

CITY OF PLEASANTON, CALIFORNIA

**REPORT ON FEDERAL AWARDS
IN ACCORDANCE WITH
OMB CIRCULAR A-133**

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

**CITY OF PLEASANTON, CALIFORNIA
SINGLE AUDIT**

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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VAVRINEK, TRINE, DAY
& COMPANY, LLP
Certified Public Accountants

VALUE THE DIFFERENCE

**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***

The Honorable Mayor and
Members of the City Council
City of Pleasanton
Pleasanton, California

We have audited the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of City of Pleasanton (the City), as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements and have issued our report thereon dated December 26, 2012. We conducted our audit in accordance with 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.

Internal Control Over Financial Reporting

Management of the City of Pleasanton is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of 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 certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting as items 2012-1 and 2012-2. 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.

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

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 City management, the Mayor and Members of 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.

Varrinck, Trine, Day & Co, LLP.

Pleasanton, California

December 26, 2012



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

The Honorable Mayor and
Members of the City Council
City of Pleasanton
Pleasanton, California

Compliance

We have audited City of Pleasanton, California's (the City) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2012. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

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

In our opinion, the City complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, 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 2012-3 through 2012-5.

Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as items 2012-3 and 2012-4. *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 City of Pleasanton, California, as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 26, 2012, which contained unqualified opinions on those financial statements. Our audit was performed for the purpose of forming opinions on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for 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.

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 City management, the Mayor and Members of 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.

Varrinck, Trine, Day & Co, LLP.

Pleasanton, California

December 26, 2012

CITY OF PLEASANTON, CALIFORNIA

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012**

Federal Grantor / Pass-Through Grantor / Program Title	Federal CFDA Number	Agency or Pass-Through Number	Federal Expenditures
U.S. Department of Housing and Urban Development			
<i>Direct Programs:</i>			
Community Development Block Grant	14.218	B-10-MC-06-0050	\$ 82,841
Community Development Block Grant	14.218	B-11-MC-06-0050	118,959
Community Development Block Grant Loans	14.218	B-11-MC-06-0050	36,346
Public and Indian Housing	14.850	CA08100000111D	101,936
Public and Indian Housing	14.850	CA081000001	49,587
Public Housing Capital Fund	14.872	CA39P08150109	5,254
Total Direct Programs			<u>394,923</u>
<i>Passed through the County of Alameda, Housing and Community Development:</i>			
HOME Investment Partnerships Program Expenditures	14.239	M05-DC-060201	3,223
HOME Investment Partnerships Program Loans	14.239	M05-DC-060201	12,889
HOME Investment Partnerships Program Expenditures	14.239	M06-DC-060201	40,014
HOME Investment Partnerships Program Expenditures	14.239	M07-DC-060201	14,744
HOME Investment Partnerships Program Expenditures	14.239	M08-DC-060201	6,177
HOME Investment Partnerships Program Loans	14.239	M08-DC-060201	24,709
HOME Investment Partnerships Program Expenditures	14.239	M10-DC-060201	9,156
<i>Total Passed through the County of Alameda</i>			<u>110,912</u>
Total U.S. Department of Housing and Urban Development			<u>505,835</u>
U.S. Department of Justice			
<i>Direct Programs:</i>			
Bulletproof Vest Partnership Program	16.607	Not available	2,812
Equitable Sharing Program	16.922	CA0011100	14,075
<i>Passed through the County of Alameda</i>			
ARRA - Edward Byrne Memorial Justice Assistance Grant (JAG) Program	16.804	2009-SB-B9-0733	6,729
Total U.S. Department of Justice			<u>23,616</u>
Balance to be Carried forward to the Next Page			

See accompanying Notes to the Schedule of Expenditures of Federal Awards.

CITY OF PLEASANTON, CALIFORNIA

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2012**

Federal Grantor / Pass-Through Grantor / Program Title	Federal CFDA Number	Agency or Pass-Through Number	Federal Expenditures
Institute of Museum and Library Services			
<i>Passed through California State Library - Library Services & Technology Act</i>			
Grants to States	45.310	LSTA#40-7661	<u>3,111</u>
Total Institute of Museum and Library Services			<u>3,111</u>
U.S. Department of Transportation			
<i>Passed through State of California Department of Transportation</i>			
Highway Planning and Construction	20.205	* 04-ALA-0-PLE; STPL-5101 (025)	876,000
<i>Passed through State of California Office of Traffic Safety</i>			
State and Community Highway Safety	20.600	AL0995	<u>9,813</u>
Total U.S. Department of Transportation			<u>885,813</u>
U.S. Department of Energy			
<i>Direct Program:</i>			
ARRA - Energy Efficiency and Conservation Block Grant	81.128	* DE-SC0002385	<u>199,711</u>
Total U.S. Department of Energy			<u>199,711</u>
U.S. Department of Homeland Security			
<i>Passed through the County of Alameda Sheriff's Office:</i>			
Homeland Security Grant Program	97.067	2010-0085; Cal EMA ID 001-00000	<u>14,513</u>
<i>Passed through the City and County of San Francisco:</i>			
Homeland Security Grant Program	97.067	Not available	<u>38,731</u>
Total U.S. Department of Homeland Security			<u>53,244</u>
U.S. Department of the Interior Bureau of Reclamation			
<i>Direct Program:</i>			
Water Reclamation and Reuse Program	15.504	R11AC20126	<u>81,861</u>
Total U.S. Department of the Interior Bureau of Reclamation			<u>81,861</u>
TOTAL CURRENT EXPENDITURES OF FEDERAL AWARDS			<u><u>\$ 1,753,191</u></u>

* Denotes major program

See accompanying Notes to the Schedule of Expenditures of Federal Awards.

CITY OF PLEASANTON, CALIFORNIA

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General – The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal awards programs of the City of Pleasanton (City). The City’s reporting entity is defined in Note 1 to the City’s basic financial statements. All federal awards received directly from federal agencies as well as federal awards passed through other government agencies are included in the schedule.

Basis of Accounting – The accompanying Schedule of Expenditures of Federal Awards is presented using the modified accrual basis of accounting except for programs recorded in the City’s enterprise funds where applicable, which are presented using the accrual basis of accounting, which is described in Note 1 to the City’s basic financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

Relationship to Basic Financial Statements – The amounts reported in the accompanying Schedule of Expenditures of Federal Awards agrees, in all material respects, to amounts reported within the City’s financial statements. Federal award revenues are reported principally in the City’s financial statements as intergovernmental revenues in the General, Special Revenue, and Enterprise funds.

Catalog of Federal Domestic Assistance (CFDA) Numbers – The CFDA numbers included in this report were determined based on the program name, review of grant contract information, and the Office of Management and Budget’s Catalog of Federal Domestic Assistance.

Pass-Through Entities’ Identifying Number – When federal awards were received from a pass-through entity, the Schedule of Expenditures of Federal Awards shows, if available, the identifying number assigned by the pass-through entity. When no identifying number is shown, the City has determined that no identifying number is assigned for the program or the City was unable to obtain an identifying number from the pass-through entity.

CITY OF PLEASANTON, CALIFORNIA

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2012**

NOTE 2 – HOME INVESTMENT PARTNERSHIPS PROGRAM RECONCILIATION

City of Pleasanton Single Audit Report Reconciliation to County of Alameda

Total FY 2011-12 Payments from County of Alameda	\$ -
City's FY 2011-12 Expenditures Per Single Audit Report (page 6)	110,912
Variance	<u><u>\$ 110,912</u></u>

Unreimbursed expenditures at June 30, 2012:

<u>Vendor</u>	<u>Description</u>	<u>Amount</u>
Tri-Valley Housing Scholarship Program	Rent subsidies	\$ 43,755
Amerinational Community Services	Loan and Grants	48,601
Neighborhood Solutions	Rehab Administration Fee	9,400
City of Pleasanton	Administration	9,156
Total unreimbursed expenditures at June 30, 2012		<u><u>\$ 110,912</u></u>

CITY OF PLEASANTON, CALIFORNIA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012**

I. SUMMARY OF AUDITOR'S RESULTS

FINANCIAL STATEMENTS

Type of auditor's report issued:	<u>Unqualified</u>
Internal control over financial reporting:	
Material weaknesses identified?	<u>No</u>
Significant deficiencies identified not considered to be material weaknesses?	<u>Yes</u>
Noncompliance material to financial statements noted?	<u>No</u>

FEDERAL AWARDS

Internal control over major programs:	
Material weaknesses identified?	<u>No</u>
Significant deficiencies identified not considered to be material weaknesses?	<u>Yes</u>
Type of auditor's report issued on compliance for major programs:	<u>Unqualified</u>

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a) Identification of major programs:	<u>Yes</u>
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<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
<u>20.205</u>	<u>Highway Planning and Construction</u>
<u>81.128 (ARRA)</u>	<u>Energy Efficiency and Conservation Block Grant (Includes ARRA)</u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 300,000</u>
Auditee qualified as low-risk auditee?	<u>No</u>

CITY OF PLEASANTON, CALIFORNIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED) FOR THE YEAR ENDED JUNE 30, 2012

II. FINANCIAL STATEMENT FINDINGS

Significant Deficiencies

Finding 2012-1

Capital Assets - Valuation

Condition:

During our audit procedures over capital asset balances, we noted the City acquired parcels of land during the fiscal year ended June 30, 2012. Acquisitions were through a development agreement between the City and the Alameda County Surplus Property Authority (SPA), where SPA dedicated to City a 17-acre portion of a project site as a community park site.

GAAP requires that donated capital assets are valued at the current fair market value as of the date of the asset donation/acquisition. To develop a fair market value estimate, the City used a per acre cost estimate developed by an Ad Hoc Committee utilizing records of land sales that occurred between July 1999 – July 2002. Given that the estimated cost per acre was developed a decade ago, we do not believe it reflects the current fair market value of the property. In addition, other factors such as location or zoning restrictions should be taken into consideration when estimating a fair value of real property.

Recommendation:

We recommend that for contributed/donated assets, the City obtain an appraisal of the acquired property or develop other reasonable method of estimating current fair market value of the subject property.

Disposition:

This finding resulted in an adjustment to the financial statements in the amount of \$8.5 million for the Governmental Activities. This adjustment is below the calculated tolerable misstatement for Governmental Activities. As this deficiency is an important internal control component, the magnitude of a potential misstatement could be material, and the probability of occurrence is reasonably possible, this deficiency is deemed to be a significant deficiency.

Views of Responsible Officials and Planned Corrective Actions:

The City will establish capital asset procedures to ensure that donated capital assets are valued in accordance with GAAP.

Finding 2012-2

Capital Assets – Accounting

Condition:

During our audit test work over capital asset balances, we noted there is a discrepancy between the subsidiary ledger of capital assets maintained in the AssetMaxx software and the City's general ledger. Specifically, there were capital assets recorded in the Public Art Acquisition and Maintenance Fund in AssetMaxx, but no capital assets appear on the general ledger in this fund. On the general ledger, these assets were recorded in the Replacement/Renovation fund. Upon inquiry with management, it was determined that the general ledger was incorrect and these assets should have been recorded in the Public Art Acquisition and Maintenance Fund. This discrepancy resulted in audit adjustment in the amount of \$318,000.

CITY OF PLEASANTON, CALIFORNIA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2012**

II. FINANCIAL STATEMENT FINDINGS

Recommendation:

We recommend the City establish procedures to reconcile the capital assets subsidiary ledger with the general ledger on a periodic basis.

Disposition:

This finding resulted in an adjustment to the financial statements in the amount of \$318,000 between two internal service funds. This adjustment is below the calculated tolerable misstatement for Internal Service Fund. As this deficiency is an important internal control component, the magnitude of a potential misstatement could be material, and the probability of occurrence is reasonably possible, this deficiency is deemed to be a significant deficiency.

Views of Responsible Officials and Planned Corrective Actions:

The City will establish capital asset procedures to ensure that the capital assets subsidiary ledger is reconciled to the general ledger on a periodic basis.

CITY OF PLEASANTON, CALIFORNIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED) FOR THE YEAR ENDED JUNE 30, 2012

III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

The following findings represent significant deficiencies, and/or instances of noncompliance including questioned costs that are required to be reported by *OMB Circular A-133, section .510(a)*.

Finding 2012-3

Program: ARRA Energy Efficiency and Conservation Block Grant

CFDA No.: 81.128

Federal Agency: U.S. Department of Energy

Award Year: FY 2009-10

Compliance Requirement: Cash Management

Criteria:

Per *OMB A-133 Compliance Supplement*, when awards are funded on a reimbursement basis, the costs for which reimbursement is requested should be paid prior to the date of the reimbursement request. Per additional guidance on the drawn down payments for Energy Efficiency and Conservation Block Grant (EECBG) issued by the U.S. Department of Energy (DOE), (EECBG Program Notice 10-013) effective June 23, 2010, non-state grantees should minimize the time elapsing between draw down and disbursement of funds, and that time period should not exceed 30 calendar days. In addition, the interest earned on advances drawn in excess of disbursement needs should be remitted promptly, but at least quarterly, to the federal agency. Up to \$100 per year may be kept for administrative expenses.

Condition Found:

The City requested reimbursement for invoices not yet paid and did not minimize the time elapsing between draw down and disbursement of funds to a maximum of 30 calendar days. For four of six payments made under the Energy Efficiency and Conservation Block Grant, a reimbursement was requested prior to the date when the costs were paid. In addition, for three of six payments tested, the time between draw down and disbursement of funds exceeded 30 days.

Questioned Costs:

None.

Context:

The condition described above was noted during our testing procedures over cash management.

Effect:

City is not in compliance with cash management compliance requirements under *OMB Circular A-133*.

Cause:

There was a lack of procedures in place that would ensure the draw down requests occur after the actual costs are paid.

CITY OF PLEASANTON, CALIFORNIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED) FOR THE YEAR ENDED JUNE 30, 2012

III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Recommendation:

We recommend the City develop cash management procedures that will ensure that the actual costs incurred under Energy Efficiency and Conservation Block Grant are paid before the funds are draw down from the federal agency. If immediate cash needs arise, the City is allowed to request advances from the federal agency, however, the City should maintain procedures ensuring minimizing the time elapsing between the fund transfer and the disbursement of funds. Per DOE guidance, that time period should not exceed 30 days.

Views of Responsible Officials and Planned Corrective Actions:

The City has implemented grant procedures to ensure that draw down requests will occur after the actual costs are paid. Section IV.B. of the Grant Management Policy specifies that "After receiving the notification of award, Finance Department staff will meet with the appropriate departmental staff to review the administrative requirements prescribed by the grant agreement, including ... procedures for requesting reimbursement from the grantor (if grant funds are to be provided as reimbursement for prior expenditures)" The City has ceased drawing down funds for which it has not already incurred related costs.

Finding 2012-4

Program: ARRA Energy Efficiency and Conservation Block Grant

CFDA No.: 81.128

Federal Agency: U.S. Department of Energy

Award Year: FY 2009-10

Compliance Requirement: Reporting

Criteria:

Information reported in the Section 1512 ARRA should be reported on the accrual basis and should agree to the SEFA.

Condition Found:

The cumulative Federal expenditures reported in Section 1512 ARRA Quarterly Report for the quarter ended December 31, 2011 did not agree to the general ledger. Based on our discussion with management, the amounts in this report are reported on the accrual basis; as such, the report should agree to the general ledger.

Questioned Costs:

No questioned costs were noted as a result of the audit procedures performed.

Context:

The condition described above was noted during our examination of the City's reporting process.

Effect:

The City did not comply with the reporting deadlines pertaining to Energy Efficiency and Conservation Block Grant. In addition, as a result of the condition, the City increased its risk of non-compliance with reporting requirements set forth in *OMB A-133 Compliance Supplement*.

Cause:

There was a lack of internal controls in place that would ensure the financial information reported to U.S. Department of Energy reconciles to the financial records derived from the City's accounting system.

CITY OF PLEASANTON, CALIFORNIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED) FOR THE YEAR ENDED JUNE 30, 2012

III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Recommendation:

We recommend the City establish procedures that would ensure the financial information reported to the federal agency reconciles/agrees to the financial information in the City's accounting system.

Views of Responsible Officials and Planned Corrective Actions:

The City has implemented grant procedures which include a review of the administrative requirements prescribed by the grant agreement, including reporting requirements. Section IV.B. of the Grant Management Policy specifies that "After receiving the notification of award, Finance Department staff will meet with the appropriate departmental staff to review the administrative requirements prescribed by the grant agreement, including ... any procurement, contracting, documentation, or reporting requirements." Additionally, Section IV.D. of the Grant Management Policy notes that "Finance Department staff are responsible for monitoring the revenues and expenditures of the grant program and completing any periodic financial reporting required by the grantor (ensuring that reported amounts reconcile to the City's accounting records)."

Finding 2012-5

Program: ARRA Energy Efficiency and Conservation Block Grant

CFDA No.: 81.128

Federal Agency: U.S. Department of Energy

Award Year: FY 2009-10

Compliance Requirement: Procurement and Suspension and Debarment

Criteria:

The *June 2012 Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* states that when a non-federal entity enters into a covered transaction with an entity at a lower tier, the nonfederal entity must verify that the entity is not suspended or debarred or otherwise excluded. This verification may be accomplished by checking the Excluded Parties List System (EPLS) maintained by the General Services Administration (GSA), collecting a certification from the entity, or adding a clause or condition to the covered transaction with that entity (2 CFR section 180.300).

Condition Found:

For the one vendor selected for testing, we noted no evidence was retained to support that verification of the EPLS was performed and no certification was collected to ensure the vendor was not suspended and debarred or otherwise excluded.

Questioned Costs:

No questioned costs were noted as a result of the audit procedures performed.

Context:

The condition described above was noted during our testing procedures over procurement, suspension and debarment compliance.

Effect:

The City increased its risk of non-compliance with procurement, suspension and debarment requirements set forth in *OMB A-133 Compliance Supplement*.

CITY OF PLEASANTON, CALIFORNIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED) FOR THE YEAR ENDED JUNE 30, 2012

III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Cause:

City personnel were unaware of the suspension and debarment federal requirements at the time the contract was signed with the vendor.

Recommendation:

We recommend the City implement procedures to ensure that procurements and subawards of federally funded projects are verified against the EPLS for suspension or debarment, or the City obtain a certification or add the required clauses to the contract for suspension or debarment and the required Federal approvals are obtained where applicable. All procedures performed should be documented.

Views of Responsible Officials and Planned Corrective Actions:

The City has implemented grant procedures to ensure compliance with civil rights laws including the debarment and suspension regulations. Section II.A. of the Grant Management Policy notes that a recipient of federally-funded construction grants is required "... to comply with civil rights laws including, but not limited to ... debarment and suspension regulations (2 CFR §1400)" Additionally, Section IV.B. of the Grant Management Policy specifies that "After receiving the notification of award, Finance Department staff will meet with the appropriate departmental staff to review the administrative requirements prescribed by the grant agreement, including ... any procurement, contracting, documentation, or reporting requirements."

CITY OF PLEASANTON, CALIFORNIA

SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2012

Finding 2011-1

Program: ARRA Energy Efficiency and Conservation Block Grant

CFDA No.: 81.128

Federal Agency: U.S. Department of Energy

Award Year: FY 2009-10

Compliance Requirement: Cash Management

Criteria:

Per *OMB A-133 Compliance Supplement*, when awards are funded on a reimbursement basis, the costs for which reimbursement is requested should be paid prior to the date of the reimbursement request. Per additional guidance on the drawn down payments for Energy Efficiency and Conservation Block Grant (EECBG) issued by the U.S. Department of Energy (DOE), (EECBG Program Notice 10-013) effective June 23, 2010, non-state grantees should minimize the time elapsing between draw down and disbursement of funds, and that time period should not exceed 30 calendar days. In addition, the interest earned on advances drawn in excess of disbursement needs should be remitted promptly, but at least quarterly, to the federal agency. Up to \$100 per year may be kept for administrative expenses.

Condition Found:

The City requested reimbursement for invoices not yet paid and did not minimize the time elapsing between draw down and disbursement of funds to a maximum of 30 calendar days. For seven of nine payments made under the Energy Efficiency and Conservation Block Grant, a reimbursement was requested prior to the date when the costs were paid. In addition, for three of nine payments tested, the time between draw down and disbursement of funds exceeded 30 days.

The interest earned on advances drawn in excess of disbursement needs was not remitted promptly, or at least quarterly, to the federal agency.

Questioned Costs:

Since the grant award date through June 30, 2011, the City accumulated \$936 of interest that is due to the federal agency. None of the interest earned was returned to the federal agency as of June 30, 2011.

Context:

The condition described above was noted during our testing procedures over cash management.

Effect:

City is not in compliance with cash management compliance requirements under *OMB Circular A-133*.

Cause:

There was a lack of procedures in place that would ensure the draw down requests occur after the actual costs are paid and a lack of procedures in place that would ensure the interest earned on advances drawn in excess of disbursement needs is remitted promptly, or at least quarterly, to the federal agency.

CITY OF PLEASANTON, CALIFORNIA

SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2012

Recommendation:

We recommend the City develop cash management procedures that will ensure that the actual costs incurred under Energy Efficiency and Conservation Block Grant are paid before the funds are draw down from the federal agency. If immediate cash needs arise, the City is allowed to request advances from the federal agency, however, the City should maintain procedures ensuring minimizing the time elapsing between the fund transfer and the disbursement of funds. Per DOE guidance, that time period should not exceed 30 days. In addition, we recommend the City return the interest earned on advances drawn in excess of disbursement needs promptly, but at least quarterly, to the federal agency. Up to \$100 per year may be kept for administrative expenses.

Current Status:

Section IV.B. of the Grant Management Policy specifies that, "After receiving the notification of award, Finance Department staff will meet with the appropriate departmental staff to review the administrative requirements prescribed by the grant agreement, including ... procedures for requesting reimbursement from the grantor (if grant funds are to be provided as reimbursement for prior expenditures)..." On February 27, 2012, the City refunded to the Department of Energy \$935.73 of interest earned on advances drawn in excess of disbursement needs. Partially Implemented – see current year finding 2012-3.

Finding 2011-2

Program: ARRA Energy Efficiency and Conservation Block Grant

CFDA No.: 81.128

Federal Agency: U.S. Department of Energy

Award Year: FY 2009-10

Compliance Requirement: Davis-Bacon Act

Criteria:

When required by the Davis-Bacon Act, the Department of Labor's (DOL) government-wide implementation of the Davis-Bacon Act, ARRA, or by Federal program legislation, all laborers and mechanics employed by contractors or subcontractors to work on construction contracts in excess of \$2,000 financed by Federal assistance funds must be paid wages not less than those established for the locality of the project (prevailing wage rates) by the DOL (40 USC 3141- 3144, 3146, and 3147 (formerly 40 USC 276a to 276a-7)).

Non-federal entities shall include in their construction contracts subject to the Davis-Bacon Act a requirement that the contractor or subcontractor comply with the requirements of the Davis-Bacon Act and the DOL regulations (29 CFR part 5, Labor Standards Provisions Applicable to Contracts Governing Federally Financed and Assisted Construction). This includes a requirement for the contractor or subcontractor to submit to the non-Federal entity weekly, for each week in which any contract work is performed, a copy of the payroll and a statement of compliance (certified payrolls) (29 CFR sections 5.5 and 5.6).

Condition Found:

The City did not obtain the certified payroll from Pacific Solar Energy, Inc., a contractor under EECBG subject to Davis-Bacon Act requirements. Further, City did not incorporate the Davis-Bacon Act prevailing wage clause in the contract with Pacific Solar Energy, Inc.

Questioned Costs:

No questioned costs were noted as a result of the audit procedures performed.

CITY OF PLEASANTON, CALIFORNIA

SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2012

Context:

The condition described above was noted during our testing of procedures over Davis-Bacon Act compliance.

Effect:

The City increased its risk of non-compliance with Davis-Bacon Act requirements set forth in *OMB A-133 Compliance Supplement*.

Cause:

There was a lack of internal controls and procedures to ensure that all construction contracts subject to Davis-Bacon Act requirements include a prevailing wage clause in the contract. The City did not obtain certified payrolls from the contractor for the duration of the contract.

Recommendation:

We recommend the City identify the contractors subject to Davis-Bacon Act requirements under Energy Efficiency and Conservation Block Grant. We further recommend the City develop and implement procedures to ensure that the contracts with the contractors subject to Davis-Bacon Act requirements include a prevailing wage clause and the City collect the certified payroll from contractors on a weekly basis.

Current Status:

Implemented. Section II.A. of the Grant Management Policy notes that a recipient of federally funded construction grants is required "... to comply with civil rights laws including, but not limited to, the Davis-Bacon Act" Section IV.B. of the Grant Management Policy specifies that "After receiving the notification of award, Finance Department staff will meet with the appropriate departmental staff to review the administrative requirements prescribed by the grant agreement, including ... any procurement, contracting, documentation, or reporting requirements."

Finding 2011-3

Program: ARRA Energy Efficiency and Conservation Block Grant

CFDA No.: 81.128

Federal Agency: U.S. Department of Energy

Award Year: FY 2009-10

Compliance Requirement: Procurement, Suspension and Debarment

Criteria:

The *March 2011 Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* states that when a non-federal entity enters into a covered transaction with an entity at a lower tier, the nonfederal entity must verify that the entity is not suspended or debarred or otherwise excluded. This verification may be accomplished by checking the Excluded Parties List System (EPLS) maintained by the General Services Administration (GSA), collecting a certification from the entity, or adding a clause or condition to the covered transaction with that entity (2 CFR section 180.300).

Condition Found:

For the two vendors selected for testing, we noted no verification was performed and no certification was collected to ensure the vendor was not suspended and debarred or otherwise excluded.

CITY OF PLEASANTON, CALIFORNIA

SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2012

Questioned Costs:

No questioned costs were noted as a result of the audit procedures performed.

Context:

The condition described above was noted during our testing procedures over procurement, suspension and debarment compliance.

Effect:

The City increased its risk of non-compliance with procurement, suspension and debarment requirements set forth in *OMB A-133 Compliance Supplement*.

Cause:

City personnel were unaware of the suspension and debarment federal requirements.

Recommendation:

We recommend the City implement procedures to ensure that procurements and subawards of federally funded projects are verified against the EPLS for suspension or debarment, or the City obtain a certification or add the required clauses to the contract for suspension or debarment and the required Federal approvals are obtained where applicable. All procedures performed should be documented.

Current Status:

Section II.A. of the Grant Management Policy notes that a recipient of federally funded construction grants is required "... to comply with civil rights laws including, but not limited to ... debarment and suspension regulations (2 CFR §1400)" Section IV.B. of the Grant Management Policy specifies that "After receiving the notification of award, Finance Department staff will meet with the appropriate departmental staff to review the administrative requirements prescribed by the grant agreement, including ... any procurement, contracting, documentation, or reporting requirements." Not Implemented – see current year finding 2012-5.

Finding 2011-4

Program: ARRA Energy Efficiency and Conservation Block Grant

CFDA No.: 81.128

Federal Agency: U.S. Department of Energy

Award Year: FY 2009-10

Compliance Requirement: Reporting

Criteria:

The contract between the City and U.S. Department of Energy, the Energy Efficiency and Conservation Strategy is due to Department of Energy within 120 days of the effective date of the award.

SF-425 Financial Report is due 30 days after the end of a calendar quarter.

Information reported in the SF-425 Financial Report should be reported either on cash or accrual basis and should reconcile to the City's accounting system. Information reported in the Section 1512 ARRA should be reported on the accrual basis and should agree to the SEFA.

CITY OF PLEASANTON, CALIFORNIA

SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2012

Condition Found:

The Energy Efficiency and Conservation Strategy was not submitted to Department of Energy within 120 days from the date of the award as required by the contract between the City and Department of Energy.

The SF-425 Financial Report was filed after the deadline of 7/30/2011.

The federal expenditures reported on the SF-425 Financial Report for the quarter ended June 30, 2011 did not agree to the federal expenditures per the general ledger as of 6/30/2011, even though it was noted the expenditures in the SF-425 Financial Report are reported on accrual basis and as such should match the general ledger. The federal expenditures reported in ARRA Quarterly Performance Report for the quarter ended June 30, 2011 did not agree to the general ledger. Based on our discussion with management, the amounts in this report are reported on the accrual basis. The cumulative federal expenditures reported in Section 1512 ARRA Quarterly Report for the quarter ended June 30, 2011 did not agree to the general ledger or SEFA. Based on our discussion with management, the amounts in this report are reported on the accrual basis.

Questioned Costs:

No questioned costs were noted as a result of the audit procedures performed.

Context:

The condition described above was noted during our examination of the City's reporting process.

Effect:

The City did not comply with the reporting deadlines pertaining to Energy Efficiency and Conservation Block Grant. In addition, as a result of the condition, the City increased its risk of non-compliance with reporting requirements set forth in *OMB A-133 Compliance Supplement*.

Cause:

There was a lack of procedures and internal controls in place to ensure a timely submission of all required reports to U.S. Department of Energy. Lack of internal controls in place that would ensure the financial information reported to U.S. Department of Energy reconciles to the financial records derived from the City's accounting system.

Recommendation:

We recommend the City implement procedures to ensure that all required reports are submitted to the federal agency within the established timelines. We also recommend the City establish procedures that would ensure the financial information reported to the federal agency reconciles/agrees to the financial information in the City's accounting system.

Current Status:

Implemented. Section IV.B. of the Grant Management Policy specifies that "After receiving the notification of award, Finance Department staff will meet with the appropriate departmental staff to review the administrative requirements prescribed by the grant agreement, including ... any procurement, contracting, documentation, or reporting requirements." Section IV.D. of the Grant Management Policy notes that "Finance Department staff are responsible for monitoring the revenues and expenditures of the grant program and completing any periodic financial reporting required by the grantor (ensuring that reported amounts reconcile to the City's accounting records)." Additionally, the City has changed the SF-425 Financial Reports to a cash basis to ensure that the financial information reported to the federal agency reconciles/agrees to the financial information in the City's accounting system.

CITY OF PLEASANTON, CALIFORNIA

SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2012

Finding 2011-5

Program: Highway Planning and Construction Cluster, ARRA Highway Planning and Construction
CFDA No.: 20.205

Federal Agency: U.S. Department of Transportation

Pass-through: State of California, Business, Transportation and Housing Agency, Department of Transportation

Award Year: FY 2009-10 and FY 2010-11

Compliance Requirement: Cash Management

Criteria:

Per *OMB A-133 Compliance Supplement*, when awards are funded on a reimbursement basis, the costs for which reimbursement is requested should be paid prior to the date of the reimbursement request.

Condition Found:

The City requested reimbursement for invoices not yet paid at the time of the reimbursement request. Due to the lead time for reimbursement from the State Department of Transportation, the contractor was paid prior to the City receiving reimbursement funds.

For one of nine payments made under the Highway Planning and Construction Grant, reimbursement was requested prior to the date when the costs were paid.

Questioned Costs:

No questioned costs were noted as a result of the audit procedures performed.

Context:

The condition described above was noted during our examination of the City's cash management process.

Effect:

City is not in compliance with cash management compliance requirements under *OMB Circular A-133*.

Cause:

There was a lack of procedures and internal controls in place to ensure requests for reimbursement are submitted after the actual costs are paid.

Recommendation:

We recommend City develop cash management procedures that will ensure that the actual costs incurred under Highway Planning and Construction Grant are paid before the reimbursement is requested from the State Department of Transportation.

Current Status:

Implemented. Section IV.B. of the Grant Management Policy specifies that "After receiving the notification of award, Finance Department staff will meet with the appropriate departmental staff to review the administrative requirements prescribed by the grant agreement, including ... procedures for requesting reimbursement from the grantor (if grant funds are to be provided as reimbursement for prior expenditures)"