

CITY OF EAST PALO ALTO
SINGLE AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2011

This Page Left Intentionally Blank

CITY OF EAST PALO ALTO
SINGLE AUDIT REPORT
For The Year Ended June 30, 2011

TABLE OF CONTENTS

	<u>Page</u>
Schedule of Findings and Questioned Costs.....	1
Section I - Summary of Auditor's Results.....	1
Section II – Financial Statement Findings.....	2
Section III – Federal Award Findings and Questioned Costs.....	2
Section IV - Status of Prior Year Findings and Questioned Costs.....	3
Schedule of Expenditures of Federal Awards.....	4
Notes to Schedule of Expenditures of Federal Awards.....	5
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>	7
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 on Accordance with OMB Circular A-133	9

This Page Left Intentionally Blank

CITY OF EAST PALO ALTO

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2011**

SECTION I—SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of auditor’s report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? Yes X No
- Significant deficiency(ies) identified? Yes X None Reported

Noncompliance material to financial statements noted? Yes X No

Federal Awards

Type of auditor’s report issued on compliance for major programs: Unqualified

Internal control over major programs:

- Material weakness(es) identified? Yes X No
- Significant deficiency(ies) identified? Yes X None Reported

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? X Yes No

Identification of major programs:

<u>CFDA#(s)</u>	<u>Name of Federal Program or Cluster</u>
<u>16.710</u>	<u>ARRA – COPS Hiring Recovery Program</u>

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

Auditee qualified as low-risk auditee? X Yes No

SECTION II – FINANCIAL STATEMENT FINDINGS

Our audit did not disclose any significant deficiencies, or material weaknesses or instances of noncompliance material to the basic financial statements. We have also issued a separate Memorandum on Internal Control dated September 16, 2011 which is an integral part of our audits and should be read in conjunction with this report.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Our audit disclosed the following finding and questioned cost required to be reported in accordance with section 510(a) of OMB Circular A-133.

Finding #SA 2011-01: Quarterly ARRA Reporting

CFDA number: 16.710

CFDA title: ARRA - Public Safety Partnership and Community Policing

Name of Federal Agency: Department of Justice

Criteria: Section 1512(c) of the Recovery Act requires the City to report the “Total Federal Amount ARRA Funds Received/Invoiced” in cumulative amounts. It also requires the City to report the “Total Amount of ARRA Expenditure” in cumulative amounts.

Condition: We selected two quarterly ARRA reports (2010 Quarter 3 and 2011 Quarter 2) for testing of compliance with the Recovery Act reporting requirements. In both quarterly reports, under line items for “Total Federal Amount ARRA Funds Received/Invoiced” and “Total Amount of ARRA Expenditure”, the City incorrectly reported the whole award amount instead of the required cumulative amounts.

Effect: The City is not in compliance with reporting section 1512(c) of the Recovery Act.

Cause: The prior police department employee did not fully understand the ARRA reporting requirements for ARRA.

Recommendation: For any previously submitted reports, the City should correct any affected amounts, contact the Federal agency and resubmit the reports. For all future reports, the City should make sure that correct amounts are reported to the Federal agency.

View of Responsible Officials and Planned Corrective Actions:

Name of contact person: Paul Maumalanga/Agripina Villegas

- a. City had corrected previously submitted reports amount and re-submitted those reports to the Federal Agency.
- b. Finance to review amount reported in the quarterly progress report for accuracy prior to submittal to Federal Agency.
- c. Recommend that Agripina Villegas attend the next COPS grant program report training.

SECTION IV - STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS –
Prepared by Management

Financial Statement Prior Year Findings

- There were no prior year Financial Statement Findings reported.

Federal Award Prior Year Findings and Questioned Costs

There were no prior year Federal Award Findings and Questioned Costs reported.

CITY OF EAST PALO ALTO

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2011

Federal Grantor/ Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Grant Number or Pass-Through Identifying Number	Federal Expenditures
Department of Justice Direct Programs			
Congressionally Recommended Awards	16.753	2010-DD-BX-0735	\$83,104
Gang Suppression Initiative (Edward E Byrne Memorial Discretionary Grant)	16.580	2008-DD-BX-0485	141,295
OJJDP FY09 Earmarks Program (Part E) - At Risk Youth	16.541	2009-JL-FX-0140	125,737
ARRA - COPS Hiring Recovery Program	16.710	2009-RK-WX-153	256,146
FY09 E Byrne Memorial Justice Assistant Grant	16.738	2009-DJ-BX-0452	<u>4,886</u>
Total Department of Justice			<u>611,168</u>
Environmental Protection Agency Direct Programs			
Water Study (Congressionally mandated Projects)	66.202	XP-96962401-0	10,406
Brownfields Assessment and Cleanup	66.818	BF-96950101-0	<u>1,859</u>
Total Environmental Protection Agency			<u>12,265</u>
Department of Housing and Urban Development Direct Programs			
Economic Development Initiative			
Special Project, Neighborhood Initiative and Miscellaneous Grants	14.251	B-03-SP-CA-0114	84,559
Special Project, Neighborhood Initiative and Miscellaneous Grants	14.251	B-06-SP-CA-0087	<u>41,985</u>
Total Department of Housing and Urban Development			<u>126,544</u>
Economic Development Agency Direct Program:			
Economic Development Support for Planning Organizations	11.302	07-87-6111	<u>32,235</u>
Aging Cluster			
Department of Health and Human Services Pass-Through Programs From:			
County of San Mateo Aging & Adult Services			
Special Programs for the Aging Title III, Part B (Transportation)	93.044	AP-0910-08	9,685
Special Programs for the Aging Title III, Part C (Nutrition)	93.045	AP-0910-08	31,298
Special Programs for the Aging Title III, Part C (Nutrition)	93.053	AP-0910-08	<u>5,072</u>
Total Department of Health and Human Services			<u>46,055</u>
Department of Labor Direct Program:			
WIA Pilots, Demonstrations and Research Projects			
Green Job Training and Summer Youth Employment Program	17.261	EA-19077-09-60-A-6	<u>120,467</u>
Total Expenditures of Federal Awards			<u><u>\$948,734</u></u>

See Accompanying Notes to Schedule of Expenditures of Federal Awards

CITY OF EAST PALO ALTO

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended June 30, 2011**

NOTE 1- REPORTING ENTITY

The Schedule of Expenditure of Federal Awards (the Schedule) includes expenditures of federal awards for the City of East Palo Alto, California and its component units as disclosed in the notes to the Basic Financial Statements.

NOTE 2 - BASIS OF ACCOUNTING

Basis of accounting refers to *when* revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus applied. Expenditures of Federal Awards reported on the Schedule are recognized when incurred.

NOTE 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.

NOTE 4 - SUBRECEIPIENTS

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

<u>CFDA Number</u>	<u>Program Name</u>	<u>Amount Provided to Subrecipients</u>
17.261	Department of Labor Green Job Training and Summer Youth Employment Program	\$117,708

This Page Left Intentionally Blank

**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**

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

We have audited the financial statements of the City of East Palo Alto as of and for the year ended June 30, 2011, and have issued our report thereon dated September 16, 2011. The report included a special emphasis paragraph concerning proposed redevelopment dissolution and the implementation of Governmental Accounting Standards Board Statement Number 54 (GASB 54), *Fund Balance Reporting and Governmental Fund Type Definitions*. We conducted our audit in accordance with generally accepted auditing standards in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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 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 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.

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 no instances of noncompliance and other matters that are required to be reported under *Government Auditing Standards*.

We have also issued a separate Memorandum on Internal Control dated September 16, 2011 which is an integral part of our audits and should be read in conjunction with this report.

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

Maze & Associates

September 16, 2011

**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**

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

Compliance

We have audited the City of East Palo Alto'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, 2011. 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 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. 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 of East Palo Alto's compliance with those requirements.

In our opinion, the City of East Palo Alto 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. However, the results of our auditing procedures disclosed one instance of noncompliance with those requirements, which is 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 2011-01.

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.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the City as of and for the year ended June 30, 2011, and have issued our report thereon dated September 16, 2011. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise the City's 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 has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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 responses and, accordingly, we express no opinion on the responses.

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

Mare & Associates

January 20, 2012