



# City of Redwood City

## Single Audit Reports

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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**

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, 2012, which collectively comprise the City's basic financial statements and have issued our report thereon dated December 27, 2012. 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**

Management of the City is responsible for establishing and maintaining effective 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 auditing procedures 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 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.

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 results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items SA2012-01 to SA2012-03.

The City's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the City's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, City Council, others within the City, 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.

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  
December 27, 2012



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS  
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND  
ON INTERNAL CONTROL OVER COMPLIANCE AND THE SCHEDULE OF EXPENDITURES OF  
FEDERAL AWARDS 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 City of Redwood City, California's (City) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2012. 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 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 of the City's compliance with those requirements.

In our opinion, the City, complied, in all material respects, with the 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, 2012. The results of our auditing procedures disclosed other instances of noncompliance with those requirements, which are 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 2012-01 to 2012-03.

**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 the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the 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 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.

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 deficiencies, 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. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as item 2012-01 to 2012-03. *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.

#### Schedule of Federal Expenditures

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, 2012, and have issued our report thereon dated December 27, 2012, which contained unqualified opinions on those financial statements. Our audit was performed for the purpose of forming opinions on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the 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 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 financial statements or to the 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 financial statements as a whole.

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 the City's response and, accordingly, we express no opinion on the response.

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

A handwritten signature in black ink that reads "Badawi & Associates". The lettering is cursive and fluid, with the ampersand being particularly stylized.

Badawi and Associates  
Certified Public Accountants  
Oakland, California  
December 27, 2012

**City of Redwood City**  
**Single Audit Reports**  
**Schedule of Expenditures of Federal Awards**  
**For the year ended June 30, 2012**

Program Name	Grantor/ Through Entity Grant Number	Pass- Grant	Catalog of Federal Domestic Assistance Number	Program Expenditures
<b>Federal Awards</b>				
<b>U.S. Department of Housing and Urban Development:</b>				
<i>Direct Programs</i>				
Community Development Block Grant Cluster				
Community Development Block Grant	B-09-MC-06-0014		14.218	\$ 5,000
Community Development Block Grant	B-10-MC-06-0014		14.218	153,870
Community Development Block Grant	B-11-MC-06-0014		14.218	463,779
Community Development Block Grant	Program Income		14.218	94,165
Community Development Block Grant-ARRA	B-08-MY-06-0014		14.253	31,850
Total Community Development Block Grant Cluster				<u>748,664</u>
Home Grant Cluster				
HOME Grant	M-09-MC-06-0235		14.239	6,534
HOME Grant	M-10-MC-06-0235		14.239	143,719
HOME Grant	M-11-MC-06-0235		14.239	10,791
HOME Grant	Program Income		14.239	29,567
Total HOME Grant Cluster				<u>190,611</u>
Samaritan House/State HPRP-ARRA	09-HPRP6157		14.262	12,265
<b>Total U.S. Department of Housing and Urban Development</b>				<u><b>951,540</b></u>
<b>U.S. Department of Justice:</b>				
<i>Direct Programs</i>				
Bullet Proof Vest Grant	2003-BUBX-030114961		16.607	3,930
<i>Passed through the County of San Mateo</i>				
Edward Byrne Justice Assistance Grant	2011-DJ-BX-2551		16.738	27,042
<b>Total U.S. Department of Justice</b>				<u><b>30,972</b></u>
<b>U.S. Department of Education:</b>				
<i>Passed through the Redwood City School District</i>				
21 Century Community Learning Grant	Agreement 201112-727A-493		84.287	115,544
<b>Total U.S. Department of Education</b>				<u><b>115,544</b></u>
<b>Sub Total Federal Expenditures</b>				<u><u><b>\$ 1,098,056</b></u></u>

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, 2012**

Program Name	Grantor/ Pass-Through Entity Grant Number	Catalog of Federal Domestic Assistance Number	Program Expenditures
<b><u>Total Federal Expenditures from previous page</u></b>			<b><u>\$ 1,098,056</u></b>
<b>U.S. Department of Transportation:</b>			
Highway Safety Cluster:			
<i>Passed through City of Daly City</i>			
Avoid the 23 DUI Campaign	MOU20435	20.600	10,571
<i>Passed through State Office of Traffic Safety</i>			
Selective Traffic Enforcement Program (STEP)	20347	20.600	53,236
Subtotal Highway Safety Cluster			<u>63,807</u>
Highway Planning and Construction Cluster:			
<i>Passed through the State of California Department of Transportation</i>			
Highway Planning and Construction	STPL-5029(022)	20.205	946,000
Highway Planning and Construction	BPMP-5029(024)	20.205	15,143
Highway Planning and Construction	CML-5029(028)	20.205	26,314
Highway Planning and Construction	CML-5029(029)	20.205	9,672
Subtotal Highway Planning and Construction Cluster			<u>997,129</u>
<b>Total U.S. Department of Transportation</b>			<b><u>1,060,936</u></b>
<b>U.S. Department of Energy:</b>			
<i>Direct Programs</i>			
Energy Efficiency Conservation Block Grant- ARRA	DE-SC0002187	81.128	50,572
<b>Total U.S. Department of Energy</b>			<b><u>50,572</u></b>
<b>U.S. Department of Homeland Security:</b>			
<i>Direct Program</i>			
RWC FD Waterside MDA-IED/Fire Boat	2010-PU-T0-K050	97.056	9,490
DHS/FEMA FY 2009 Port Security Grant	2009-PU-T9-0116	97.056	18,419
<b>Total U.S. Department of Homeland Security</b>			<b><u>27,909</u></b>
<b>Sub-total federal expenditures</b>			<b><u>\$ 2,237,473</u></b>

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, 2012**

Program Name	Grantor/ Pass-Through Entity Grant Number	Catalog of Federal Domestic Assistance Number	Program Expenditures
<b><u>Total Federal Expenditures from previous page</u></b>			<b><u>\$ 2,237,473</u></b>
<b>U.S. Department of Interior:</b>			
Bureau of Reclamation Cluster			
<i>Direct Program</i>			
Bureau of Reclamation/RWC Recycled Water Project	R10AP2002/077372423	15.504	24,165
Bureau of Reclamation	R11AC20150		<u>40,911</u>
Subtotal Reclamation Cluster			<u>65,076</u>
WaterSMART/Residential Water Meter Replacement Project	R11AP20115	15.507	264,879
<b>Total U.S. Department of Interior</b>			<u>329,955</u>
<b>Total Federal Expenditures</b>			<u><u>\$ 2,567,428</u></u>

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, 2012**

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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
- 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 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**  
**Notes to Schedule of Expenditures of Federal Awards**  
**For the year ended June 30, 2012**

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**3. SUBRECIPIENTS**

Of the federal expenditures presented in the Schedule, the City provided federal awards to subrecipients as follows:

<u>Program Title</u>	<u>CFDA #</u>	<u>Subrecipients</u>	<u>Amount Paid</u>
Community	14.218	Project Sentinel Fair Housing Services	\$ 39,996
Development	14.218	CID - Housing Accessibility Modification Program	14,803
	14.218	Casa de Redwood - Elevator Upgrades	50,000
	14.218	MidPen Housing - City Center Deck Repair	100,000
	14.218	Rebuilding Together - Nation Rebuilding Day	20,000
	14.218	Mental Health Association - Spring Street Shelter	12,000
	14.218	Samaritan House - Safe Harbor Shelter	9,999
	14.218	Shelter Network - Maple Street Shelter	10,760
	14.218	Shelter Network - Redwood Family House	25,000
	14.218	YFES - Daybreak Shelter for Homeless Youth	12,000
	14.218	Bay Area Legal Aid - Domestic Violence Legal Safety	10,000
		Net Project	
	14.218	CORA - Emergency Shelter for Domestic Violence	10,000
		Survivors	
	14.218	HIP Housing - Home Sharing Program	12,000
	14.218	Legal Aid Society - Homesavers	10,000
	14.218	Ombudsman of San Mateo County - Ombudsman	10,000
	14.218	Peninsula Family Services - Nutrition & Safety Net	10,000
		Services	
	14.218	Renaissance - Entrepreneur Training Program	56,969
		<b>Total</b>	<b>\$ 413,527</b>

**City of Redwood City**  
**Single Audit Reports**  
**Schedule of Findings and Questioned Costs**  
**For the Year Ended June 30, 2012**

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**A. Section I - Summary of Auditors' Results**

**Financial Statements**

Types of auditors' report issued: Unqualified

Internal control over financial reporting:

- Material weakness identified? No
- Significant deficiency identified? No

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 Unqualified

Any audit findings disclosed that are required to be reported in Accordance with section 510(a) of OMB Circular A-133 Yes

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>	<u>Expenditures</u>
14.218, 14.253	Community Development Block Grant	\$ 748,664
15.507	WaterSMART	264,879
	<b>Total Expenditures of All Major Federal Programs</b>	<u>1,013,543</u>
	<b>Total Expenditures of Federal Awards</b>	<u>\$ 2,567,428</u>
	<b>Percentage of Total Expenditures of Federal Awards</b>	<u>40%</u>

Dollar threshold used to distinguish between type A and type B program \$300,000

Auditee qualified as low-risk auditee under section 530 of OMB Circular A-133? Yes

**City of Redwood City**  
**Single Audit Reports**  
**Schedule of Findings and Questioned Costs, Continued**  
**For the Year Ended June 30, 2012**

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**B. FINDINGS - FINANCIAL STATEMENTS AUDIT**

No financial statement findings were noted.

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

**SA 2012-01 - Procurement, Suspension, and Debarment**

**Information on the Federal Program**

Community Development Block Grant (CDBG) (CFDA Number 14.218, U.S. Department of Housing and Urban Development)

WaterSMART (CFDA Number 15.507, U.S. Department of Interior)

**Criteria or specific requirement**

In 2 CFR §180.300, when entering a contract equal to or greater than \$25,000, the recipient must verify the party is not suspended or debarred. Verification can be done by check the Excluded Parties List System (EPLS), collection certification from the party, or adding a clause or condition in the agreement.

**Condition**

For the WaterSMART grant, the Department was not aware of the compliance requirement to verify if the vendor is federally suspended or debarred for contracts exceeding \$25,000. No procedures were performed to verify the vendor who sold the water meters are federally suspended or debarred.

For the CDBG program, the Department did not maintain documentation that verification was performed for vendors and sub-recipients exceeding \$25,000.

**Questioned Costs**

No questioned costs were identified.

**Context and Effect**

For the WaterSMART grant, the Public Works Department was not aware of the requirement to verify for suspension and debarment for non-construction agreements. The City should communicate this requirement to all City personnel to prevent this from occurring to future grants and projects.

For the CDBG program, the Community Development Department did not maintain documentation for the verification. The Department was not aware of the requirement. The City should communicate the requirement of maintaining documentation to verify that the City is in compliance.

**City of Redwood City**  
**Single Audit Reports**  
**Notes to Schedule of Expenditures of Federal Awards**  
**For the year ended June 30, 2012**

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

**SA 2012-01 - Procurement, Suspension, and Debarment (Continued):**

**Cause**

The City personnel were not aware of the requirement.

**Recommendation**

We recommend the City update their procurement policies and procedures, to include a process to verify contracts greater than \$25,000 for non-construction contracts.

**Views of responsible officials and planned corrective actions**

The Public Works Division was not aware of the requirement to verify whether Sensus or Golden State Flow Measurement had been suspended or debarred. Since learning of this requirement, the Public Works Division has researched and verified that neither Sensus nor Golden State Flow Measurement is on the excluded parties list system (EPLS) as identified on the System for Award Management website, [www.sam.gov](http://www.sam.gov).

To correct this problem going forward, the Public Works Division has created a "EPLS-SAM Self-Certification" form that will be required as part of the Public Works purchasing guidelines. Vendors will need to self-certify themselves and Public Works staff will also conduct a second verification on [www.sam.gov](http://www.sam.gov) after the form is submitted. The Public Works Division has also created a new administrative group that will review all contracts, bid specifications, competitive proposals, grant applications, and other documents for completeness before they go to the Assistant Public Works Director for approval. This new layer of management will ensure that the documents produced by each operating section (Water, Wastewater, Right-of-Way and Fleet) are correct and follow all City guidelines.

The statutory requirement for debarment verification states "it may be met by including a clause or condition in contracts or agreements". The City's CDBG agreements with subrecipients, contractors and vendors include clauses required by Federal statutes and Executive Orders and their implementing regulations which include debarment. This was the method the City CDBG program used to meet the statutory requirement in past practice with subrecipients and vendors. Additionally the City's CDBG program has consistently completed debarment verifications on all prime construction contractors. The City's CDBG program procedure for debarment verification has now been updated to include a requirement to complete and maintain documentation of debarment verifications in all project files for subrecipients, contractors and vendors.

**City of Redwood City**  
**Single Audit Reports**  
**Schedule of Findings and Questioned Costs, Continued**  
**For the Year Ended June 30, 2012**

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

**SA 2012-01 - Procurement, Suspension, and Debarment (Continued)**

RWC DEBARRMENT VERIFICATION POLICY AND PROCEDURE (rev. 12/13/12) Prior to CDBG contract award equal to or greater than \$25,000, the names and addresses of all tentatively-selected contractors, subrecipients and vendors must be entered into the Excluded Parties List System (EPLS) to verify that they are not a suspended and debarred party. The EPLS includes information regarding entities debarred, suspended, proposed for debarment, excluded or disqualified under the nonprocurement common rule, or otherwise declared ineligible from receiving Federal contracts, certain subcontracts, and certain Federal assistance and benefits. A copy of the debarment verification will be maintained in the project file. Parties that are excluded are found on this website: <https://www.sam.gov/portal/public/SAM/>.

**SA 2012-02 - Procurement, Suspension, and Debarment:**

**Information on the Federal Program**

WaterSMART (CFDA Number 15.507, U.S. Department of Interior)

**Criteria or specific requirement**

As described in 2 CFR §215.47 of OMB Circular A-87, the City is responsible of maintaining a contract with the vendor to ensure all terms, conditions, and specifications of the contract are met.

**Condition**

The City purchased water meters for the WaterSMART program with a vendor. There is no agreement, purchase order, or proper approval between the City and the vendor. The City purchased water meters totaling \$203,599 in fiscal year 2012 from Golden State Flow Measurement. This is in violation of the City's Purchasing Policy which requires purchases greater than \$100,000 to be approved by City Council.

**Context and Effect**

The City purchased water meters without obtaining proper approval and disclosing proper terms and conditions as required by OMB Circular A-87.

**City of Redwood City**  
**Single Audit Reports**  
**Schedule of Findings and Questioned Costs, Continued**  
**For the Year Ended June 30, 2012**

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

**SA 2012-02 - Procurement, Suspension, and Debarment (Continued):**

**Cause**

The City experienced turnover in personnel who oversaw the program. The new staff was unaware of these requirements.

**Questioned Costs**

Not applicable.

**Recommendation**

We recommend that the City provide trainings to City staff on the City's policies and procedures. We also recommend that City staff review City Council meeting minutes to verify purchases are properly approved.

**Views of responsible officials and planned corrective actions**

In fiscal year 2012, the Public Works Division purchased water meters totaling \$203,599 from Golden State Flow Measurement without a formal agreement. The reason for not creating a formal agreement between the City and Golden State Flow Measurement is unknown as staff who managed the program are no longer employed by the City.

To correct this problem going forward, the Public Works Division plans to conduct a competitive bidding process to review proposals from various vendors and enter a formal agreement with a water meter provider. To make certain that information is shared and individual staff are not the only one managing a project, the Public Works Division has created a new administrative group that will review all contracts, bid specifications, competitive proposals, grant applications, and other documents for completeness before they go to the Assistant Public Works Director for approval. This new layer of management will ensure that the documents produced by each operating section (Water, Wastewater, Right-of-Way and Fleet) are correct, follow all City guidelines, and that project information and responsibility is shared.

**City of Redwood City**  
**Single Audit Reports**  
**Schedule of Findings and Questioned Costs, Continued**  
**For the Year Ended June 30, 2012**

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

**SA2012-03 Schedule of Expenditures of Federal Awards**

**Information on the Federal Program**

Community Development Block Grant (CDBG) (CFDA Number 14.218, U.S. Department of Housing and Urban Development)

**Criteria or specific requirement**

As described in §\_\_.310(b)(3) of OMB Circular A-133, the schedule of expenditures of federal awards for the period covered by the City's financial statements shall include a list of individual Federal programs by Federal agency, and provide total Federal awards expended for each individual Federal program.

**Condition**

The City had incurred expenditures related to the use of program income for the CDBG program. These expenditures related to the use of program income were not reported in fiscal year 2011 Schedule of Expenditures of Federal Awards (SEFA). The City did not include \$99,879 in prior year's schedule.

**Context and Effect**

The Schedule of Expenditure of Federal Awards may be incomplete and the City may not be complying with the requirements under OMB Circular A-133.

**Cause**

The City was not aware of this requirement.

**Questioned Costs**

Not applicable.

**Recommendation**

We recommend that the City formalize a written grant reporting process to be communicated to all departments, whereby the department head or other designated personnel maintain a list of all grant awards used/obtained during the fiscal year by that department. Each department should provide this information to the finance department on an annual basis prior to the preparation of the schedule of expenditures of federal awards.

**City of Redwood City**  
**Single Audit Reports**  
**Schedule of Findings and Questioned Costs, Continued**  
**For the Year Ended June 30, 2012**

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

**SA2012-03 Schedule of Expenditures of Federal Awards (Continued)**

**Views of responsible officials and planned corrective actions**

The City of Redwood City has been recording the CDBG grants and program income following the same Federal grants administrative requirement every fiscal year. During prior fiscal years, the City was not aware of the requirement to report expenditures related to the use of program income. Management is now aware of this requirement and will begin to report the program income related expenditures on the Schedule of Expenditures of Federal Award starting in fiscal year 2012.

A draft grant management policy has been completed and has been reviewed by the City Manager, City Attorney and department heads. The grant management policy is scheduled to be taken to the City Council for approval on January 14, 2013. Additionally, in order to improve the City's accounting for grants, a comprehensive list of all City grants has been completed and circulated to all departments for review and input.

**D. PRIOR YEAR FINDINGS AND QUESTIONED COSTS**

**SA2011-01 Schedule of Expenditures of Federal Awards & Prior Period Adjustment to the Financial Statements**

**Criteria:**

As described in §\_\_\_.310(b)(3) of OMB Circular A-133, the schedule of expenditures of federal awards for the period covered by the City's financial statements shall include a list of individual Federal programs by Federal agency, and provide total Federal awards expended for each individual Federal program. At the same time, all reimbursable grant revenues should be accrued on the financial statements.

**Condition:**

The City had incurred expenditures for the Redwood City Recycled Water Project, and had received federal funding for the Project under the Water Reclamation and Reuse Program (CFDA #15.504). During the performance of the audit, we noted that the City had not reported \$1,037,656 in prior period federal expenditures in the schedule of expenditures of federal awards for the respective reporting periods. As a result, the City did not accrue those grant revenues in prior fiscal years.

**Cause:**

The City has a decentralized process for requesting grant awards. However departments applying for federal grant awards usually obtain City Council's approval. The City Council grant approval requests are then forwarded to the City's finance department, who rely on this process to ensure that all of the City's federal grants are accounted for, which in turn ensures that all expenditures of federal grant awards are reported on the Schedule of Expenditures of Federal awards for each fiscal year. The department which applied for federal funding under the Water Reclamation and Reuse Program applied for and had incurred expenditures for the federal award prior to seeking approval from City council.

**City of Redwood City**  
**Single Audit Reports**  
**Notes to Schedule of Expenditures of Federal Awards**  
**For the year ended June 30, 2012**

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**D. PRIOR YEAR FINDINGS AND QUESTIONED COSTS, Continued**

**SA2011-01 Schedule of Expenditures of Federal Awards & Prior Period Adjustment to the Financial Statements, Continued**

**Questioned Costs:**

Not applicable.

**Context and Effect:**

The Schedules of Expenditure of Federal Awards were incomplete and the City was not complying with the requirements under OMB Circular A-133 in prior fiscal years. In addition, prior years' financial statements have been misstated.

**Recommendation:**

We recommend that the City formalize a written grant reporting process to be communicated to all departments to ensure that all federal grant expenditures are reported on the schedule of expenditures of federal awards, and all grant reimbursable revenues are properly accrued.

**Management Response:**

In May 2010, Redwood City entered into a cooperative agreement with the United States Bureau of Reclamation (USBR) for Federal financial assistance with the Redwood City Recycled Water Project (Project). The Cooperative Agreement was later modified in July 2010.

The objective of the Cooperative Agreement was to reimburse Redwood City for the appropriate Federal cost share associated with the Project, which was the lesser of 25% of the total project cost or \$1,100,000.00, which is the maximum federal cost share as prescribed in Public Law 110-229, section 512, section 1646.

The Cooperative Agreement with USBR entitled Redwood City to have incurred allowable costs on or after August 1, 2002 for pre-construction activities, and on or after May 8, 2008 for construction related activities, which if had been incurred after the Cooperative Agreement was entered into, would have been allowable, allocable, and reasonable under the terms and conditions of the Agreement.

In FY2010-11, Redwood City was therefore reimbursed for Projects costs incurred prior to authorization. These allowable costs went back as far back as 2007. The City did not report \$1,037,656 in prior period federal expenditures in the schedule of expenditures of federal awards for the respective reporting periods because these allowable costs were not authorized until 2010.

The City is currently working on a grant management policy

**Status:**

A draft grant management policy has been completed and has been reviewed by the City Manager, City Attorney and department heads. The grant management policy is scheduled to be taken to the City Council for approval on January 14, 2013. Additionally, in order to improve the City's accounting for grants, a comprehensive list of all City grants has been completed and circulated to all departments for review and input.