

CITY OF HAYWARD
Single Audit Report on Federal Awards
Year ended June 30, 2010

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Year ended June 30, 2010

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Honorable Mayor and City Council
City of Hayward
Hayward, California

**REPORT ON COMPLIANCE AND OTHER MATTERS AND ON INTERNAL
CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING
STANDARDS**

We have audited the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City Hayward, California, as of and for the year ended June 30, 2010, which collectively comprise the City of Hayward's basic financial statements and have issued our report thereon dated December 3, 2010. 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Hayward'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*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Hayward'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 of Hayward's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City Hayward's internal control over financial reporting.

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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 the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily disclose all deficiencies in internal control that might be 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 noted an other matter which was communicated to management in a separate letter dated December 3, 2010.

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

Mayer Hoffman McCann P.C.

Irvine, California
December 3, 2010



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Hayward, California

**REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A
DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM, INTERNAL
CONTROL OVER COMPLIANCE AND ON THE SCHEDULE OF EXPENDITURES
OF FEDERAL AWARDS IN ACCORDANCE WITH OMB CIRCULAR A-133**

Compliance

We have audited the compliance of the City Hayward, California, 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 its major federal programs for the year ended June 30, 2010. The City of Hayward's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs is the responsibility of the City of Hayward's management. Our responsibility is to express an opinion on the City of Hayward'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 of Hayward'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 Hayward's compliance with those requirements.

In our opinion, the City of Hayward complied, in all material respects, with the requirements referred to above that could have a direct and material effect to each of its major federal programs for the year ended June 30, 2010, except for issue 2010-1 noted in the Schedule of Findings and Questions Costs.

Internal Control Over Compliance

The management of the City of Hayward 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 of Hayward's internal control over compliance with requirements that could have a direct and

Honorable Mayor and City Council
City of Hayward
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material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 Hayward's internal control over compliance.

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 the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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 governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Hayward as of and for the year ended June 30, 2010, and have issued our report thereon dated December 3, 2010. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise the City of Hayward's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards and Schedule of Cash Receipts 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.

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

Mayer Hoffman McCann P.C.

Irvine, California

March 30, 2011 except for Schedule of Expenditures of Federal Awards, as to which the date is December 3, 2010.

CITY OF HAYWARD
Schedule of Expenditures of Federal Awards
Year ended June 30, 2010

<u>Federal Grantor/Pass-Through Grantor Program Title</u>	<u>Federal Domestic Assistance Number</u>	<u>Program Identification Number</u>	<u>Program Expenditures</u>
U.S. Department of Housing and Urban Development			
Direct Assistance:			
Community Development Block Grant	14.218	B-09-MC-06-0012	\$ 1,733,360
(ARRA) Community Development Block Grant-R	14.253	B-09-MY-06-0012	168,023
Pass-through from the State of California:			
Neighborhood Stabilization Program	14.218	09-NSP1-6117	<u>757,187</u>
Total Community Development Block Grant Cluster			2,658,570
Direct Assistance:			
(ARRA) Homelessness Prevention and Rapid Rehousing	14.257	S-09-MY-06-0012	130,248
Pass-through from the State of California:			
Home Investment Partnership Act Program	14.239	M09-DC060201	<u>108,119</u>
Total - U.S. Department of Housing and Urban Development			<u>2,896,937</u>
U.S. Department of Justice			
Direct Assistance:			
(ARRA) COPS Hiring Recovery Program	16.710	2009RKWX0085	824,391
Pass-through Alameda County:			
(ARRA) Edward Byrne Memorial Justice Assistance Gran	16.579	2009-SB-B9-0733	353,271
Edward Byrne Memorial Justice Assistance Grant	16.579	2009-DJ-BX-0128	85,942
Bullet Proof Vest Partnership Program	16.607	n/a	<u>13,314</u>
Total - U.S. Department of Justice			<u>1,276,918</u>
U.S. Department of Transportation			
Direct Assistance - Federal Aviation Administration:			
Airport Improvement Program	20.106	3-06-0103-15	178,167
Pass-through from the State of California:			
Highway Safety Improvement Program	20.205	HSIPL-5050 (035)	98,831
(ARRA) Highway Planning and Construction	20.205	ESPL-5050 (037)	475,000
(ARRA) Highway Planning and Construction	20.205	ESPL-5050 (036)	1,944,750
Pass-through Office of Transportation & Safety:			
Click It or Ticket	20.609	CT09172	35,060
Traffic Safety Center Sobriety Checkpoints	20.601	SC09172	172,621
Selective Traffic Enforcement Program	20.601	AL0916	<u>74,532</u>
Total - U.S. Department of Transportation			<u>2,978,961</u>

(Continued)

CITY OF HAYWARD
Schedule of Expenditures of Federal Awards
Year ended June 30, 2010
(Continued)

Environmental Protection Agency

Pass-through from the State of California:

Clean Water State Revolving Funds Program	66,458	05-807-550-0	<u>27</u>
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U.S. Department of Energy

Direct Assistance:

(ARRA) Energy Efficiency and Conservation Block Grant	81,128	DE-SC0003475	<u>101,248</u>
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U.S. Department of Education

Direct Assistance:

No Child Left Behind Act of 2001:

After School Tutoring Program (FY 08-09)	84,215	U215K080290	78,650
After School Tutoring Program (FY 09-10)	84,215	U215K080290	<u>47,697</u>

Total - U.S. Department of Education			<u>126,347</u>
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U.S. Department of Health and Human Services

Pass-through Alameda County:

Medical Administrative Activities (MAA)	93,778	08-85116	<u>216,370</u>
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Total federal expenditures			<u>\$ 7,596,808</u>
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n/a - not available

CITY OF HAYWARD

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2010

(1) Summary of Significant Accounting Policies Applicable to the Schedule of Expenditures of Federal Awards

(a) Scope of Presentation

The accompanying schedule presents only the expenditures incurred by the City of Hayward that are reimbursable under programs of federal agencies providing financial awards. For the purposes of this schedule, financial awards include federal awards received directly from a federal agency and federal funds received indirectly by the City of Hayward from a non-federal agency or other organization. Only the portions of program expenditures reimbursable with such federal funds are reported in the accompanying schedule. Program expenditures in excess of the maximum reimbursement authorized and the portion of the program expenditures that were funded with other state, local or other non-federal funds are excluded from the accompanying schedule.

(b) Basis of Accounting

The expenditures included in the accompanying schedule were reported on the accrual basis of accounting. Under the accrual basis of accounting, expenditures are recognized when incurred. The accompanying schedule differ from financial statements presented in accordance with generally accepted accounting principles in that expenditures are reported net of related revenues, and that revenues and expenditures are limited to activity known through the date of the preparation of the annual reports. Expenditures reported would also include any property or equipment acquisitions incurred under the federal program. Additionally, the City received proceeds from long-term debt funded by the federal government. In accordance with OMB Circular A-133, section .205(d) the City included current year expenditures of such proceeds on the Schedule of Expenditures of Federal Awards.

(c) Subrecipients

Subrecipient payments for the year ended June 30, 2010 were disbursed from the following grants:

Community Development Block Grant	\$531,415
Homelessness Prevention and Rapid Rehousing	130,248

CITY OF HAYWARD

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

(A) Summary of Auditors' Results

1. An unqualified report was issued by the auditors on the financial statements of the auditee.
2. There were no material weaknesses in internal control over financial reporting.
3. The audit disclosed no noncompliance which is material to the financial statements of the auditee.
4. There were no material weaknesses in internal control over the major program of the auditee.
5. A qualified report was issued by auditors on compliance for the major program.
6. The audit disclosed no audit findings required by the auditors to be reported under paragraph .510(a) of OMB Circular A-133.
7. The major programs of the auditee were as follows:
 - U.S. Department of Housing and Urban Development, Community Development Block Grant Cluster (ARRA), CFDA #14.218 and #14.253
 - U.S. Department of Housing and Urban Development, (ARRA) Homelessness Prevention and Rapid Rehousing, CFDA #14.257.
 - U.S. Department of Justice, (ARRA) COPS Hiring Recovery Program, CFDA #16.710.
 - U.S. Department of Justice, Passed through Alameda County, (ARRA) Edward Byrne Memorial Justice Assistance Grant and Edward Byrne Memorial Justice Assistance Grant, CFDA #16.579.
 - U.S. Department of Transportation, Passed through the State of California, Highway Safety Improvement Program and (ARRA) Highway, Planning and Construction CFDA #20.205.
8. The dollar threshold used to distinguish Type A and Type B programs was \$300,000.
9. The auditee was considered a low risk auditee for the year ended June 30, 2010 for purposes of major program determination.

(B) Findings Related to the Financial Statements which are Required to be Reported in Accordance with Generally Accepted Government Auditing Standards

There were no findings related to the financial statements required to be reported in accordance with Generally Accepted Government Auditing Standards.

CITY OF HAYWARD

Schedule of Findings and Questioned Costs

(Continued)

(C) Findings and Questioned Costs for Federal Awards as Defined in Paragraph .501(a) of OMB Circular A-133

2010-1 Reporting Error

Grant Name: Community Development Block Grant
CFDA No.: 14.218
Federal Award No.: B-09-MC-06-0012
Federal Agency: U.S. Department of Housing and Urban Development
Questioned Costs: \$0
Criteria/Condition:

The Consolidated Annual Performance and Evaluation Report (CAPER) is used to report program and financial information to the U.S. Department of Housing and Urban Development (HUD). Auditors are required to ascertain if the CAPER is complete and accurate, is prepared in accordance with the required accounting basis, and is submitted timely. The CAPER for the fiscal year ended June 30, 2010 contained an error in the amount of \$868,280 resulting from a duplicate drawdown request. IDIS, the software used to request drawdowns, erroneously created a duplicate request. City staff believed the drawdown request was in the IDIS system because the original request had not been approved. The City proceeded to approve the duplicate request which resulted in the City receiving a duplicate drawdown for expenditures that had not been fully incurred. The City immediately contacted the HUD Technical Assistance Unit to inform them of the error and were instructed to revise the duplicate voucher to re-allocate the funds to expenses associated with other activities.

While the City was aware of the system error and appropriately reported it to HUD, at the time of the audit the voucher had not yet been revised. Expenditures reported in the final CAPER, therefore, were higher than actual expenditures, due to the error. The error also produced inaccurate incorrect earmarking percentages reported to HUD. Additionally, the City is required to ensure draw down are spent in a timely manner. While the City typically only requests draw downs when they have already incurred the expenditures, in this case, according to the CAPER report, the duplicate funds drawn in April 2010 did not appear to have been expended as of June 2010.

Recommendation

While the auditors acknowledge that this issue is unique and not likely to reoccur, we recommend that the annual CAPER be reconciled to the underlying accounting records prior to finalization to ensure amounts reported are accurate and complete.

CITY OF HAYWARD

Schedule of Findings and Questioned Costs

(Continued)

(D) Findings and Questioned Costs for Federal Awards as Defined in Paragraph .501(a) of OMB Circular A-133, (Continued)

Management's Comments Regarding Corrective Actions Planned

The City agrees with the recommendation and will ensure the CAPER report is reconciled to the underlying accounting records at least twice in a fiscal year. Reconciliation will occur at mid-year and a second reconciliation during the 30-day "draft" phase of the CAPER (typically September of each year). The IDIS system will also be updated to revise the duplicate voucher to allocate those funds to expenses associated with other activities. The financial data contained in the CAPER will be reconciled with the City's year-end accounting records to ensure consistency, prior to submission of the CAPER to HUD.

CITY OF HAYWARD
Summary Schedule of Prior Audit Findings
Year ended June 30, 2010

There were no audit findings disclosed in the single audit report for the year ended June 30, 2009.