CITY OF ALAMEDA

SINGLE AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2013

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CITY OF ALAMEDA

SINGLE AUDIT REPORT
For The Year Ended June 30, 2013

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CITY OF ALAMEDA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2013

SECTION I—SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:	Unmodified			
Internal control over financial reporting:				
• Material weakness(es) identified?		Yes	X	No
• Significant deficiency(ies) identified?	X	Yes		None Reported
Noncompliance material to financial statements noted?		Yes	X	No

Federal Awards

Type of auditor's report issued on compliance for major programs:	Unmodified			
Internal control over major programs:				
• Material weakness(es) identified?		Yes	X	No
• Significant deficiency(ies) identified?	X	Yes		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:

CFDA#(s)	Name of Federal Program or Cluster
20.205	Department of Transportation – Highway Planning and Construction (Federal-Aid Highway Program)
97.083	Department of Homeland Security – Staffing for Adequate Fire and Emergency Response (SAFER)
97.044	Department of Homeland Security – Assistance to Firefighters Grant
97.056	Department of Homeland Security – Port Security Grant Program

Dollar threshold used to distinguish between type A and type B programs:	$300,000			
Auditee qualified as low-risk auditee?		Yes	X	No

SECTION II – FINANCIAL STATEMENT FINDINGS

Our audit disclosed significant deficiencies, but no material weaknesses or instances of noncompliance material to the basic financial statements. We have also issued a separate Memorandum on Internal Control dated February 3, 2014 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 findings and questioned costs required to be reported in accordance with section 510(a) of OMB Circular A-133.

Finding SA# 2013-01: Overhead Costs for Engineering Labor Billing

CFDA Number: 20.205
CFDA Title: Highway Planning and Construction (Federal-Aid Highway Program)
Federal Agency: Department of Transportation
Pass-Through Entity: State of California - Department of Transportation

Criteria: OMB Circular A-87 Attachment E, State and Local Indirect Cost Rate Proposal, states that the City should develop an indirect cost proposal in accordance with the requirements of this Circular and maintain the proposal and related supporting documentation for audit. In addition, the City should be charging the indirect cost rate consistently throughout the life of the grant once it has been established.

Condition: We selected seven employees that worked on the Park Street Streetscape Phase 2 project, six employees that worked on the Shoreline Drive project and one employee that worked on Park Street Arterial Management project for payroll testing. Our testing discovered the following:

- The City charges indirect cost rate of 113.23% to the Park Street Streetscape project and 153.22% to the Shoreline Drive/Westline Drive/Broadway and Park Street Arterial Managements projects. However, the City could not provide documentation that would support the calculation of indirect cost rates which includes benefits and overhead costs charged to the grant for each engineering hour.

Question Cost: $24,582

Effect: Without the proper the documentation, we could not determine if the indirect cost rate was established in accordance to OMB Circular A-87. In addition, the City did not charge the grant correctly due to the fluctuation of the indirect cost rate.

Cause: The study that was done to determine appropriate overhead cost rate for engineering labor was performed years ago by an outside consultant, and the City did not retain the documentation and report of that study.

Recommendation: We recommend that the City retains documentation pertaining to indirect cost rates and adopt a new indirect cost rate plan.

View of Responsible Officials and Planned Corrective Actions:

- **Name of contact person:** Fred Marsh
- The City will implement this recommendation and adopt a new indirect cost plan.

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

Financial Statement Prior Year Findings

We noted no material weakness or instances of noncompliance material to the basic financial statements with our prior year audit, but we did note a significant deficiency. Status of the significant deficiency is listed in our separately issued Memorandum on Internal Control February 3, 2014 which is an integral part of our audits and should be read in conjunction with this report.

Federal Award Prior Year Findings and Questioned Costs

Finding SA# 2012-01: Accurate Preparation of the Schedule of Expenditures of Federal Awards

CFDA Number:	97.044
CFDA Title:	Assistance to Firefighters Grant
Federal Agency:	Department of Homeland Security

Criteria: In accordance with the requirements of OMB Circular A-133 and the Single Audit Act, the City should report all Federal expenditures in the Schedule of Expenditures of Federal Awards (SEFA) each fiscal year.

Condition: In reviewing the expenditure details and supporting documentation for the Schedule of Expenditures of Federal Awards (SEFA), the City had omitted the following expenditures in the fiscal year 2012 SEFA:

- Assistance to Firefighters Grant – the City did not report $99,304 of federal expenditures that was spent in fiscal year 2011 on the prior year SEFA.

Effect: Excluding program expenditures from the SEFA results in the City being out of compliance with the requirements of individual grant agreements and OMB Circular A-133.

Cause: The City made a down payment in fiscal year 2011 to the vendor in the amount of $198,608, of which $99,304 was City match and $99,304 was grant funds; the City was reimbursed in the same fiscal year. However, this $99,304 was not included in fiscal year 2011 SEFA's because it was not deemed payment for a service or product, rather a down payment for a product the City was to receive in fiscal year 2012. Therefore the amount was omitted form the fiscal year 2011 SEFA.

Recommendation: The City should develop policies and procedures for City departments to ensure that annual expenditures for all grant agreements are included on the SEFA. It should be noted that expenditures should be included the SEFA regardless if funds have been received from the grantor.

Current Status: The City has implemented this recommendation.

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

Finding SA# 2012-02: Overhead Costs for Engineering Labor Billing

CFDA Number: 20.205
CFDA Title: Highway Planning and Construction (Federal-Aid Highway Program)
Federal Agency: Department of Transportation
Pass-Through Entity: State of California - Department of Transportation

Criteria: OMB Circular A-87 Attachment E, State and Local Indirect Cost Rate Proposal, states that the City should develop an indirect cost proposal in accordance with the requirements of this Circular and maintain the proposal and related supporting documentation for audit. In addition, the City should be charging the indirect cost rate consistently throughout the life of the grant once it has been established.

Condition: We selected three employees that worked on the Otis Drive Overlay project and three employees that worked on the Park Street Streetscape project for payroll testing. Our testing discovered the following two issues:

- The City charges indirect cost rate of 113.23% to both of the projects. However, the City could not provide documentation that would support the calculation of indirect cost rate of 113.23% which includes benefits and overhead costs charged to the grant for each engineering hour.

- The City was inconsistent in charging the indirect costs rate for the Otis Drive Overlay project. The City charged 150.54% of indirect cost rate to Construction Inspector & Survey Supervisor's salary for pay period 7/16/2011 and this caused the City to over charge the grant by $735. In addition, the City charged the indirect cost rate of 146.82% for the Assistant Engineer and 126.56% for the Associate Civil Engineer during the pay period of 9/10/2011. These errors caused the City to over charge the grant by $177 and $156 respectively.

Question Cost: $1,068

Effect: Without the proper the documentation, we could not determine if the indirect cost rate was established in accordance to OMB Circular A-87. In addition, the City did not charge the grant correctly due to the fluctuation of the indirect cost rate.

Cause: The study that was done to determine appropriate overhead cost rate for engineering labor was performed years ago by an outside consultant, and the City did not retain the documentation and report of that study. Errors in charging the established indirect cost rate were due to Public Works Department transition from the old work order system to the new system in fiscal year 2012

Recommendation: We recommend that the City retains documentation pertaining to all federal expenditures. Procedures should be established so that all the costs are reviewed for accuracy before submission to the grantor for reimbursement.

Current Status: The City has established the procedures noted above and is in the process of developing an indirect cost plan to be submitted to the state for approval. The City has referred the questioned cost of $1,068 to the State.

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CITY OF ALAMEDA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2013

Federal Grantor/ Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Federal and Pass-Through Identifying Number	Federal Expenditures
U.S. Department of Homeland Security Direct Programs			
Federal Emergency Management Agency			
Staffing for Adequate Fire and Emergency Response (SAFER)	97.083	EMW-2009-FH-01063	$523,534
Staffing for Adequate Fire and Emergency Response (SAFER)		EMW-2011-FH-00362	363,594
Program Subtotal			887,128
Assistance to Firefighters Grant 2011-Operations and Safety Program	97.044	EMW-2011-FO-06463	216,908
Assistance to Firefighters Grant 2012-Operations and Safety Program		EMW-2012-FO-03592	64,070
Program Subtotal			280,978
Port Security Grant Program	97.056	EMW-2012-PU-00235	250,000
Total Department of Homeland Security Direct Programs			1,418,106
U.S. Department of Transportation Pass-Through Programs From:			
State of California, Department of Transportation			
Highway Planning and Construction	20.205		
Tinker/Webster Extension Project		EA 448200	11,614
Park Street Streetscape Phase 2		DEMO06L-5014(031)	202,525
Park Street Streetscape Phase 3		TCSPL 5014(040)	31,572
Park Street Arterial Management		HSIPL-5014(038)	16,599
Shoreline Dr/Westline Dr/Broadway		HSIPL-5014(038)	69,694
Program Subtotal			332,004
Bay Area Rapid Transit			
Federal Transit - Capital Investment Grants	20.500		
Transit and Access Study/Shuttle Service Improvements		E2009-BUSP-071	2,393
Total Department of Transportation Pass-Through Programs			334,397
U.S. Department of Justice Pass-Through Program From:			
County of Alameda			
Edward Byrne Memorial Formula Grant Program	16.738		
Justice Assistance Grant		2010-DJ-BX-1463	5,934
Justice Assistance Grant		2011-DJ-BX-3420	16,235
Total Department of Justice Pass-Through Programs			22,169
U.S. Department of Housing and Urban Development Direct Program			
Community Development Block Grants			
ARRA - Homelessness Prevention and Rapid Re-Housing Program (HPRP)	14.257	S09MY060007	3,466
Community Development Block Grant/Entitlement Grant	14.218		
Program Income		B12MC060007	4,702
Program Expenditures		B12MC060007	1,105,143
Loan Program:			
New Loans		B12MC060007	56,855
Program Subtotal			1,166,700
Subtotal Department of Housing and Urban Development Direct Programs			1,170,166
U.S. Department of Housing and Urban Development Pass-Through Programs From:			
County of Alameda			
Home Investment Partnerships Program	14.239		
Program Income		M12DC060201	66
Program Expenditures		M12DC060201	129,463
Subtotal Department of Housing and Urban Development Pass-Through Programs			129,529
Total Department of Housing and Urban Development Programs			1,299,695

(Continued)

CITY OF ALAMEDA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2013

Federal Grantor/ Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Federal and Pass-Through Identifying Number	Federal Expenditures
U.S. Department of Defense - Office of Economic Adjustment Direct Program			
Community Economic Adjustment Assistance for Establishment, Expansion, Realignment or Closure of Military Installation	12.607	CL 0811-11-02	92,650
Total Department of Defense Direct Program			92,650
Total Expenditures of Federal Awards			$3,167,017

See Accompanying Notes to Schedule of Expenditures of Federal Awards

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CITY OF ALAMEDA

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended June 30, 2013

NOTE 1-REPORTING ENTITY

The Schedule of Expenditure of Federal Awards (the Schedule) includes expenditures of federal awards for the City of Alameda, California and its component units as disclosed in the notes to the Basic Financial Statements, except for federal awards of the Alameda Municipal Power (AMP), Alameda, California. Federal awards expended by AMP, if any, are excluded from the Schedule and are subject to a separate Single Audit performed by other auditors.

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. All governmental funds and agency funds are accounted for using the modified accrual basis of accounting. All proprietary funds are accounted for using the accrual basis of accounting. 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 - SUBRECIPIENTS

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

CFDA Number	Program Name	Amount Provided to Subrecipients
14.218	Community Development Block Grants/Entitlement Grants	$363,278
14.239	Home Investment Partnerships Program	120,999
14.257	ARRA - Homelessness Prevention and Rapid Re-Housing Program (HPRP)	3,466

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MAZE & ASSOCIATES

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 City Council
City of Alameda, 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 basic financial statements of the City of Alameda as of and for the year ended June 30, 2013, and the related notes to the financial statements, and have issued our report thereon dated February 3, 2014. Our report included an emphasis of a matter paragraph disclosing the implementation of new accounting principles and the recategorization of certain funds.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City's internal control. Accordingly, we do not express an opinion on the effectiveness of City's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City'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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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. We identified certain deficiencies in internal control, we consider to be significant deficiencies as listed on the Schedule of Significant Deficiencies included as part of our separately issued Memorandum on Internal Control dated February 3, 2014, which is an integral part of our audits and should be read in conjunction with this report.

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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 that are required to be reported under *Government Auditing Standards*.

We have also issued a separate Memorandum on Internal Control dated February 3, 2014, which is an integral part of our audits and should be read in conjunction with this report.

City's Response to Findings

City's response to the findings identified in our audit are described in our separately issued Memorandum on Internal Control dated February 3, 2014, which is an integral part of our audits and should be read in conjunction with this report. City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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

Maze & Associates

Pleasant Hill, California
February 3, 2014

MAZE & ASSOCIATES

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY OMB CIRCULAR A-133

To the Honorable Members of the City Council
City of Alameda, California

Report on Compliance for Each Major Federal Program

We have audited City of Alameda'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, 2013. 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.

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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, 2013. Our opinion on each major federal program is not modified with respect to these matters.

Other Matters

The results of our auditing procedures disclosed 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 item 2013-01.

City's Response to Findings

The City's response to the noncompliance findings identified in our audit are 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 2013-01, that we consider to be a significant deficiency.

The City's response to the internal control over compliance findings identified in our audit are 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.

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.

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

We have audited the basic financial statements of the City as of and for the year ended June 30, 2013, and have issued our report thereon dated February 3, 2014, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. 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 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.

Maze & Associates

Pleasant Hill, California
March 10, 2014