

City of Redwood City

Redwood City, California

Single Audit Reports

For the year ended June 30, 2011

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

City of Redwood City

Single Audit Reports

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Caporicci & Larson, Inc.
A Subsidiary of Marcum LLP
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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, 2011, which collectively comprise the City's basic financial statements and have issued our report thereon dated December 7, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

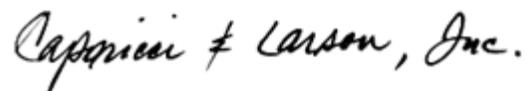
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified one deficiency in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs, as item FS 2011-01, that we consider to be a significant deficiency in internal control over financial reporting. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item FS 2011-01.

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



Caporicci & Larson, Inc.
A Subsidiary of Marcum LLP,
San Francisco, California
December 7, 2011



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

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

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

Compliance

We have audited the compliance of City of Redwood City (City), with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2011. City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of City's management. Our responsibility is to express an opinion on City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of 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, 2011.

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 in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of 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 one deficiency in internal control over compliance that we consider to be a significant deficiency as described in the accompanying schedule of findings and questioned costs as item FS 2011-01. 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 Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of and for the year ended June 30, 2011, and have issued our report thereon dated December 7, 2011, 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 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 information is fairly stated in all material respects in relation to the financial statements as a whole.

To the Honorable Mayor and Members of City Council
of the City of Redwood City
Redwood City, California
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City's response to the finding identified in our audit is 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.

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.

Caporicci & Larson, Inc.

Caporicci & Larson, Inc.
A Subsidiary of Marcum LLP,
San Francisco, California
December 7, 2011

City of Redwood City
Single Audit Reports
Schedule of Expenditures of Federal Awards
For the year ended June 30, 2011

| 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: | | | |
| <i>Direct Programs</i> | | | |
| Community Development Block Grant | B-09-MC-06-0014 | 14.218 | \$ 542,830 |
| Samaritan House/State HPRP - ARRA | 09-HPRP6157 | 14.262 | 48,526 |
| Home Fund Grant | M-09-MC-06-0235 | 14.239 | <u>284,951</u> |
| Total U.S. Department of Housing and Urban Development | | | <u>876,307</u> |
| U.S. Department of Justice: | | | |
| <i>Direct Programs</i> | | | |
| Bullet Proof Vest Grant | 2003-BUBX-030114961 | 16.607 | 3,736 |
| <i>Passed through the County of San Mateo</i> | | | |
| Edward Byrne Justice Assistance Grant | 2009-DJ-BX-0452 | 16.738 | <u>35,533</u> |
| Total U.S. Department of Justice | | | <u>39,269</u> |
| U.S. Department of Education: | | | |
| <i>Passed through the Redwood City School District</i> | | | |
| 21 Century Community Learning Grant | RCSD Agreement 200809-493 | 84.287 | <u>97,295</u> |
| Total U.S. Department of Education | | | <u>97,295</u> |
| U.S. Department of Homeland Security: | | | |
| <i>Direct Program</i> | | | |
| Assistance to Firefighters Program | EMW-2010-FO-02219 | 97.115 | 47,196 |
| FEMA - Fire Grant | EMW-2009-FR-00146 | 97.115 | 49,256 |
| DHS/FEMA FY 2009 Port Security Grant | 2009-PU-T9-0116 | 97.056 | 37,100 |
| Total U.S. Department of Homeland Security | | | <u>133,552</u> |
| Sub Total Federal Expenditures | | | <u>\$ 1,146,423</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, 2011

| Program Name | Grantor/ Pass-Through Entity Grant Number | Catalog of Federal Domestic Assistance Number | Program Expenditures |
|--|---|---|----------------------------|
| Total Federal Expenditures from previous page | | | \$ 1,146,423 |
| U.S. Department of Transportation: | | | |
| Highway Safety Cluster: | | | |
| <i>Passed through City of Daly City</i> | | | |
| Avoid the 23 DUI Campaign | AL0997 | 20.600 | 12,349 |
| <i>Passed through State Office of Traffic Safety</i> | | | |
| Selective Traffic Enforcement Program (STEP) | PT1019 | 20.600 | 31,851 |
| <i>Passed through UC Regents</i> | | | |
| Click It or Ticket Program | CT10340 | 20.600 | 10,591 |
| Subtotal Highway Safety Cluster | | | <u>54,791</u> |
| Highway Planning and Construction Cluster: | | | |
| <i>Passed through the State of California Department of Transportation</i> | | | |
| Highway Planning and Construction - ARRA | ESPL-5029(21) | 20.205 | 46,149 |
| Highway Planning and Construction - ARRA | ESPL-5029(21) | 20.205 | 11,498 |
| Highway Planning and Construction - ARRA | ESPL-5029(20) | 20.205 | 6,217 |
| Highway Planning and Construction | ESPL-5029(21) | 20.205 | 705 |
| Subtotal Highway Planning and Construction Cluster | | | <u>64,569</u> |
| Total U.S. Department of Transportation | | | <u>119,360</u> |
| U.S. Department of Energy: | | | |
| <i>Direct Programs</i> | | | |
| Energy Efficiency Conservation Block Grant- ARRA | DE-SC0002187 | 81.128 | 149,682 |
| Total U.S. Department of Energy | | | <u>149,682</u> |
| U.S. Department of Health and Human Services: | | | |
| <i>Passed through the County of San Mateo</i> | | | |
| Emergency Contingency Fund for TANF State Program | TANF-ACF-PA-2004-01 | 93.714 | 14,449 |
| Total U.S. Department of Energy | | | <u>14,449</u> |
| Total Federal Financial Awards | | | <u>\$ 1,429,914</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, 2011

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
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2011

A. Section I - Summary of Auditor's Results

Financial Statements

Types of auditors' report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? No
- Significant deficiency(ies) identified? Yes

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? No
- Significant deficiency(ies) identified? No

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> |
|-----------------------|---|---------------------|
| 14.239 | HOME Fund Grant | \$ 284,951 |
| 81.128 | Energy Efficiency Conservation Block Grant - ARRA | 149,682 |
| | Total Expenditures of All Major Federal Programs | <u>434,633</u> |
| | Total Expenditures of Federal Awards | <u>\$ 1,429,914</u> |
| | Percentage of Total Expenditures of Federal Awards | <u>30%</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, 2011

B. FINDINGS - FINANCIAL STATEMENTS AUDIT

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.

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.

City of Redwood City
Single Audit Reports
Schedule of Findings and Questioned Costs, Continued
For the Year Ended June 30, 2011

B. FINDINGS - FINANCIAL STATEMENTS AUDIT, CONTINUED

Schedule of Expenditures of Federal Awards & Prior Period Adjustment to the Financial Statements

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

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

No findings or questioned costs

City of Redwood City
Single Audit Reports
Schedule of Findings and Questioned Costs, Continued
For the Year Ended June 30, 2011

D. PRIOR YEAR FINDINGS AND QUESTIONED COSTS

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

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

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

Cause: The Program staff was unaware of this requirement.

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

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

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

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

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

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

City of Redwood City
Single Audit Reports
Schedule of Findings and Questioned Costs, Continued
For the Year Ended June 30, 2011

D. PRIOR YEAR FINDINGS AND QUESTIONED COSTS, Continued

Management Response, Continued

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

Status: We noted that the City returned the excess drawn down funds to the Department of Energy during FYE 6-30-11.