

City of East Palo Alto

East Palo Alto, California

Single Audit Reports

For the year ended June 30, 2015



City of East Palo Alto

Single Audit Reports

Table of Contents

	<u>Page</u>
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 <i>Government Auditing Standards</i>	1
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 in Accordance with OMB Circular A-133 and on the Schedule of Expenditures of Federal Awards	3
Schedule of Expenditures of Federal Awards	6
Notes to Schedule of Expenditures of Federal Awards.....	7
Schedule of Findings and Questioned Costs	8



**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 the City Council
of the City of East Palo Alto
East Palo Alto, 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 East Palo Alto, California (City), as of and for the year ended June 30, 2015, 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 23, 2015.

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

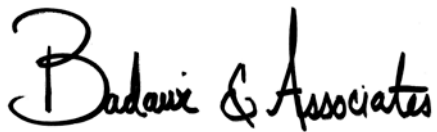
To the Honorable Mayor and Members of the City Council
of the City of East Palo Alto
East Palo Alto, California
Page 2

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

Badawi & Associates, CPAs
Oakland, California
December 23, 2015



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

To the Honorable Mayor and Members of the City Council
of the City of East Palo Alto
East Palo Alto, California

Report on Compliance for Each Major Federal Program

We have audited the City of East Palo Alto, California (City)'s 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, 2015. 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 the requirements of laws, regulations, contracts, and grants 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 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 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, the 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 year ended June 30, 2015.

Other Matters

The results of our auditing procedures disclosed two instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2015-001 and 2015-002. 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 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. *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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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 2015-001 and 2015-002 that we consider to be significant deficiencies.

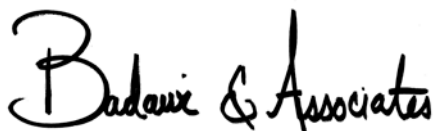
To the Honorable Mayor and Members of the City Council
of the City of East Palo Alto
East Palo Alto, California
Page 3

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

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

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, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated December 23, 2015 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 OMB Circular A-133 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.

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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



Badawi & Associates, CPAs
Oakland, California
December 31, 2015, except for the schedule of expenditures
of federal awards which is as of December 23, 2015

City of East Palo Alto
Schedule of Expenditures of Federal Awards
For the year ended June 30, 2015

Grantor Agency and Grant Title	Federal Catalog Number	State Pass-through Number	Program Expenditures
U.S. Department of Justice:			
<i>Direct Programs</i>			
Edward Bryne Memorial Justice Assistance Grant	16.738	2012-DB-BX-0001	166,657
Public Safety Partnership and Community Policing Grants	16.710	2013-UM-WX-0044	82,674
Total U.S. Department of Justice			249,331
U.S. Department of Transportation:			
<i>Highway Planning and Construction Cluster</i>			
<i>Passed through State of California Department of Transportation</i>			
Highway Planning and Construction	20.205	HPLUL-5438(011)	344,699
Highway Planning and Construction	20.205	HPLUL-5438(015)	145,385
Highway Planning and Construction	20.205	SRTSL-5438(013)	18,950
		Subtotal Highway Planning and Construction Cluster	509,034
<i>Passed through U.C. Berkeley</i>			
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	SC14121	5,733
		Subtotal CFDA #20.608	5,733
Total U.S. Department of Transportation			514,767
U.S. Environmental Protection Agency			
<i>Direct Programs</i>			
Congressionally Mandated Projects	66.202	XP-00T9801-2	493,929
Congressionally Mandated Projects	66.202	XP-00T9701-0	51,450
Congressionally Mandated Projects	66.202	XP-00T02601-0	47,678
Total U.S. Environmental Protection Agency			593,057
U.S Department of Health and Human Services			
<i>Aging Cluster</i>			
<i>Passed through County of San Mateo Aging and Adult Services</i>			
Special Programs for the Aging Title III, Part B Grants for Supportive Services and Senior Centers	93.044	5700014-D032	11,401
Special Programs for the Aging Title III, Part C Nutrition Services	93.045	5700014-D032	40,797
		Subtotal Aging Cluster	52,198
Total U.S. Department of Health and Human Services			52,198
			\$ 1,409,353

See accompanying Notes to Schedule of Expenditures of Federal Awards.

City of East Palo Alto
Single Audit Reports
Notes to Schedule of Expenditures of Federal Awards
For the year ended June 30, 2015

1. REPORTING ENTITY

The financial reporting entity consists of (a) the primary government, City of East Palo Alto, California (City), (b) organizations for which the primary government is financially accountable, and (c) other organizations for which the primary government is not accountable, but 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 component unit discussed below is included in the reporting entity because of its operational or financial relationships with the City.

- The East Palo Alto Public Financing Authority

Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. In addition, component units can be other organizations for which the primary government's exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

Separate financial statements for the East Palo Alto Public Financing Authority are not available.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting for the Schedule of Expenditures of Federal Awards

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 and capital project funds. Modified accrual accounting recognizes revenues when they become available and measurable and, with a few exceptions, recognizes expenditures when liabilities are incurred. The accompanying Schedule of Expenditures of Federal Awards (Schedule) has been prepared on the modified accrual basis of accounting.

3. DIRECT AND INDIRECT (PASS-THROUGH) FEDERAL AWARDS

Federal awards may be granted directly to the City by a 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 of Federal award programs when they occur.

**City of East Palo Alto
 Single Audit Reports
 Schedule of Findings and Questioned Costs
 For the Year Ended June 30, 2015**

A. Section I - Summary of Auditor's Results

Financial Statements

Types of auditors' report issued:	Unmodified
Internal control over financial reporting:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified?	None reported
Any noncompliance material to the financial statements noted	No

Federal Awards

Internal control over major programs:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) 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 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>
16.738	Edward Byrne Memorial Justice Assistance Grant Program
66.202	Congressionally Mandated Projects

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 East Palo Alto
Single Audit Reports
Schedule of Findings and Questioned Costs, Continued
For the Year Ended June 30, 2015

B. FINDINGS - FINANCIAL STATEMENTS AUDIT

No current year financial statements findings.

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

2015-001 Reporting, Control Activities (Significant Deficiency) and Compliance

Program:

Congressionally Mandated Projects (CFDA Number 66.202, US Environmental Protection Agency, Direct Program, Award Numbers XP-00T02601, XP-00T9801, and XP-00T9701)

Condition:

We noted that the City had submitted DBE utilization reports for all award numbers on an annual basis and not on a semi-annual basis as required by the grant award document. We also noted that the City had submitted the following quarterly progress report after the reporting due date:

- Quarterly progress report for quarter ended March 31, 2015 (Award Number XP-00T79801)

Criteria:

Per the grant agreements, DBE utilization reports are required to be submitted to the grantor on a semi-annual basis.

Per the grant agreement quarterly progress reports are required to be submitted one month after the end of the reporting quarter.

Cause:

Due to turnover in personnel experienced by the City, the above reporting requirements were not performed as required by the grant award.

Context and Effect:

The City was not in full compliance with the reporting requirements of the grant.

Questioned Costs:

No questioned costs were noted.

Recommendation:

We recommend that the City cross-train employees to perform functions required by the program to ensure program continuity and compliance requirements are met during times of either employee absence or employee turnover.

View of Responsible Officials and Planned Corrective Action:

The City is working to correct this condition. During FY 2014-15, and through to the current time, the department responsible for the grant experienced an unprecedented level of management and staff turnover; including, a departmental reorganization. The responsible department, Public Works, has been in contact with the EPA regarding the reports and timing of submission and is working to correct condition.

City of East Palo Alto
Single Audit Reports
Schedule of Findings and Questioned Costs, Continued
For the Year Ended June 30, 2015

2015-002 Allowable Costs/Cost Principles, Control Activities (Significant Deficiency) and Compliance

Program:

Edward Byrne Memorial Justice Assistance Grant Program (CFDA Number 16.738, US Department of Justice, Direct Program, Award Number 2012-DB-BX-0001)

Condition:

During performance of the audit we noted that payroll costs for one employee were charged based on budgeted allocations and not based on functional time cards or time studies.

Criteria:

Per Office of Management and Budget Circular A-87, personnel costs should be supported by time studies or personnel activities reports/functional time cards.

Cause:

The City allocates payroll for certain employees based on budget and expected employee responsibilities.

Context and Effect:

The City was not in full compliance with the allowable costs/cost principles compliance requirement.

Questioned Costs:

Payroll costs charged to the grant for the employee were \$54,923 for fiscal year 2015.

Recommendation:

We recommend that the City implement policies and procedures over payroll expenditures to be in compliance with the grant requirements.

View of Responsible Officials and Planned Corrective Action:

The employee did not submit a functional timecard. The City is working to improve procedures in order to avoid this condition in the future.

D. PRIOR YEAR FINDINGS AND QUESTIONED COSTS

No prior year major program findings.