

CITY OF HERCULES

Review Report

STATE AND FEDERAL EXPENDITURES

July 1, 2009, through June 30, 2010



JOHN CHIANG
California State Controller

May 2012



JOHN CHIANG
California State Controller

May 9, 2012

Dan Romero
Mayor of the City of Hercules
111 Civic Drive
Hercules, CA 94547

Dear Mr. Romero:

The State Controller's Office (SCO) performed a review of the federal and state funding expended by the City of Hercules for the period of July 1, 2009, through June 30, 2010.

We found the City of Hercules's accounting records related to federal and state expenditures (excluding gas tax funds) to be unauditabile. We made repeated requests to city staff members who either could not, or would not, produce accounting records and supporting documents to show how much, if any, federal and state grant funds have been spent. Some of the requested documents are very basic and inherent in any accounting system, such as general ledger account detail, where expenditures were to be recorded for all grants. The city's Senior Accountant resigned shortly after our review began. Her replacement repeatedly ignored SCO auditors' requests for records and documentation. Our requests for meetings often were not honored and, even after meetings had been scheduled, city staff failed to attend the meetings. The Senior Accountant's replacement left city service during our review, and no replacement was in place when we completed the fieldwork phase of our review. The Appendix to this report provides a chronology of auditors' attempts to obtain information from city staff.

From data in the city's grant files and based on audited financial statements, we calculated the city received a total of \$2,034,746 in federal and state grant funding (excluding gas tax funds) during the period of July 1, 2009 through June 30, 2010. As accounting records and supporting documentation were unavailable to show how much had actually been spent and that federal and state grant funds were used for authorized activities, we determined that the entire \$2,034,746 was questionable.

The above conditions could have existed for years prior to our review of the city's federal and state expenditures. Therefore, the city's potential fiscal liability to the federal government and the State could be much greater than \$2,034,746, unless the city can produce sufficient accounting records and supporting documentation to account for the funds.

In addition, we found that the city failed to comply with the federal reporting requirement to include all grants and their related expenditures in its fiscal year 2009-10 Single Audit Report of Federal Awards. The total amount of understatement was \$159,984 for four federal grants.

If you have any questions, please contact Steven Mar, Chief, Local Governments Audit Bureau, at (916) 324-7226.

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD
Chief, Division of Audits

JVB/wm

cc: Myrna de Vera, Council Member
Hercules City Council
Gerald Boulanger, Council Member
Hercules City Council
William Wilkins, Council Member
Hercules City Council
John Delgado
Vice Mayor of the City of Hercules
Steven Duran, City Manager
City of Hercules
Elizabeth Warmerdam, Deputy City Manager
City of Hercules
Nickie Mastay, Finance Director
City of Hercules

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Review Report

Introduction

The State Controller's Office (SCO) performed a review of the City of Hercules':

- State and federal funding for the period of July 1, 2009, through June 30, 2010;
- Selected transactions relating to various grants (state and federal) for Fiscal Year (FY) 2009-10; and
- City Annual Report of Financial Transactions (Financial Transactions Report) relating to state and federal funds for FY 2009-10.

This report presents the results of findings and conclusions reached in the SCO review of the city's expenditures of state and federal funds (excluding Fund 04--Gas Tax Fund), and the Financial Transactions Report with respect to state and federal funds.

On August 19, 2011, the SCO notified the Interim City Administrator, Liz Warmerdam, that the City of Hercules, and the Hercules Redevelopment Agency have not complied with state law regarding the submittal of annual reports and independent audits, as follows:

- **City of Hercules' Financial Transactions Report for FY 2009-10**

Negative amounts of \$11.8 million, \$3.3 million, \$14.2 million, and \$8.5 million of other liabilities are included in the General, Special Revenue, Debt Service, and Enterprise Funds, respectively. Generally, liabilities are presented as positive amounts in the liabilities and fund balance section of a city's financial statements.

- **City of Hercules' Financial Transactions Report for FY 2008-09**

Several material entries raise questions about the accuracy and reasonableness of information provided in this report:

- A prior period adjustment to the Retained Earnings in the amount of \$13.7 million was made to the Operating Revenue for Sewer Activity/Enterprise.
- Negative amounts of \$13 million, \$11.9 million, and \$9.6 million of other liabilities are included in the General, Debt Service, and Enterprise Funds, respectively. As noted above, generally, liabilities are presented as positive amounts in the liabilities and fund balance section of a city's financial statements.
- Prior period adjustments for advances in the amount of \$25.7 million are included in the Consolidated Statement of Revenues, Expenditures, and Changes in Fund Balance.

- **The Hercules Redevelopment Agency’s Financial Transactions Report for FY 2009-10**

For the Hercules Redevelopment Agency’s (RDA) projects—Hercules Dynamite and Hercules Project 2—no payments were noted in the report relative to its pass-through obligations for FY 2000-01 through FY 2002-03.

We also reviewed the independent audits of the city and financial audits of the RDA, and noted the following:

- **City of Hercules’ Independent Audit Report for Fiscal Year 2009-10**

The city’s Independent Audit Report (single audit) was submitted late and was incomplete. The report is required to be submitted by March 31, 2011, but we received nothing until July 28, 2011, when a portion of the single audit was provided. The complete report, including a Management Letter issued by the audit firm, was not received until August 15, 2011. The portion of the report that was submitted on July 28, 2011, and the Management Letter, indicated that there were 23 findings of significant deficiencies in both financial reporting and compliance. Failure to submit a complete audit report on time requires the State Controller’s Office to notify State agencies that provide the city with federal funds so they may take appropriate actions, including withholding funding.

We also reviewed the FY 2007-08 Independent Audit Report (the city claimed an exemption from the single audit requirement in FY 2008-09) which identified significant deficiencies in the city’s internal controls over financial reporting. The audit firm that prepared the FY 2009-10 report did not comment on the findings in the FY 2007-08 report, so we are unable to determine whether the findings have been corrected in the two years since they were identified.

- **Hercules Redevelopment Agency’s Audited Financial Statement for FY 2009-10**

The report identified the following issues:

- The report indicated that the Hercules RDA has a “going concern” issue. The factors cited to support this conclusion included: (1) the RDA had suffered a net asset deficit of \$48 million; (2) the Operating Special Revenue Fund and Affordable Housing Special Revenue Fund had deficits of \$8 million and \$2 million, respectively; and (3) the RDA’s tax increment revenue was insufficient to pay the current year’s debt service.
- The RDA’s prior Five-Year Implementation Plan expired on December 31, 2009, and the RDA failed to adopt a new plan within the statutory time limit. Pursuant to Health and Safety Code section 33490, the agency is required to adopt a new implementation plan every five years.

Based on the results of our reviews presented above, we have serious concerns about the reliability and accuracy of the information in the annual financial transactions reports for the city and the RDA, particularly in light of the following additional information about the city's and RDA's financial practices:

- Hercules Police Department initiated an investigation into city operations concerning deleted files/information.
- In June 2011, the Contra Costa County Grand Jury issued a report entitled *Hercules in Transition* (Report 1110) that urges the City Council to “come together immediately to address several pressing issues” (i.e., the city's deteriorating finances). At City Council meetings, it has been reported that expenses have exceeded revenues for the past six years, a total of \$6.6 million, and that the city has used bond funding to make up the difference. In addition, the city has been working to reduce a \$5.3 million projected deficit, of which \$1.5 million is related to RDA debt services that the city will need to pay.
- In 2010, the Contra Costa County Grand Jury issued a report entitled *The Crumbling Pillars of Hercules* (Report 1013) which described the appearance of impropriety and/or lack of transparency in the city's operation of its housing and business loan program(s).
- The Interim City Manager's Weekly Report dated December 3, 2010, identified several financial issues, specifically, the RDA's ability to pay its maturing obligation for bond payments and insufficient general fund revenues to continue municipal services.

After considering the above information, the SCO concluded that there is reason to believe that the Annual Report of Financial Transactions submitted by the city and the RDA is false, incomplete, or incorrect. Therefore, under Government Code section 12464(a), the SCO conducted an investigation to gather the information needed to validate the information provided for those reports for FY 2009-10.

Background

The City of Hercules is located in Contra Costa County, California. The city covers a total area of 18.2 square miles along southeast shore of San Pablo Bay. The city has a population of 24,060 according to the 2010 U.S. Census.

Objective, Scope, and Methodology

The objective of this review was to evaluate the expenditures of the City of Hercules' state and federal funding by:

- Reviewing the city's accounting system to verify whether it has sufficient controls to accurately accumulate and segregate costs;
- Reviewing the city's accounting records and supporting documentation to determine if the costs claimed are reasonable, allowable, and allocable, and are supported;

- Determining if payments by the city are legal and proper;
- Reviewing bidding process/procedures to verify compliance with state, federal, and or city procedures;
- Verifying that the city complied with contract provisions; and
- Verifying the accuracy of the Annual Report of Financial Transactions.

To accomplish our review objective, we performed the following procedures:

- Evaluated the city's formal written internal policies and procedures necessary to perform the stated objectives;
- Conducted interviews with city employees and observed the city's business operations for the purpose of evaluating administrative and internal accounting controls necessary to accomplish the stated objectives;
- Reviewed the city's documentation and supporting financial records; and
- Performed tests of transactions on a risk-based approach to ensure adherence with prescribed policies and procedures, and to validate and test the effectiveness of controls.

Conclusion

The City of Hercules could not produce accounting records to show how much money had been spent on federal and state grant activities. Based on grant files and the city's audited financial statements, we calculated that the city received a total of \$2,034,746 in federal and state funds (excluding gas tax funds) during the audit period of July 1, 2009, through June 30, 2010. In the absence of appropriate accounting records and supporting documentation, we questioned the entire amount. Furthermore, the city failed to comply with federal reporting requirements by not including all federal grants and their related expenditures in its FY 2009-10 Single Audit Report of Federal Awards. Four federal grants, totaling \$159,984, were omitted from the Single Audit report.

Views of Responsible Official

We issued a draft review report on April 20, 2012. Steven Duran, City Manager, responded by letter dated April 30, 2012, agreeing with the review results. The city's response is included in this final review report as an attachment.

Restricted Use

This report is solely for the information and use of the City of Hercules and the SCO; it is not intended to be and should not be used by anyone other than these parties. This restriction is not intended to limit distribution of this report, which is a matter of public record.

Original signed by

JEFFREY V. BROWNFIELD
Chief, Division of Audits

May 9, 2012

**Schedule 1—
Summary of State and Federal Expenditures
July 1, 2009, through June 30, 2010**

	Grant Revenues/ Expenditures	Tested Expenditures	Amount Questioned	Reference ¹
<u>State Awards</u>				
Office of Traffic Safety:				
Avoid the DUI	\$ 4,049 ²	\$ 4,049	\$ 4,049	Finding 1
Citizens Option for Public Safety (COPS)	100,000 ²	100,000	100,000	Finding 1
Department of Resources, Recycling and Recovery:				
Recycling	5,000 ²	5,000	5,000	Finding 1
Housing and Community Development:				
Building Equity and Growth in Neighborhoods (BEGIN)	<u>720,000 ²</u>	<u>720,000</u>	<u>720,000</u>	Finding 1
Total Expenditure of State Awards	<u>829,049</u>	<u>829,049</u>	<u>829,049</u>	
<u>Federal Awards</u>				
				Finding 1
Department of Transportation:				
Intermodal Rail Station Project	468,785 ³	468,785	468,785	Finding 1
Department of Transportation–ARRA:				
San Pablo Avenue Pavement Rehabilitation	576,928 ³	576,928	576,928	Finding 1
Department of Justice:				
Bulletproof Vest Partnership (BVP)	4,032 ²	4,032	4,032	Findings 1, 2
Environmental Protection Agency:				
Targeted Watershed–West Coast Estuaries Initiative	146,025 ²	146,025	146,025	Findings 1, 2
Bureau of Justice Assistance–ARRA:				
Edward Byrne Memorial Justice Assistance Grant (JAG) Program	5,103 ²	5,103	5,103	Findings 1, 2
Department of Homeland Security:				
State Homeland Security Grant (SHSG) Program	<u>4,824 ²</u>	<u>4,824</u>	<u>4,824</u>	Findings 1, 2
Total Expenditures of Federal Awards	<u>1,205,697</u>	<u>1,205,697</u>	<u>1,205,697</u>	
Total Expenditures of State and Federal Awards	<u>\$ 2,034,746</u>	<u>\$ 2,034,746</u>	<u>\$ 2,034,746</u>	

¹ See the Findings and Recommendations section.

² Amounts compiled from grant files provided by the city.

³ Amounts reported in the city's FY 2009-10 Single Audit Report.

Findings and Recommendations

Noncompliance With Government Code Sections 12463 and 12464

We reviewed the City of Hercules' Annual Report of Financial Transactions (Financial Transaction Report) for Fiscal Year (FY) 2009-10 relating to reported state and federal funds.

With respect to Government Code sections 12463.3 and 12464, our review determined that the state and federal funding transactions for FY 2009-10 reported by the city were incomplete and/or incorrect as follows:

- **FINDING 1**—The city failed to provide sufficient documentation to support its state and federal grants and grant expenditures. We questioned \$2,034,746.
- **FINDING 2**—The city did not report expenditures of \$159,984 for grants and their related expenditures for four federal grants in its FY 2009-10 Single Audit Schedule of Expenditures of Federal Awards.

The above findings should be taken into consideration when preparing the city's Financial Transactions Report for FY 2010-11.

FINDING 1— Lack of accounting records and documents to identify and support grant expenditures

City staff could not, or would not, provide us with the official financial records and supporting documentation for its federal and state grant expenditures. Without such information, we could not ascertain the amount, if any, the city actually spent on activities authorized by the federal and state grants.

By analyzing the limited information in the city grant files and the city's Single Audit Report, we calculated the city received a total of total \$2,034,746 in state and federal grant revenues in FY 2009-10 as follows:

- In its 2009-10 Single Audit Report, the city reported federal grant expenditures of \$1,045,714.
- Based on its grant files, the city failed to report \$159,984 in revenues received under four federal grants in its FY 2009-10 Single Audit Report (see Finding 2).
- Based on its grant files, the city received another \$829, 049 in state grants.

While we could reasonably determine the amount the city received through federal and state grants, we could not ascertain how much the city actually spent on authorized activities, because the city's grant files were incomplete and unorganized.

Additional documents were requested from the city to confirm the amounts reported, the amounts we compiled, and to determine the reasonableness, allowability, and the proper recording of expenditures. However, these items were not provided. Among the documents requested were as follows:

- General ledger account detail where expenditures were recorded for all grants;
- More complete supporting documentation for some expenditures (i.e., copies of invoices from contractors and vendors and other documents which support payments made);
- Grant agreements for grants between the city and the grantor agency not included in the grant files.

However, despite our repeated requests for the accounting records and supporting documents, city staff could not, or would not, provide such information (see Appendix for chronology of events relative to our requests for information and result). The city's Senior Accountant resigned shortly after our review began. Her replacement repeatedly ignored the SCO auditors' requests for records and documentation. Our requests for meetings often were not honored and, even after meetings had been scheduled, city staff failed to attend the meetings. The Senior Accountant's replacement left city service during the review, and no replacement was in place when we completed the fieldwork phase of our audit.

Without the requested records and documents, we have no means of determining whether any of the federal and state grant funds were spent on authorized activities, or whether the amounts incurred were reasonable, necessary, and in accordance with federal and state laws and regulations. Thus, we question the entire \$2,034,746 in federal and state grants that the city received during fiscal year 2009-10.

The above conditions could have existed for years prior to our review of the city's federal and state expenditures. Therefore, the city's potential fiscal liability to the federal government and the State could be much greater than \$2,034,746, unless the city can produce sufficient accounting records and supporting documentation to account for the funds.

Recommendation

The city should review and make available all its documents and accounting records pertaining to the federal and state funding for FY 2009-10. These records should be available for review by federal and state agencies and independent auditors for ensuring that these funds were accounted for and expended in accordance with federal and state laws and regulations.

City's Response

In FY2010-11 and FY2011-12, the City of Hercules has experienced an unprecedented rate of layoffs, resignations, and retirements. The Finance Department which once had a staff of nine is now down to a staff of four. During the time of the State Controllers audit, which started in September 2011, the Financial Department was fulfilling requests for information from a new outside audit firm and the FBI. Currently, the City of Hercules has a new management team, but the Finance Department is still staffed with four including the Director of Finance. The City of Hercules Management does not believe there is a lack of accounting records, but that the accounting records could not be produced when requested. The reason for this statement is because the City of Hercules prior audit firm Moss, Levy & Hartzheim produced a single audit for FY2009-10. For FY2010-11 the Single Audit, the Redevelopment Component Unit Financial Statements, and the Comprehensive Annual Financial Report are not complete. The City of Hercules staff will try and produce the documentation for the prior federal and state grants requests while producing documentation for the FY2010-11 audits. In the future, the City of Hercules staff will retain (in hard copy and electronic) all backup documentation for the various audits in an area (physical and electronic) known *[sic]* to the Finance Department and the City of Hercules management.

SCO's Comment

Although City of Hercules' management does not believe there is a lack of accounting records, the accounting records could not be produced when, and as requested. Therefore, we could not ascertain the amount, if any, the city actually spent on activities authorized by the federal and state grants.

The finding remains unchanged.

**FINDING 2—
Failure to comply with
federal reporting
requirements**

The city did not list grants and their related expenditures of \$159,984 for four federal grants, in its FY 2009-10 Single Audit Schedule of Expenditures of Federal Awards.

- U.S. Department of Justice (DOJ), Bulletproof Vest Partnership, \$4,032
- U.S. Bureau of Justice Assistance—ARRA, Edward Byrne Memorial Justice Assistance Grant, \$5,103
- U.S. Department of Homeland Security, State Homeland Security Grant, \$4,824
- U.S. EPA Targeted Watershed—West Coast Estuaries Initiative, \$146,025

OMB Circular No. A-133, which sets forth standards for obtaining consistency and uniformity among federal agencies for the audit of states, local governments, and non-profit organizations expending federal awards, Subpart C, section .310(b)(3), states that, at a minimum, schedules of expenditures of federal awards must “provide total Federal awards expended for each individual Federal program and the CFDA number or other identifying number when the CFDA information is not available.” As the city did not include the above-noted grant expenditures in its FY 2009-10 Single Audit Schedule of Expenditures of Federal Awards, the city did not meet the reporting requirements of OMB Circular No. A-133.

Recommendation

The city should comply with the standards set forth in OMB Circular No. A-133 and meet the reporting requirements set forth therein.

City’s Response

The City of Hercules management and staff will review and comply with the standards set forth in Circular No. OMB A-133 and meet the reporting requirements of this circular.

SCO’s Comment

The city will implement our recommendation.

The finding remains unchanged.

Appendix— Chronology of Documentation and Information Requests

<i>Type of Request</i>	<i>City Staff Member to Whom Request was Made</i>	<i>Date</i>	<i>Items Requested</i>	<i>Items Received</i>
E-mail request	Senior Accountant	September 13, 2011	8	8
E-mail request	Finance Department Consultant	September 20, 2011	1	1
E-mail request	Finance Department	September 27, 2011	28	0
Clarification e-mail	Senior Accountant	September 28, 2011	5	0
E-mail request	Finance Department Consultant	September 28, 2011	2	0
Status update	Finance Department	September 29, 2011	Status update on previous requests	
Status update	Finance Department	October 3, 2011	Status update on previous requests	
Follow-up e-mail for e-mail request, dated September 27, 2011	Finance Director	October 4, 2011	28 (same 28 as above)	0
Follow-up e-mail for e-mail request, dated September 27, 2011	Senior Accountant	October 4, 2011	10 (10 of which are part of the above)	0
Status update	Finance Department	October 10, 2011	Status update on previous requests	
Additional questions and follow-up e-mail for e-mail request, dated September 27, 2011	Finance Director	October 12, 2011	29 (28 of which are the same as above)	0
Follow-up e-mail for e-mail request, dated September 27, 2011	Finance Department Consultant	October 12, 2011	2 (2 of which are the same as the 2 above)	0
E-mail request	Finance Director	October 17, 2011	7	0
Status update	Finance Department	October 26, 2011	Status update on previous requests	
E-mail request	Public Works Director	November 1, 2011	3	3
Status update	Finance Department	November 3, 2011	Status update on previous requests	
Status update	Finance Department	November 7, 2011	Status update on previous requests	
E-mail request	Finance Director	November 14, 2011	1	0
Status update	Finance Department	November 16, 2011	Status update on previous requests	
E-mail request	Finance Department Consultant	November 21, 2011	42 (3 of which are the same as above)	0
Status update	Finance Department	November 28, 2011	Status update on previous requests	
E-mail request	City Clerk	November 29, 2011	7	0
Meeting request	Accounting Technician II	December 1, 2011	1	0
Follow-up e-mail for e-mail request, dated November 21, 2011	Finance Department Consultant	December 5, 2011	42 (total of all of the above)	0
Meeting request	Finance Director	December 5, 2011	1	0

Appendix (continued)

<i>Type of Request</i>	<i>City Member Staff to Whom Request was Made</i>	<i>Date</i>	<i>Items Requested</i>	<i>Items Received</i>
Follow-up e-mail for e-mail request, dated November 29, 2011	City Clerk	December 7, 2011	7	1
Status update	Finance Department	November 28, 2011	Status update on previous requests	
Status update	Finance Department	January 23, 2012	Status update on previous requests	
Follow-up e-mail for e-mail request, dated November 21, 2011	Accounting Technician II	January 24, 2012	42 (total of all of the above)	2
Status update	Finance Department	January 30, 2012	Status update on previous requests	
Follow-up e-mail for e-mail request dated November 21, 2011	Accounting Technician II	January 31, 2012	40 (40 of which are the same as above)	0
Clarification e-mail and meeting request	Accounting Technician II	February 1, 2012	3	0

We made 32 requests (e-mail and verbal) during the fieldwork and write-up phases of this review for 107 documents/copies of information/information clarification. The city only provided 15 of the items during the course of our review. Therefore, we were not able to perform all of the required review procedures, and were not able to obtain sufficient and competent evidence to reach complete and appropriate conclusions.

<i>Date of Request</i>	<i>Items Requested</i>
September 13, 2011	General ledger grant detail reports for certain revenue accounts.
September 27, 2011	Chart of accounts; Gas Tax Fund, Traffic Congestion Relief Fund, Proposition 1B, and ARRA trial balance and general ledger expenditure detail; payroll ledgers; timecards for employees who charged to the Gas Tax Fund; interest allocation worksheets and applicable journal entries; Gas Tax-funded fixed assets listing; general ledger detail reports for STP revenues and expenditures; contracts with Caltrans confirming and describing STP projects; Gas Tax transfer explanations and detail; Gas Tax-funded projects and detail; internal control policies and procedures relating to Gas Tax.
September 28, 2011	Clarification for general ledger grant expenditure accounts provided for two city projects.
October 12, 2011	In addition to the Gas Tax documents previously requested, we provided an internal control procedure questionnaire to the Finance Director to be filled out.
October 17, 2011	Copies of canceled checks for certain Gas Tax expenditures.
November 1, 2011	Questions regarding Proposition 1B expenditures and revenues.
November 14, 2011	City bank accounts and cash reconciliations.
November 21, 2011	Supporting grant expenditure documents (contractor and vendor invoices), general ledger grant expenditure detail, grant agreements, contact information for city contract administrators for fiscal year 2010 grants, and overall questions and clarification needed.
November 29, 2011	Employee credit card policy, employee travel policy, procurement/bidding files for certain city projects.
December 1, 2011	Requested meeting with Accounting Technician to discuss cash reconciliations; Accounting Technician did not show for the meeting, so a subsequent meeting was scheduled.
December 5, 2011	Asked Finance Director to schedule a meeting with Accounting Technician to discuss cash reconciliations; request was not granted since the Accounting Technician was "too busy."
February 1, 2011	Cash reconciliation questions and requested meeting to discuss.

**Attachment—
City's Response to Draft Audit Report**



CITY OF HERCULES
111 CIVIC DRIVE, HERCULES CA 94547
PHONE: (510) 799-8200

April 30, 2012

Steven Mar, Chief
Local Governments Audit Bureau
State Controller's Office
Division of Audits
P.O. Box 942850
Sacramento, CA 94250-5874

Dear Mr. Mar:

The State Controller's Office performed a review of the City of Hercules federal and state funded expenditures for the period of July 1, 2009 through June 30, 2010. Below is the City of Hercules management response to the findings in the State Controller's letter dated April 20, 2012.

Finding 1 - Lack of accounting records and documents to identify and support grant expenditures.

City of Hercules Management Response:

In FY2010-11 and FY2011-12, the City of Hercules has experienced an unprecedented rate of layoffs, resignations, and retirements. The Finance Department which once had a staff of nine is now down to a staff of four. During the time of the State Controller's audit, which started in September 2011, the Finance Department was fulfilling requests for information from a new outside audit firm and the FBI. Currently, the City of Hercules has a new management team, but the Finance Department is still staffed with four including the Director of Finance. The City of Hercules Management does not believe there is a lack of accounting records, but that the accounting records could not be produced when requested. The reason for this statement is because the City of Hercules prior audit firm Moss, Levy & Hartzheim produced a single audit for FY2009-10. For FY2010-11 the Single Audit, the Redevelopment Component Unit Financial Statements, and the Comprehensive Annual Financial Report are not complete. The City of Hercules staff will try and produce the documentation for the prior federal and state grants requests while producing documentation for the FY2010-11 audits. In the future, the City of Hercules staff will retain (in hard copy and electronic) all backup documentation for the various audits in an area (physical and electronic) known to the Finance Department and the City of Hercules management.

Finding 2 - Failure to comply with federal reporting requirements.

City of Hercules Management Response:

The City of Hercules management and staff will review and comply with the standards set forth in Circular No. OMB A-133 and meet the reporting requirements of this circular.

If you have any questions regarding these responses, please call Nickie Mastay, Finance Director at (510) 799-8222.

Sincerely,

A handwritten signature in black ink, appearing to read "Steve Duran", with a long horizontal flourish extending to the right.

Steve Duran
City Manager
City of Hercules

**State Controller's Office
Division of Audits
Post Office Box 942850
Sacramento, CA 94250-5874**

<http://www.sco.ca.gov>