

**CITY OF HAYWARD, CALIFORNIA**

**ALAMEDA COUNTY**  
**VEHICLE REGISTRATION FEE (VRF)**  
**MEASURE F PROGRAM**  
**FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2014**

**CITY OF HAYWARD, CALIFORNIA**

**ALAMEDA COUNTY VEHICLE REGISTRATION FEE (VRF)  
MEASURE F PROGRAM  
FINANCIAL STATEMENTS**

**For The Year Ended June 30, 2014**

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## INDEPENDENT AUDITOR'S REPORT

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

### *Report on Financial Statements*

We have audited the accompanying financial statements of the Alameda County Vehicle Registration Fee (VRF) Measure F Program (Measure F Program) of the City of Hayward, (City) California, as of and for the year ended June 30, 2014 and the related notes to the financial statements, which collectively comprise the Measure F Program's basic financial statements as listed in the Table of Contents.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express opinions on these financial statements based on our audit. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Measure F Program's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Measure F Program's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

As discussed in Note 2 to the financial statements, the financial statements referred to above present only the Measure F Program and are not intended to present fairly the financial position of the City and the results of its operations in conformity with generally accepted accounting principles.

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial positions of the Measure F Program as of June 30, 2014, and changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matters***

Management adopted the provisions of the following Governmental Accounting Standards Board Statements, which became effective during the year ended June 30, 2014 that affected the format and nomenclature of the financial statements:

*Statements 65 – Items Previously Reported as Assets and Liabilities.*

The emphasis of this matter does not constitute a modification to our opinions.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2014, on our consideration of the Measure F Program's internal control over compliance and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over compliance, and compliance, and the results of that testing, and not to provide an opinion on internal control over compliance, or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over compliance, and compliance.

Pleasant Hill, California  
February 20, 2015

CITY OF HAYWARD  
MEASURE F PROGRAM - BALANCE SHEET  
JUNE 30, 2014

	<u>Local Road Improvement Repair Program</u>
ASSETS	
Cash and Investments (Note 3)	\$342,680
Due from other governments - VRF	<u>218,377</u>
Total Assets	<u><u>\$561,057</u></u>
LIABILITIES	
Accounts payable	<u>\$8,255</u>
Total Liabilities	<u>8,255</u>
FUND BALANCE	
Restricted for Measure F Programs	<u>552,802</u>
Total Fund Balance	<u><u>\$552,802</u></u>

See accompanying notes to financial statements

CITY OF HAYWARD  
MEASURE F PROGRAM - STATEMENT OF  
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
FOR THE YEAR ENDED JUNE 30, 2014

	<u>Local Road Improvement Repair Program</u>
REVENUES	
Intergovernmental	
Measure F allocations	<u>\$736,955</u>
Total Revenues	<u>736,955</u>
EXPENDITURES	
Public works and transportation	<u>184,153</u>
Total Expenditures	<u>184,153</u>
Net Change in Fund Balance	552,802
Beginning Fund Balance, as adjusted (Note 4)	<u>0</u>
Ending Fund Balance	<u><u>\$552,802</u></u>

See accompanying notes to financial statements

CITY OF HAYWARD, CALIFORNIA

ALAMEDA COUNTY VEHICLE REGISTRATION FEE (VRF) MEASURE F PROGRAM  
Notes to the Financial Statements  
For The Year Ended June 30, 2014

**NOTE 1 – BACKGROUND**

**Measure F Program** - Alameda County Vehicle Registration Fee Measure F (Measure F Program) was approved by the voters in November 2010, with 63 percent of the vote. The fee will generate about \$10.7 million per year by a \$10 per year vehicle registration fee. The collection of the \$10 per year vehicle registration fee started in the first week of May 2011. The goal of the VRF Program is to sustain the County's transportation network and reduce traffic congestion and vehicle related pollution. The program includes four categories of projects:

- Local Road Improvement and Repair Program (60 percent)
- Transit for Congestion Relief (25 percent)
- Local Transportation Technology (10 percent)
- Pedestrian and Bicyclist Access and Safety Program (5 percent)

The Alameda County Transportation Commission administers the program and distributes an equitable share of the funds among the four planning areas of the county over successive five year cycles. Geographic equity will be measured by a formula, weighted 50 percent by population of the planning area and 50 percent of registered vehicles of the planning area.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES**

**Reporting Entity** – All transactions of the Measure F Program of the City of Hayward, California (City), are included as a separate Special Revenue fund in the basic financial statements of the City.

The accompanying financial statements include the Measure F Program only and are not intended to fairly present the financial position, results of operations and cash flows of the City in conformity with accounting principles generally accepted in the United States of America.

**Basis of Accounting** – The accompanying financial statements are prepared on the modified accrual basis of accounting. Revenues are generally recorded when measurable and available, and expenditures are recorded when the related liabilities are incurred.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a "*current financial resources*" measurement focus, wherein only current assets, and deferred outflows of resources, and current liabilities, and deferred inflows of resources, generally are included on the balance sheets. Operating statements of governmental funds presents increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

**Description of Funds** – The accounts are maintained on the basis of fund accounting. A fund is a separate accounting entity with a self-balancing set of accounts.

*Special Revenue Fund* – to account for the proceeds of specific revenues (other than for capital projects) that are legally restricted to be expended for specified purposes.

**CITY OF HAYWARD, CALIFORNIA**

**ALAMEDA COUNTY VEHICLE REGISTRATION FEE (VRF) MEASURE F PROGRAM  
Notes to the Financial Statements  
For The Year Ended June 30, 2014**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (Continued)**

**Use of Estimates** - Management uses estimates and assumptions in preparing the financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosures of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

**NOTE 3 - CASH AND INVESTMENTS**

Cash and investments are maintained on a pooled basis with those of other funds of the City. Pooled cash and investments consist of U.S. government securities, bankers' acceptances, commercial paper, medium term notes, repurchase agreements, deposits with banks, and participation in the California Local Agency Investment Fund. All investments are stated at fair value. Pooled investment earnings are allocated monthly based on the average monthly cash and investment balances of the various funds and related entities of the City.

See the City's Comprehensive Annual Financial Report (CAFR) for disclosures related to cash and investments as prescribed by Governmental Accounting Standards Board Statement No. 40. The CAFR may be obtained from the City of Hayward, 777 B St., Hayward, California 94541-5007.

**NOTE 4 – BEGINNING BALANCE RESTATEMENT**

Subsequent to the issuance of the Measure F Program audited financial statements on December 10, 2013, the City discovered \$576,226 of Measure F Program expenditures that were incurred in fiscal year 2012-13 were not reported in the Measure F Program audited financial statements. Upon the discovery, the City recorded the expenditures in the Measure F Fund and reported the adjusted balance in the City's audited financial statement issued on February 18, 2014 with a negative ending fund balance of \$86,239. Upon further review by the Alameda County Transportation Commission (ACTC), the extra expenditure charges of \$86,239 were disallowed. As a result, the beginning fund balance of the Local Road Improvement Repair Program in the Measure F Program audited financial statements for fiscal year ended June 30, 2014 was reduced by the allowable amount of \$489,987 to zero balance.



**INDEPENDENT AUDITOR'S  
REPORT ON VEHICLE REGISTRATION FEE (VRF)  
MEASURE F COMPLIANCE**

Honorable Mayor, Members of the City Council  
and City Auditor of the City of Hayward, California

***Report on Compliance for Measure F Program***

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 Measure F Program of the City of Hayward (City), California, as of and for the year ended June 30, 2014 and the related notes to the financial statements, and have issued our report thereon dated December 19, 2014. Our report included an emphasis of a matter paragraph disclosing the implementation of new accounting principles.

***Management's Responsibility***

Management is responsibility for compliance with the requirements of laws, regulations, contracts, and grants specified in the *Master Programs Funding Agreement*, between the City and Alameda County Transportation Commission.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for the Measure F Program 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 requirements specified in the *Master Programs Funding Agreement* between the City and the Alameda County Transportation Commission. Those standards and requirements 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 Measure F Program. 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 the Measure F Program. However, our audit does not provide a legal determination of the City's compliance.

### ***Opinion on Measure F Programs***

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 Measure F Program for the year ended June 30, 2014.

### ***Report on Internal Control Over Compliance***

Management 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 Measure F Program's internal control over compliance with the types of requirements that could have a direct and material effect on Measure F Program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the Measure F Program and to test and report on internal control over 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 Measure F Program's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph 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. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

*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 normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of Measure F 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 Measure F Program will not be prevented, or detected and corrected, on a timely basis.

We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items VRF2014-01 to be a material weakness.

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.

The City's responses 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.

***Purpose of this Report***

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 specified in the Master Programs Funding Agreement between the City and Alameda County Transportation Commission. Accordingly, this report is not suitable for any other purpose.

Pleasant Hill, California  
February 20, 2015

**CITY OF HAYWARD**  
**ALAMEDA COUNTY VEHICLE REGISTRATION FEE (VRF) MEASURE F PROGRAM**  
**SCHEDULE OF CURRENT YEAR FINDINGS**

**Finding reference number: VRF2014-01 – Proper accrual for expenditures incurred**

**Criteria:** The City's internal control structure should allow City staff to properly identify grant expenditures and record them in the appropriate funds in a timely manner.

**Condition:** Subsequent to the issuance of the Measure F Program audited financial statements on December 10, 2013, the City discovered \$576,266 of Measure F Program expenditures that were incurred in fiscal year 2012-13 were not reported in the Measure F Program audited financial statements. Upon the discovery, the City recorded the expenditures in the Measure F Fund and reported the adjusted balance in the City's audited financial statement issued on February 18, 2014. As a result, the beginning fund balance of the Local Road Improvement Repair Program in the Measure F Program audited financial statements for fiscal year ended June 30, 2014 was reduced by \$576,266. These expenditures were subject to our testing in our current year audit.

**Effect:** Measure F Program expenditures for fiscal year 2012-13 were understated by \$576,266.

**Cause:** The City converted to a new financial system in 2013. The system implementation was given top priority during the months of July to September 2013, which are usually the months that the City focuses on closing its books of the prior fiscal year. The condition was exacerbated by the departure of the Accounting Manager and other vacancies in the department. The year-end audit was adversely affected as a result of the system conversion and staffing shortages. Consequently, adjustments to the Local Road Improvement Repair Program Fund for fiscal year 2012-13 were identified after the issuance of the Measure F Program audited report.

**Recommendation:** Ideally, the City's books should be closed concurrently with the year-end closing of the Local Road Improvement Repair Program Fund. If the Local Road Improvement Repair Program Fund needs to be closed before the close of the City's books, a thorough review should be conducted to ensure that all Measure F Program expenditures have been included in the Fund.

**View of Responsible Officials and Planned Corrective Actions:**

- **Name of contact person:** Dustin Claussen, Deputy Finance Director
  
- **Response:** The City adjusted its financial records to reflect the change in fiscal year 2013. Additionally, the beginning fund balance for fiscal year 2014 has been restated to reflect the expenditures accordingly.