>Direct Program:</i>				
Promotion of the Arts Grants to Organizations and Individual	45.024	17-4100-4069	25,000	-
Total U.S. Department of Interior			25,000	-
Total Federal Expenditures			\$ 2,264,748	\$ 211,055

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 fiscal year ended June 30, 2018

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:

- Redwood City Facilities and Infrastructure Authority
- Redwood City Public Financing Authority

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

Funds received under the various grant programs have been recorded within the general funds, capital project funds, special revenue funds and enterprise funds of the City. The City utilizes the modified accrual method of accounting for the general, capital project and special revenue funds and the full accrual method of accounting for enterprise funds. The accompanying Schedule of Expenditures of Federal Awards (Schedule) is presented in accordance with the requirements of U.S. code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Therefore, some amounts presented in the Schedule may differ from amounts presented in, or used in, the preparation of the City's basic financial statements.

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, Redwood City School District, City of Daly City, Alameda County Sheriff's Department, and California State Library 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.

Pass-Through Entities' Identifying Number

When federal awards are received from a pass-through entity, the Schedule shows, if available, the identifying number assigned by the pass-through entity.

Indirect Costs

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

City of Redwood City
Single Audit Reports
Schedule of Findings and Questioned Costs
For the fiscal year ended June 30, 2018

Section I - Summary of Auditors' Results

Financial Statements

Types of auditors' report issued: Unmodified

Internal control over financial reporting:

- Material weakness identified? No
- Significant deficiency identified? None noted

Any noncompliance material to the financial statements noted? No

Federal Awards

Internal control over major programs:

- Material weakness identified? No
- Significant deficiencies identified? Yes

Type of auditor's 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) of the Uniform Guidance? Yes

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>	<u>Expenditures</u>
20.314	Railroad Development	\$ 573,954
	Total Expenditures of All Major Federal Programs	<u>573,954</u>
	Total Expenditures of Federal Awards	<u>\$ 2,264,748</u>
	Percentage of Total Expenditures of Federal Awards	<u>25%</u>

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

Auditee qualified as low-risk auditee under section 200.520? Yes

City of Redwood City
Single Audit Reports
Schedule of Findings and Questioned Costs
For the fiscal year ended June 30, 2018

Section II – Financial Statements Findings

No financial statement findings were noted.

Section III – Federal Award Findings and Questioned Costs

2018-001 Cash Management, Control Activities (Significant Deficiency) and Compliance

Program:

Railroad Development Grant (CFDA Number 20.314, U.S. Department of Transportation, Pass-through from State of California, Award Number STPLR-75000(231), STPLR-75000(236), STPLR-75000(237))

Criteria:

Per City’s agreement with California Department of Transportation, paragraph 16, “Not more frequently than once a month, but at least quarterly, Local Agency will prepare and submit to Caltrans invoices for actual allowable costs incurred.”

Condition:

During the performance of the audit, we noted that the City submitted reimbursement requests totaling \$27,700 to the State of California on August 19, 2017 covering periods through July 15, 2016 and February 28, 2017. Per review of the grant agreement between the City and the State, the State required the City to submit the reimbursement requests at least quarterly. Even though the State reimbursed the expenditure, we still considered this late submission to be non-compliant with the State requirements.

In addition, we noticed that as of the date we issued the report, the City didn’t submit any reimbursement requests for an additional \$546,254 of expenditures incurred during the fiscal year.

Cause:

The City didn’t prepare the invoices timely.

Context and Effect:

The City could not demonstrate that it was in full compliance with the cash management compliance requirement of the program.

Questioned Costs:

No questioned cost were noted.

Recommendation:

We recommend that the City to implement controls to ensure the timely billing for the grants and compliance with grant agreements.

View of Responsible Officials and Planned Corrective Action:

This oversight was an isolated incident. The City will submit reimbursement requests for this grant on a quarterly basis. The next quarterly reimbursement, which will include costs through December 31, 2018, will be submitted to the California Department of Transportation no later than January 31, 2019.

City of Redwood City
Single Audit Reports
Schedule of Findings and Questioned Costs, Continued
For the fiscal year ended June 30, 2018

SECTION IV-PRIOR YEAR FINDINGS AND QUESTIONED COSTS

A. Prior Year Findings - Financial Statement Audit

No financial statement findings in the prior year.

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

No findings or questioned costs were noted.