
ASSOCIATED COMMUNITY ACTION PROGRAM

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT**

FOR THE YEAR ENDED DECEMBER 31, 2010

**ASSOCIATED COMMUNITY ACTION PROGRAM
AUDITED FINANCIAL STATEMENTS
DECEMBER 31, 2010**

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INDEPENDENT AUDITOR'S REPORT

The Honorable Governing Board Members
Associated Community Action Program
Hayward, California

We have audited the accompanying financial statements of the governmental activities, and the major fund of Associated Community Action Program (ACAP) as of and for the year ended December 31, 2010 which collectively comprise ACAP's basic financial statements as listed in table of contents. These financial statements are the responsibility of ACAP's management. Our responsibility is to express opinions on these financial statements based on our audit.

Except as discussed in the following paragraph, 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

We were unable to satisfy ourselves about ACAP's program revenues stated at \$2,536,903 due to lack of required breakdown and consultant and contracted services expense stated at \$639,832 due to lack of some supporting documents at December 31, 2010.

As described in Note 12 to the financial statements, the Governing Board of ACAP approved a plan of liquidation on March 23, 2011, and ACAP began liquidation shortly thereafter. As a result, ACAP changed its basis of accounting for periods after March 23, 2011, from the going concern basis to the liquidation basis.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to examine evidence regarding the program revenues, and consultant and contracted services expense, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund in liquidation of ACAP as of December 31, 2010, and the respective changes in net assets in liquidation, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that ACAP will continue as a going concern. As discussed in Note 12 to the financial statements, in March 2011, the Governing Board of ACAP decided to dissolve ACAP as an entity. This dissolution has become necessary due to financial mismanagement on the part of ACAP. These conditions raise substantial doubt about ACAP's ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 27, 2011 on our consideration of ACAP's internal control over financial reporting 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 financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and budgetary comparison information on pages 3 through 8 and page 20 are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise ACAP's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards which is supplementary information required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis 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, except for the effects on the supplementary information of the third paragraph of our report and finding 10-02 on page 30 the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Patricia V. Adams
Oakland, California
December 27, 2011

**ASSOCIATED COMMUNITY ACTION PROGRAM
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
DECEMBER 31, 2010**

This section of ACAP's annual financial report presents a discussion and analysis of ACAP's financial performance during the fiscal year ended December 31, 2010.

This management's discussion and analysis should be read in conjunction with ACAP's financial statements, including notes and supplementary information that immediately follow this section.

FINANCIAL HIGHLIGHTS

- ACAP had an operating deficit during the year 2010 that was resultant of adjustment for miscellaneous expenses during the fiscal year 2010.
- Agency was able to minimize program expenses through community partnership with Bayfair Center Mall, which resulted in substantial programmatic growth with no undue financial impact.
- The Agency has no long-term debt neither any capital assets.
- ACAP hired a new Business Manager in October 2010 who was tasked with reconciling financial transactions in ACAP's Quickbooks accounting system with the County's AlcoLink system.
- In February, 2011 the ACAP Governing Board dismissed the Executive Director who has subsequently filed a lawsuit for wrongful termination and Brown Act violation concerning her termination.
- In March 2011, the ACAP Governing Board voted to close down ACAP programs and to de-designate ACAP as the Community Action Agency. All but three employees were laid off on March 3, 2011. The remaining three employees were retained to assist in the close down of ACAP and were subsequently laid off September 30, 2011.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to ACAP's basic financial statements. ACAP's basic financial statements comprise three components (1) Government-wide financial statements; (2) Fund financial statements, and (3) Notes to the basic financial statements. Supplementary information is included in addition to the basic financial statements.

Government-wide financial statements are designed to provide readers with a broad overview of ACAP's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of ACAP's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Agency is improving or deteriorating.

The statement of activities presents information showing how net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*.

**ASSOCIATED COMMUNITY ACTION PROGRAM
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
DECEMBER 31, 2010**

Fund Financial Statements are groupings of related accounts that are used to maintain control over resources that have been segregated for specific activities or objective. ACAP, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Fund of ACAP is categorized as governmental fund.

Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is needful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. The governmental funds balance sheet and statement of revenues, expenditures and changes in fund balances do not differ from government activities in the statement of net assets and statement of activities.

Notes to the Basic Financial Statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 14 through 19 of this report.

Other Information:

In addition to the basic financial statements and accompanying notes, this report also presents other supplementary information. The other supplementary information can be found on page 20 of this report.

The Statement of Net Assets and the Statement of Activities:

The Statement of Net Assets and Statement of Activities report information about ACAP as a whole and about its activities. These statements include all assets and liabilities of ACAP using the modified accrual basis of accounting, which is similar to the accounting used by governmental entities. Revenues are recorded when susceptible to accrual (i.e. both "measurable and available"). "Measurable" means the amount of the transaction can be determined and "available" means collectible within 180 days of the end of the current period.

These two statements report ACAP's net assets and changes in them. Net assets are the difference between asset and liabilities, which is one way to measure ACAP's financial health, or financial position. Over time, increases or decreases in ACAP's net assets are one indicator of ACAP's ability to use the fund for the program. To assess the overall success of ACAP, you need to consider additional non-financial factors.

**ASSOCIATED COMMUNITY ACTION PROGRAM
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
DECEMBER 31, 2010**

In the government-wide financial statements, ACAP's activities are reported as governmental activities.

Statement of Net Assets

	<u>2010</u>	<u>2009</u>	<u>Total % Variance</u>
Assets			
Cash	\$ 252,186	\$ 94,199	168%
Cash, restricted – client escrow accounts	191,038	153,676	24%
Grants receivable	195,294	408,142	(52%)
Other receivables	17,071		N/A
Prepaid expenses	2,134		N/A
Total assets	<u>657,723</u>	<u>656,017</u>	<u>0%</u>
Liabilities			
Accounts payable	277,728	158,135	76%
Client escrow accounts	175,653	153,676	14%
Revolving line of credit (interest free)	250,000	230,000	9%
Accrued salaries and wages	126,279		N/A
Accrued vacation	12,711	38,050	(67%)
Payroll taxes payable	3,897	6,380	(39%)
Due to DHHS	434,144		N/A
Due to the City of Fremont	44,306		N/A
Deferred revenue		19,667	(100%)
Total liabilities	<u>1,324,718</u>	<u>605,908</u>	<u>119%</u>
Total net assets	<u>\$ (666,995)</u>	<u>\$ 50,109</u>	<u>(1431%)</u>

There have been fluctuations in cash; grants receivable, deferred revenue and payable in the course of business as the timing of payments to the service providers are dependent on the timing of submission of their invoices and the subsequent reimbursement from the funding agency.

Grants receivable of \$195,294 pertains to revenue recognized but not received as of December, 31, 2010 from CSBG Grant and other non-federal grants. This was received subsequently in the year 2011. The fluctuation in deferred revenue resulted from receipt of grant advances which was not fully expended at December 31, 2009. This was subsequently expended in 2011.

**ASSOCIATED COMMUNITY ACTION PROGRAM
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
DECEMBER 31, 2010**

	<u>2010</u>	<u>2009</u>	<u>Total % Variance</u>
Changes in net assets			
Revenues:			
Program revenues	\$ 2,536,903	\$ 1,670,245	52%
Contributions	15,000		N/A
Interest income	687	742	7%
Other income	44,100		N/A
Total revenues	<u>2,596,690</u>	<u>1,670,987</u>	<u>55%</u>
Expenditures:			
Program expenditures:			
Salaries and benefits	2,207,009	984,841	124%
Consultant and contracted services	639,832	652,000	(2%)
Professional services	33,357	13,482	147%
Supplies	108,970	960	11251%
Rent	50,546		N/A
Utilities	41,877		N/A
Travel	35,207	11,494	206%
Insurance	9,434		N/A
Printing and copying	7,662		N/A
Equipment rental and maintenance	6,937		N/A
Training	3,947	315	1153%
Bank charges	2,026		N/A
Postage	1,934		N/A
Dues and subscriptions	1,193		N/A
Licenses and fees	478		N/A
Other operating costs		6,221	(100%)
Outreach event expenses		1,756	(100%)
Other operating expenses	163,385	675	24105%
Total expenditures	<u>\$ 3,313,794</u>	<u>\$ 1,671,744</u>	<u>98%</u>

In addition to the Community Services Block Grant (CSBG) award through the California State Department of Community Services and Development which ACAP receives each year, ACAP also received major grant funding from the ARRA-CSBG grant and the AmeriCorp grant.

Other key grants include a three-year award for youth employment services from the Alameda County Workforce Investment Board and a California Gang Reduction Intervention and Prevention grant from Office of the Governor. ACAP continues to administrate the Assets for Independence Grant, which is a direct grant from the federal Department of Health and Human Services. This grant provides the infrastructure for the Individual Development Account program. This demonstration grant has successfully partnered the funds offered by the federal grant with local matching dollars.

**ASSOCIATED COMMUNITY ACTION PROGRAM
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
DECEMBER 31, 2010**

Based on the cash balance remaining at the end of each quarter in the Trust Fund, the program received a proportionate share of interest income calculated by the Controller's office quarterly based on the countywide pool of trust funds balances for each period.

Major Fund Financial Analysis and General Fund Budgetary Highlights

The budgeted revenues and expenditures amounted to \$3,280,953 and \$3,280,953, respectively. However, the actual revenues were \$2,516,528 and expenditures \$3,301,083 leaving a deficit of \$784,555.

ACAP also maintains a separate Citibank account as required by the Discretionary grant. This account consists of ACAP's control account and program participant's sub accounts. ACAP monitors the participant's deposit activity through this account.

We have not budgeted interest income as we have no control as to how much will be our proportionate share of the total interest income earned on the pooled funds held by the County.

Services were being provided by employees of ACAP in fiscal years 2010 and 2009 and therefore salary and benefits expenses increased whereas the contracted service expenses have reduced during the year 2010.

Fiscal Year 2010 Accomplishments

ACAP continues to experience growth through the acquisition of new grants and launching new programs.

In 2010 we began the program planning and implementation for the Prisoner Reentry Initiative grant received by the state Department of Community Services and Development. ACAP was one of only three agencies invited to participate in this demonstration grant that works to provide a strong system for ex-offender reentry into society after incarceration. The grant provided enough funding for some programmatic staff and was supplemented by in-kind services from a wide breadth of partners including the Alameda County Sheriff's Office, Alameda County Probation, and the Health Care Services Agency.

ACAP also increased the capacity of the Youth Leadership Council through a Drug Free Communities grant partnership that provided funding for training and community participation. Additional Youth Leadership Council funding included a grant from the Kaiser Permanente Foundation and the Clear Channel Worldwide.

The Assets for Independence program has seen continual client successes with two clients purchasing homes and six clients capitalizing businesses. An additional two clients paid for educational expenses.

The youth services at the Bayfair Employment Training Academy (BETA) continue to be offered and the client base is growing.

**ASSOCIATED COMMUNITY ACTION PROGRAM
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
DECEMBER 31, 2010**

Subsequent Events

In February 2011 fiscal management problems among other issues were brought to the ACAP Governing Board's attention which resulted in the Governing Board taking decisive action to rectify these problems. The Governing Board de-designated itself as a Community Action Agency in March 2011 and stopped providing direct client services at that time. All but three ACAP employees were either terminated or laid-off by March 3, 2011 and the remaining three employees were kept to assist in the close down of ACAP and were laid off September 30, 2011. On March 23, 2011 the Governing Board designated and its member agencies hired a ("management consulting firm") to take all necessary steps to identify ACAP's outstanding obligations and assets and ultimately dissolve ACAP.

During the months following the Governing Board's action in March 2011 the following actions were taken to meet the Governing Board's directive.

1. Contact was made with those agencies which had provided grant funding to ACAP and ACAP advised these agencies of ACAP's dissolution. ACAP took those actions necessary to reconcile and pay outstanding invoices, request payment of grant revenues owed to ACAP, and provide requested close-out documentation to the grant funding agencies.
2. ACAP liquidated all of its furniture, office equipment and office supplies.
3. ACAP terminated all vendor services and all office leases.
4. The ACAP Governing Board adopted a Records Retention and Disposal policy. ACAP's records were organized and sent to a records storage company which will manage ACAP's records in accordance with ACAP's Records Policy and will retrieve records upon request.
5. Developed and adopted an amendment to the ACAP Joint Powers Agreement which changes the purpose of ACAP from an agency which provided social services to an agency which will provide those ministerial responsibilities necessary to discharge ACAP's remaining legal responsibilities until it can be dissolved. The amendment to the JPA also changed the make-up of the Governing Board from elected officials to the chief administrative officers of each of the member agencies.

Contacting ACAP Financial Management

This financial report is designed to provide Board of Directors, management, and federal awarding agencies and pass-through entities with a general overview of ACAP's finances and to show ACAP's accountability for the money it receives. If you have any questions regarding this report or need additional financial information, contact Ms. Joni Pattillo, Chair ACAP Governing Board, 100 Civic Plaza, Dublin, CA 94568.

**ASSOCIATED COMMUNITY ACTION PROGRAM
STATEMENT OF NET ASSETS
DECEMBER 31, 2010**

	<u>Governmental Activities</u>
Assets:	
Current assets:	
Cash (Note 3)	\$ 252,186
Cash, restricted (Note 3)	191,038
Grants receivable (Note 4)	195,294
Other receivables	17,071
Prepaid expenses	<u>2,134</u>
Total assets	<u>657,723</u>
 Liabilities:	
Accounts payable	277,728
Client escrow accounts (Note 3)	175,653
Revolving line of credit (Note 5)	250,000
Accrued salaries and benefits	126,279
Accrued vacation	12,711
Accrued payroll taxes	3,897
Due to Department of Health & Human Services (Note 6)	434,144
Due to the City of Fremont (Note 7)	<u>44,306</u>
Total liabilities	<u>1,324,718</u>
 Net assets:	
Unrestricted net assets	<u>(666,995)</u>
Total net assets	<u>\$ (666,995)</u>

The accompanying notes are an integral part of these financial statements

**ASSOCIATED COMMUNITY ACTION PROGRAM
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2010**

REVENUES	<u>General Fund</u>
Program revenues	\$ 2,536,903
Contributions	15,000
Interest income	687
Other income	44,100
	<hr/>
Total revenues	2,596,690
	<hr/>
EXPENDITURES	
Salaries and benefits	2,207,009
Consultant and contracted services	639,832
Professional services	33,357
Supplies	108,970
Rent	50,546
Utilities	41,877
Travel	35,207
Insurance	9,434
Printing and copying	7,662
Equipment rental and maintenance	6,937
Training	3,947
Bank charges	2,026
Postage	1,934
Dues and subscriptions	1,193
Licenses and fees	478
Other operating expenses (Note 8)	163,385
	<hr/>
Total expenditures	3,313,794
	<hr/>
Change in net assets	(717,104)
Net assets, beginning of year	50,109
	<hr/>
Net assets, end of year	\$ <u><u>(666,995)</u></u>

The accompanying notes are an integral part of these financial statements

**ASSOCIATED COMMUNITY ACTION PROGRAM
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2010**

	<u>General Fund</u>	<u>Total Governmental Funds</u>
Assets:		
Current assets:		
Cash	\$ 252,186	\$ 252,186
Cash, restricted	191,038	191,038
Grants receivable	115,132	115,132
Other receivables	17,071	17,071
Prepaid expenses	<u>2,134</u>	<u>2,134</u>
Total assets	\$ <u>577,561</u>	\$ <u>577,561</u>
 Liabilities and fund balance:		
Accounts payable	\$ 277,728	\$ 277,728
Client escrow accounts	175,653	175,653
Revolving line of credit	250,000	250,000
Accrued salaries and benefits	126,279	126,279
Accrued payroll taxes	3,897	3,897
Due to Department of Health & Human Services	434,144	434,144
Due to the City of Fremont	<u>44,306</u>	<u>44,306</u>
Total liabilities	<u>1,312,007</u>	<u>1,312,007</u>
 Fund balance:		
Unrestricted fund balance	<u>(734,446)</u>	<u>(734,446)</u>
Total liabilities and fund balance	\$ <u>577,561</u>	\$ <u>577,561</u>

The accompanying notes are an integral part of these financial statements

**ASSOCIATED COMMUNITY ACTION PROGRAM
STATEMENT OF REVENUES, EXPENDITURES & CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2010**

REVENUES	General Fund	Total Governmental Funds
	<u> </u>	<u> </u>
Program revenues	\$ 2,456,741	\$ 2,456,741
Contributions	15,000	15,000
Interest income	687	687
Other income	44,100	44,100
	<u> </u>	<u> </u>
Total revenues	2,516,528	2,516,528
EXPENDITURES		
Salaries and benefits	2,194,298	2,194,298
Consultant and contracted services	639,832	639,832
Professional services	33,357	33,357
Supplies	108,970	108,970
Rent	50,546	50,546
Utilities	41,877	41,877
Travel	35,207	35,207
Insurance	9,434	9,434
Printing and copying	7,662	7,662
Equipment rental and maintenance	6,937	6,937
Training	3,947	3,947
Bank charges	2,026	2,026
Postage	1,934	1,934
Dues and subscriptions	1,193	1,193
Licenses and fees	478	478
Other operating expenses	163,385	163,385
	<u> </u>	<u> </u>
Total expenditures	3,301,083	3,301,083
Net change in fund balance	(784,555)	(784,555)
Fund balance, beginning of year	50,109	50,109
	<u> </u>	<u> </u>
Fund balance, end of year	\$ (734,446)	\$ (734,446)

The accompanying notes are an integral part of these financial statements

**ASSOCIATED COMMUNITY ACTION PROGRAM
RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET TO THE STATEMENT OF NET ASSETS
AND THE GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE TO THE STATEMENT OF ACTIVITIES
DECEMBER 31, 2010**

Total fund balance - governmental funds	\$	(734,446)
As the focus of governmental fund is on short-term financing, some assets will not be available for current expenditures. Those assets (grants receivable) are not included in fund balances		80,162
Accrued vacation is not due and payable in the current period and therefore is not reported as liability in the funds.		<u>(12,711)</u>
Unrestricted net assets - governmental activities	\$	<u>(666,995)</u>
Net change in fund balance - governmental funds	\$	(784,555)
As the focus of governmental fund is on short-term financing, some assets will not be available for current expenditures. Those assets (grants receivable) are not included in fund balances		80,162
Accrued vacation is not due and payable in the current period and therefore is not reported as liability in the funds.		<u>(12,711)</u>
Net change in Unrestricted net assets - governmental activities	\$	<u>(717,104)</u>

The accompanying notes are an integral part of these financial statements

**ASSOCIATED COMMUNITY ACTION PROGRAM
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010**

NOTE 1: NATURE OF ACTIVITIES

General

Associated Community Action Program (ACAP) is a public agency (Joint Powers Authority) formed by twelve cities and the County of Alameda to serve as the Community Action Agency and to administer grants such as the Community Services Block Grant (CSBG) from the US Department of Health and Human Services. The Governing Board of ACAP is composed of elected officials from each member government. As of July 1, 2000, the Social Services Agency of Alameda County is the fiscal agent for ACAP.

ACAP has defined its reporting entity in accordance with the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, Section 2100. These standards provide guidance for determining which governmental activities, organizations and functions should be included in the reporting entity, and how information about them should be presented. Section 2100 sets forth the exercise of oversight responsibility of a government's elected officials as the basic criterion for including a governmental unit in a governmental reporting entity.

Oversight responsibility is derived from governmental unit's power and includes, but not limited to: (a) financial interdependency; (b) selection of governing authority; (c) designation of management; (d) ability to significantly influence operations; and (e) accountability for fiscal matters. The most significant manifestation of oversight is financial interdependency. Manifestations of financial interdependency include responsibility for financing deficits, entitlements to surpluses and guarantees of or "moral responsibility" for debt.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Measurement Focus and Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included in the statement of net assets and operating statements present increases (revenues) and decreases (expenses) in net total assets. Under the accrual basis of accounting, revenues are recognized when earned and expenditures are recognized at the time the liability is incurred.

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are susceptible to accrual (i.e., both measurable and available”). “Measurable” means the amount of the transaction can be determined and “available” means collectible within 180 days of the end of the current period. ACAP considers all revenues available if the relevant expenditures have occurred. Expenditures are recorded when the liability is expected to be liquidated with expendable available resources.

Intergovernmental revenues, which are received as reimbursement for specific purposes of projects, are recognized based upon the expenditures recorded.

B. Basis of Presentation – Fund Accounting

ACAP applies all applicable GASB pronouncements in accounting and reporting for its operations as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARBs) of the Committee on Accounting Procedure.

The accounts of ACAP are recognized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, net assets, revenues and expenditures or expenses, as appropriate. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions.

The various funds are summarized by type in the financial statements. Fund types used by ACAP are described below:

Governmental Funds

General Fund – General fund is the operating fund of ACAP, which is used to account for all financial resources.

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information of ACAP activities as a whole, ACAP only uses governmental activities, which normally are supported by grants.

The statement of activities demonstrates the degree to which direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment.

Separate financial statements are provided for the governmental fund. The governmental fund is reported as a separate column in the fund financial statements.

C. Budgetary Data

Budgets are approved annually each December (calendar year budget) by ACAP's governing board. Budgets are prepared and approved at the individual contractor and program level. Accordingly, the level of budgetary control by ACAP's governing board is at the contractor level. Under GASB No. 34, budgetary comparison information is required to be presented for the general fund and each major special revenue fund with a legally adopted budget. There were no budget amendments during the year.

D. Cash

Cash funds include bank balance held in ACAP's control account at Citibank and cash funds which are held by the County of Alameda (the "County") as a component of its pooled cash and investments. At December 31, 2010, the County's pooled investments were insured, registered and were held by the County or its agent in the County's name. Interest earned on pooled investments is allocated based on the average daily cash balance. Relevant information about the separate portion of the investment pool related to ACAP fund is not available. Information regarding the characteristics of the entire investment pool can be found in the County's June 30, 2011 basic financial statements.

E. Grants Receivable

ACAP considers grants receivable to be fully collectible; accordingly no allowance for doubtful accounts is required. If amounts become uncollectible, they will be charged to operations when that determination is made.

F. Deferred Revenue

Deferred revenue represents revenue collected but not earned as of December 31, 2010.

G. Program Revenues

Program revenues are funded primarily by Federal grants, which generally restricts the use of such funds to cover the operating expenses directly related to providing primary services. These grants are recognized as revenue over the periods specified in the related grant award agreements.

H. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 3: CASH

ACAP maintains its cash balances in financial institutions located in Northern California. Accounts at the institution are insured by the Federal Deposit Insurance Corporation up to \$250,000. At December 31, 2010 cash balances at the financial institutions before reconciling items were \$441,168, including the restricted cash. It is the opinion of the management that the solvency of the financial institution is not of a particular concern at this time. Cash at December 31, 2010 consists of the following:

County of Alameda – pooled cash	\$	14,508
Citibank Control Account		221,759
Union Bank Checking		13,862
Petty cash		<u>2,057</u>
Sub-total		252,186
Citibank Client Accounts -- restricted		<u>191,038</u>
Total	\$	<u>443,224</u>

Restricted cash of \$191,038 belongs to the participants of the Assets For Independence (AFI) Program and matching funds from the non-AFI grant sources. Participants' savings deposited are matched with donated funds and AFI funds (one-third from each). The funds may only be used in compliance with program regulations.

NOTE 4: GRANTS RECEIVABLE

Grants receivable at December 31, 2010 consist of the following:

Summer Youth Employment Program	\$	80,162
CSBG 2010		42,772
Employment Plus Program		40,029
AmeriCorp		<u>32,331</u>
Total	\$	<u>195,294</u>

NOTE 5: REVOLVING LINE OF CREDIT

On February 10, 2009, the Board of Supervisors of the County of Alameda approved the establishment of a revolving trust fund administered by the Social Services Agency (SSA) with a balance not to exceed \$250,000 to help meet the operational needs of ACAP. This amount was advanced by SSA to ACAP between March 2009 and January 2010, and is still outstanding at December 31, 2010.

NOTE 6: DUE TO DEPARTMENT OF HEALTH AND HUMAN SERVICES

ACAP was awarded a \$500,000 Assets for Independence (AFI) grant by the Administration for Children and Families' (ACF) Office of Community Services (OCS) effective June 15, 2005. The AFI program requires ACAP to provide a 1:1 non-Federal match to the participants' deposits (one-third from participants, one-third from non-federal source, one-third from AFI grant). ACAP failed to meet the matching requirement during the life of the grant, and therefore was directed to return \$434,144 to the Federal government. This \$434,144 is the difference between the total Federal funds released to ACAP between July 2007 and June 2010, which totaled \$497,146, and the total allowable, documented grant expenses, which amounted to \$63,002. Of the total liability of \$434,144, \$117,413 was paid in October 2011 from the remaining funds in the Citibank Control Account. ACAP has submitted a claim against its Crime Insurance Policy for payment of the remaining amount due to the Federal government.

NOTE 7: DUE TO THE CITY OF FREMONT

The \$44,306 represents the unused grant money received by ACAP from the City of Fremont. The total funds received during the life of the grant exceeded the amount of actual and allowable expenses since the program ended early. This amount was returned to the City of Fremont in August 2011.

NOTE 8: OTHER OPERATING EXPENSES

Other operating expenses include several adjustments to reconcile various account balances.

NOTE 9: OPERATING LEASE

On May 28, 2010, ACAP entered into an operating lease agreement with an outside lessor to lease an office space at 111 Review Way, Hayward, California with an original termination date of June 30, 2015. On June 6, 2011, the lease agreement was amended to advance the termination date to June 30, 2011. In addition, the base rent was reduced from \$12,500 to \$5,540 on a month-to-month basis starting July 1, 2011.

During the year ended December 31, 2010, some of ACAP's operation and administration was carried out in the facilities of the County of Alameda. In addition, ACAP received the fiscal services from the employees of the County of Alameda at no charge.

NOTE 10: CONTINGENCIES

The support from federal and state funds is subject to review and audit by grantor agencies, the purpose of which is to ensure compliance with the specific conditions of the grant. Any liabilities for reimbursement that may arise as a result of these audits cannot be reasonably determined at this time.

Grants and contracts require the fulfillment of conditions, as set forth in the terms of the grant or contract agreements, and are subject to audit by the grantor. Failure to comply with these conditions could result in the return of funds to grantors.

ACAP is a defendant in a lawsuit filed by former Executive Director for alleged violation of various provisions of the Brown Act, California Open Meeting Laws and for improperly withholding two documents from her, in violation of California Public Records Act. Outside Counsel for ACAP has advised that at this stage in the proceedings, he cannot offer an opinion as to the probable outcome. ACAP believes the suit is without merit and is vigorously defending its position.

NOTE 11: DISSOLUTION AND GOING CONCERN

In March 2011, ACAP ceased providing direct client services and terminated nearly all of its employees. Management Partners, Inc. (MP), a third party consultant, was appointed by the ACAP Governing Board to be the administrator in the dissolution of ACAP. This dissolution has become necessary due to financial mismanagement on the part of ACAP. MP was hired in the capacity of a management consultant and to provide interim management services. MP has been directed to close-out the affairs of ACAP as expeditiously as possible, and its responsibilities include closing out all grants received by ACAP.

NOTE 12: LIQUIDATION

On March 23, 2011, the Governing Board of ACAP approved a plan of liquidation, and ACAP began liquidation shortly thereafter. As a result, ACAP changed its basis of accounting for periods after March 23, 2011, from the going concern basis to the liquidation basis.

NOTE 13: EVALUATION OF SUBSEQUENT EVENTS

ACAP has reviewed the results of operations for the period of time from its year end December 31, 2010 through December 27, 2011 the date which the financial statements were available to be issued and have determined that no adjustments are necessary to the amounts reported in the accompanying financial statements nor have any subsequent events occurred, the nature of which would require additional disclosure.

REQUIRED SUPPLEMENTARY INFORMATION

**ASSOCIATED COMMUNITY ACTION PROGRAM
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2010**

REVENUES	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Program revenues	\$ 3,136,747	\$ 2,456,741	\$ (680,006)
Contributions	109,206	15,000	(94,206)
Interest income		687	687
Other income	35,000	44,100	9,100
	<u>3,280,953</u>	<u>2,516,528</u>	<u>(764,425)</u>
Total revenues			
EXPENDITURES			
Salaries and benefits	1,976,947	2,194,298	(217,351)
Consultant and contracted services	500,000	639,832	(139,832)
Professional services	35,345	33,357	1,988
Supplies	16,000	108,970	(92,970)
Rent	86,067	50,546	35,521
Utilities	18,000	41,877	(23,877)
Travel	18,094	35,207	(17,113)
Insurance	7,000	9,434	(2,434)
Printing and copying		7,662	(7,662)
Equipment rental and maintenance	14,500	6,937	7,563
Training	3,000	3,947	(947)
Bank charges		2,026	(2,026)
Postage	1,000	1,934	(934)
Dues and subscriptions	2,000	1,193	807
Licenses and fees		478	(478)
Other operating expenses	603,000	163,385	439,615
	<u>3,280,953</u>	<u>3,301,083</u>	<u>(20,130)</u>
Total expenditures			
Net change in fund balance		(784,555)	(784,555)
Fund balance, beginning of year		<u>50,109</u>	<u>50,109</u>
Fund balance, end of year	\$ <u><u> </u></u>	\$ <u><u>(734,446)</u></u>	\$ <u><u>(734,446)</u></u>

**ASSOCIATED COMMUNITY ACTION PROGRAM
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2010**

<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Program Expenditures</u>
<u>DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>			
Assets for Independence Program	93.602		\$ <u>16,891</u>
Total Department of Health and Human Services:			\$ <u>16,891</u>
Pass-through programs from:			
State Department of Community Services and Development			
Community Services Block Grant (Formula Grant)	93.569	08F-4902	\$ 15,384
Community Services Block Grant (Formula Grant)	93.569	10F-4002	475,808
Pass-through program from:			
State Department of Community Services and Development			
ARRA 2009 - Community Services Block Grant	93.710	09F-5102	804,236
Alameda County Workforce Investment Board			
ARRA 2010 - Summer Youth Employment Program	93.714	900476	<u>237,543</u>
Sub total pass-through programs			\$ <u>1,532,971</u>
Total Department of Health and Human Services			\$ <u>1,549,862</u>
<u>Corporation for National and Community Service (CNCS)</u>			
Pass-through program from:			
California Volunteers			
ARRA- AmeriCorps	94.006	06FHY16-F138	\$ 338,804
ARRA- AmeriCorps	94.006	06FHY17-F138	<u>372,246</u>
Total Corporation for National and Community Service (CNCS)			\$ <u>711,050</u>
<u>DEPARTMENT OF LABOR - Employment Training and Administration</u>			
Pass-through program from:			
Alameda County Workforce Investment Board			
WIA Grant Employment Plus Youth Services (2008 - 2009)	17.259	900476	\$ 14,637
WIA Grant Employment Plus Youth Services (2009 - 2010)	17.259	900476	163,717
WIA Grant Employment Plus Youth Services (2010 - 2011)	17.259	900476	75,176
ARRA 2009 - Summer Youth Employment Program	17.259	900476	172
Pass-through program from:			
Alameda County Health Care Services Agency			
Young Offender Planning Grant	17.261	YF-18885-09-60-A6	<u>174,220</u>
Total Department of Labor			\$ <u>427,922</u>

"continued"

**ASSOCIATED COMMUNITY ACTION PROGRAM
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2010**

<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Program Expenditures</u>
<u>DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>			
Pass-through program from:			
Alameda County Housing and Community Development CDBG - Highland/Cherryland District Mural Project	14.218	GR08-01-8622	\$ 28,793
Pass-through program from:			
City of Fremont Community Development Block Grants	14.218	08-650	<u>2,626</u>
Total Department of Housing and Urban Development			\$ <u>31,419</u>
<u>DEPARTMENT OF JUSTICE - Office of Justice Program, Bureau of Justice Assistance</u>			
Pass-through program from:			
Office of Justice Program CSD - Prisoner Re-Entry Initiative	16.202	08R-5202	\$ <u>212</u>
Total Expenditures of Federal Awards			\$ <u>2,720,465</u>

"concluded"

Note 1. Basis of Presentation

The above schedule of expenditures of federal awards ("the schedule") includes the federal grant activity of Associated Community Action Program under programs of the federal government for the year ended December 31, 2010. The information in this schedule is presented in accordance with the requirements of the office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of Associated Community Action Program, it is not intended to and does not present the financial position and changes in net assets of Associated Community Action Program.

Note 2. Summary of Significant Accounting Policies

Expenditures reported on the above schedule are reported on the cash basis of accounting.

Note 3. Subrecipients

Of the federal expenditures presented in the schedule, ACAP provided federal awards to subrecipients as follows:

<u>CFDA Number</u>	<u>Program Name</u>	<u>Amounts Provided to Subrecipients</u>
93.569	Community Services Block Grant (Formula Grant)	\$ 253,728
93.710	ARRA 2009 - Community Services Block Grant	7,031
94.006	ARRA - AmeriCorps	1,690
94.006	ARRA - AmeriCorps	45,623
17.259	WIA Grant Employment Plus Youth Services (2009-2010)	7,544
17.261	Youth Offender Planning Grant	1,488
14.218	CDBG - Highland/Cherryland District Mural Project	<u>3,506</u>
		\$ <u>320,610</u>

**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 Governing Board Members
Associated Community Action Program
Hayward, California

We have audited the financial statements of the governmental activities, and the major fund of Associated Community Action Program (ACAP) as of and for the year ended December 31, 2010, which collectively comprise ACAP's basic financial statements and have issued our report thereon dated December 27, 2011. 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

In planning and performing our audit, we considered ACAP's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of ACAP's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of ACAP's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs under items 10-01, 10-02 and 10-03 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether ACAP'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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 10-04, 10-05, 10-06, 10-07, 10-08 and 10-09.

ACAP's response to the findings identified in our audit are described in the accompanying schedule of findings and questions costs. We did not audit ACAP's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Board Members, others within the entity, regulatory body, 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.

Patricia V. Andrews
Oakland, California
December 27, 2011

**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 Governing Board Members
Associated Community Action Program
Hayward, California

Compliance

We have audited Associated Community Action Program (ACAP)'s compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of ACAP's major federal programs for the year ended December 31, 2010. ACAP'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 ACAP's management. Our responsibility is to express an opinion on ACAP'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 ACAP'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 ACAP's compliance with those requirements.

As described in items 10-04, 10-05, 10-06, 10-07 and 10-08 in the accompanying schedule of findings and questioned costs, ACAP did not comply with requirements regarding allowable costs/cost principles, activities allowed or unallowed, eligibility, reporting and subrecipient monitoring that are applicable to its ARRA – AmeriCorps, ARRA 2009 - Community Services Block Grant and Community Services Block Grant (Formula Grant) programs. Compliance with such requirements is necessary, in our opinion, for ACAP to comply with requirements applicable to these programs.

In our opinion, because of the effects of noncompliance described in the preceding paragraph, ACAP did not comply in all material respects, with the requirements referred to above that could have a direct and material effect on ARRA – AmeriCorps, ARRA 2009 - Community Services Block Grant and Community Services Block Grant (Formula Grant) programs.

Internal Control Over Compliance

Management of ACAP 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 ACAP's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine our 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 ACAP'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 significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 10-04, 10-05, 10-06 and 10-08 to be material weaknesses.

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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 10-07 to be significant deficiencies.

ACAP's responses to the findings identified in our audit are described in the accompanying schedule of findings and questions costs. We did not audit ACAP's responses and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Board Members, others within the entity, regulatory body, 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.

Patricia A. Asaverachi
Oakland, California
December 27, 2011

**ASSOCIATED COMMUNITY ACTION PROGRAM
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2010**

SECTION 1 - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:	Qualified
Internal control over financial reporting:	
• Material weaknesses identified?	Yes
• Significant deficiencies identified?	Yes
Noncompliance material to financial statements noted?	Yes

Federal Awards

Internal control over major programs:	
• Material weaknesses identified?	Yes
• Significant deficiencies identified?	Yes
Type of auditor's report issued on compliance for major programs:	<i>Adverse</i>
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?	Yes

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
94.006	ARRA – AmeriCorps
93.710	ARRA 2009 – Community Services Block Grant
93.569	Community Services Block Grant (Formula Grant)

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

**ASSOCIATED COMMUNITY ACTION PROGRAM
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2010**

GENERAL

We recognize that our recommendations to findings identified in Section II and III of this report are academic as there is no expectation of corrective action being taken as ACAP is in the process of being liquidated. However, it is presented as a matter of record.

SECTION II - FINANCIAL STATEMENTS FINDINGS

FINDINGS

Finding 10-01

Criteria or specific requirement:

Improve financial records and maintain only one set of books.

Condition:

During our audit we noted that ACAP did not maintain an adequate set of financial records. Receipt and payment transactions, which affect ACAP's cash funds held by Alameda County, are recorded under ACAP's fund in County's Accounting System. Transactions related to Assets for Independence program, affecting the cash funds held at Citibank, were not recorded in the County's Accounting System because they do not affect cash funds held by the County. Spreadsheets are maintained and not reconciled. The spreadsheets do not lend itself to provide ACAP an accurate trial balance from which ACAP's financial statements can be prepared.

Questioned costs:

None

Effect:

Inaccurate and incomplete processing of accounting transaction does not permit the preparation of accurate and reliable financial statements. Without adequate financial records management is basing its decision on incomplete/inaccurate information during the year, and excessive time is spent at the year end in preparing and auditing the financial statements.

**ASSOCIATED COMMUNITY ACTION PROGRAM
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2010**

Cause:

There is inconsistent and some times a lack of communication between program staff (responsible for initiating a transaction) and accounting staff (responsible for recording the transaction). Moreover, accounting staff only takes into consideration those transactions which affect the cash funds held at County. Transactions affecting the cash funds held at Citibank, related to Assets for Independence program were recorded in separate excel spreadsheet by the executive director.

Recommendation:

We recommend that management should maintain only one set of books of account, preferably independent of County's accounting system and ensure that all the transactions of ACAP are recorded in that separate books. The separate set of books should be able to provide accurate and reliable financial information from which financial statements can be prepared.

Views of responsible officials and planned corrective actions:

ACAP concurs with the auditor's recommendation in this finding. Once the ACAP Governing Board and its member agencies became aware of the problems with financial management, the Governing Board took decisive steps to correct the problems. ACAP management staff responsible for financial decisions was terminated, and an outside consulting firm in March 2011 was hired and tasked with identifying ACAP's outstanding financial obligations and taking all steps necessary to dissolve ACAP. Since March 2011 the City of Dublin, one of ACAP's member agencies, assumed the role of fiscal agent for ACAP. Since that time the City of Dublin has maintained a set of accounting records for ACAP. In November, 2011, the ACAP member agencies approved an amendment to the ACAP Joint Powers Agreement that changed the purpose of ACAP "to continue the existence of ACAP for the sole purpose of winding up its affairs". All programs were closed out, all employees were laid off, and ACAP will not be applying for or receiving any more grant funds.

Finding 10-02

Criteria or specific requirement:

The amounts presented in the financial statements should be reconciled to related amounts in the schedule of expenditures of federal awards.

Condition:

ACAP was not able to reconcile the amounts presented in the financial statements to related amounts in the schedule of expenditures of federal awards.

**ASSOCIATED COMMUNITY ACTION PROGRAM
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2010**

During our audit we noted that the Federal Expenditures Schedule provided by ACAP is on cash basis, and ACAP did not reconcile the schedule to accrual basis by program. When we performed tests on major programs, we verified their expenditures by sending confirmations to the grantor and confirming the maximum awards on the agreement, but there were material discrepancies between confirmed expenditures and the expenditures on ACAP's Schedule of Expenditures of Federal Awards. This has material effect on major programs: CSBG (Formula Grant), ARRA 2009-CSBG and ARRA-AmeriCorps. We also found a similar finding on County's internal audit report. Please refer to the finding 10-10 IA(c) of improper accounting for grant revenues and expenditures.

Questioned costs:

	<u>Expenditures Recorded by ACAP</u>	<u>Expenditures Confirmed with Grantor</u>
CSBG (Formula Grant)	\$475,808	\$571,226
ARRA 2009-CSBG	\$804,236	\$964,188
ARRA - AmeriCorps	\$711,050	\$263,793

Total discrepancies for major programs: \$702,627

Effect:

The expenditures stated on the schedule of federal awards could be misstated.

Material discrepancies lead us to conclude that the amounts provided by ACAP on the schedule of federal expenditures could not be relied upon.

Cause:

ACAP prepared the schedule of expenditures of federal awards on a cash basis. Due to skill level of personnel and lack of complete accounting records ACAP did not keep track of their financial records systematically and this reconciliation was not prepared.

Recommendation:

We recommend that ACAP have procedures in place to not only ensure that there be a reconciliation of amounts in the financial statements with related amounts in the schedule of expenditures of federal awards but the reconciliation be reviewed for accuracy. Sufficient training to ACAP accounting staff be provided, so they know how to reconcile the schedule from cash basis to accrual basis by program and distinguish between grantee's matching expenses and federal expenses.

**ASSOCIATED COMMUNITY ACTION PROGRAM
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2010**

Views of responsible officials and planned corrective actions:

As indicated in Finding 10-01, the City of Dublin is now the fiscal agent of ACAP. City of Dublin Finance staff has been trained and have the proper skill set to accomplish the tasks outlined in this recommendation.

Finding 10-03

Criteria or specific requirement:

General ledger not reconciled.

Condition:

ACAP did not perform monthly reconciliation of various accounts, including cash, grants receivable and deferred revenue, from the sub-ledger to the general ledger in a timely manner. For some accounts, the reconciliation was done only up to a certain period. As a result, several adjustments had to be made in order to reconcile the year-end account balances. The unaccounted variances were booked as other operating expenses.

Questioned Costs:

None

Effect:

When the general ledger is not reconciled regularly and in a timely manner, errors and irregularities can occur and not be detected, and excessive time is spent at year-end in preparing and auditing the financial statements.

Cause:

Recommendation:

It is good accounting practice to perform account reconciliations monthly and in a timely manner. Monthly reconciliation of accounts should be able to provide accurate and reliable financial information from which financial statements are prepared.

Views of responsible officials and planned corrective actions:

ACAP concurs with the recommendation in Finding 10-03. ACAP's current fiscal agent currently reconciles accounts on a monthly basis.

**ASSOCIATED COMMUNITY ACTION PROGRAM
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2010**

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDINGS

Finding 10-04

**CFDA 94.006 ARRA – AmeriCorps
CFDA 93.710 ARRA 2009 – Community Services Block Grant
CFDA 93.569 Community Services Block Grant (Formula Grant)**

Allowable Costs/Cost Principles:

Criteria or specific requirement:

Good accounting control environment require that complete payroll records, timesheets, and proper allocations of payroll cost to various programs be maintained.

Condition:

During our audit we noted that ACAP does not maintain adequate payroll records. We selected twenty-nine employees with sixty pay periods, and we found that there were seven timesheets and ten offer letters were not available. Five employees' W-4 or I-9 were not available. In addition, ACAP did not use functional time sheets. We are able to identify seven employees whose time was allocated 100% to a specific program for the whole year, but two employees have issues of missing time sheets.

Questioned costs:

Cannot be quantified.

Effect:

Inadequate and incomplete payroll records make it difficult to determine whether ACAP has met the objectives of compliance requirements of Activities Allowed or Unallowed and Allowable Costs/Cost Principles. In addition, due to lack of functional time sheets, we are unable to determine if payroll costs that are charged to specific programs are correctly allocated. Personnel costs charged to Federal Programs that are unsupported could be disallowed.

Cause:

The former Executive Director and Grants Manager were terminated and most other staff were laid off before the audit started. Some of the accounting records were either misfiled or not available, therefore, ACAP was unable to pull out some payroll records that we selected.

**ASSOCIATED COMMUNITY ACTION PROGRAM
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2010**

Recommendation:

We recommend that management should implement stronger controls in maintaining payroll records. For instance, management may hire a payroll clerk that is mainly responsible for maintaining payroll records including offer letters, W-4, I-9 and time sheets. Also, we recommended that management should create functional time sheet for employees, so employees could input working hours for the programs that they work for.

Views of responsible officials and planned corrective actions:

ACAP concurs with the auditor's recommendation in this finding. It should be noted, however, that all ACAP employees have been laid off and ACAP no longer has payroll as of October 1, 2011.

Finding 10-05

**CFDA 94.006 ARRA – AmeriCorps
CFDA 93.710 ARRA 2009 – Community Services Block Grant**

Activities Allowed or Unallowed:

Criteria or specific requirement:

Only activities that are conducted for a federal program and that has adequate supporting documents the cost of which should be charged against the federal grant.

Condition:

During our audit we noted that the former Executive Director used her personal debit cards to make purchases and request for reimbursements, plus, the supporting documents were not adequate to prove and determine that the activities are for business purpose. In May 2011, the Alameda County Auditor-Controller Agency performed an internal audit that generally covered the period from January 1, 2010 to February 28, 2011, and had a similar finding. Please refer to the County's report, for findings of comingling of program funds, unallowable and unsupported reimbursement of business expenses, and segregation of duties (see Finding 10-10 1A and 11B).

Questioned costs:

AmeriCorps:	\$ 1,539
ARRA- CSBG:	<u>11,783</u>
Total:	<u>\$13,322</u>

**ASSOCIATED COMMUNITY ACTION PROGRAM
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
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Effect:

Improper uses of Federal funds do not meet the compliance requirements of federal circular and costs claimed against the federal grants would be either disallowed or questioned.

Cause:

ACAP's Internal Control system is not sufficient and adequate to prevent occurrence of unallowed activities. Per inquiries with ACAP staff, they are not certain whether any management members could have the authority to review and approve the Executive Director's reimbursement claims.

Recommendation:

We recommend that management should implement stronger internal control systems, especially setting up a mechanism for approving the reimbursement claims from senior management members.

Views of responsible officials and planned corrective actions:

ACAP concurs with the auditor's recommendation in Finding 10-05. Although, ACAP no longer has employees, any reimbursement claims in the future will have adequate supporting documentation to the City of Dublin's financial procedures.

Finding 10-06

CFDA 94.006 ARRA – AmeriCorps

Eligibility:

Criteria or specific requirement:

Good internal controls over eligibility require that procedures be in place to determine the eligibility of participants that are enrolled in the program.

Condition:

During our audit we noted there was lack of internal control over eligibility. There was no documentation that ACAP performed background checks on all of the participants that were enrolled in the program. We selected twenty-five AmeriCorps program participants for testing, eight of the participants tested did not have the National Sex Offender Public Registry Check certification, and one of the participants did not have any background check documentation.

**ASSOCIATED COMMUNITY ACTION PROGRAM
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2010**

Questioned costs:

Unknown.

Effect:

Incomplete background checks could result in non compliance of the eligibility requirement and participants who are not entitled to be in the program are in the program.

Cause:

Due to lack of communication between management and program staff who worked on the AmeriCorps program some of the steps required to determine eligibility was not performed. Staff may not have sufficient training about the process of enrolling the participants.

Recommendation:

We recommend that management should improve the training program of their staff, especially the process of enrolling participants in AmeriCorps program.

Views of responsible officials and planned corrective actions:

Although, ACAP agrees with the auditor's recommendation in Finding 10-06, it is important to note that ACAP no longer has employees and will not have any grants in the future. ACAP has worked with CalVolunteer's staff (the administrator of the Americorps Program) to address the issues identified in the audit and properly closed-out this grant program in 2011.

Finding 10-07

**CFDA 94.006 ARRA – AmeriCorps
CFDA 93.710 ARRA 2009 – Community Services Block Grant
CFDA 93.569 Community Services Block Grant (Formula Grant)**

Reporting:

Criteria or specific requirement:

OMB Circular A-133 and the funding terms and condition require that financial and program reports be submitted within the stipulated timeframe.

**ASSOCIATED COMMUNITY ACTION PROGRAM
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2010**

Condition:

During our audit we noted that most of the monthly reports for major programs were submitted after the deadline. For the AmeriCorps program, according to the agreement, ACAP should submit their Federal Financial Report that covers from 4/1/2010 to 9/30/2010, but the report that ACAP submitted only covered the period from 7/1/2010 to 9/30/2010.

Questioned costs:

None

Effect:

Late submissions of required reports could result in costs claimed to be disallowed.

Cause:

The management did not pay close attention to deadlines of reporting requirements. Lack of communication between the management and staff who worked on the programs may have resulted in late filing of the reports.

Recommendation:

We recommend that management should be aware of all reporting requirements and improve communications between management and staff so that the required reports are filed by the due date.

Views of responsible officials and planned corrective actions:

Although, ACAP agrees with the auditor's recommendation in Finding 10-07, it is important to note that ACAP no longer has employees and will not have any grants in the future. ACAP has worked with CalVolunteer's staff (the administrator of the Americorps Program) to address the issues identified in the audit and properly closed-out this grant program in 2011.

Finding 10-08

**CFDA 93.710 ARRA 2009 – Community Services Block Grant
CFDA 93.569 Community Services Block Grant (Formula Grant)**

Subrecipient Monitoring:

Criteria or specific requirement:

OMB Circular A-133 requires that when a grantee disburses to subrecipients federal awards, it has in place internal control procedures that provides reasonable assurance that the subrecipients are managing federal awards in compliance with laws and regulation.

**ASSOCIATED COMMUNITY ACTION PROGRAM
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2010**

Condition:

We noted that ACAP did not have in place a procedure to ensure that the subrecipients are managing federal awards in compliance with laws, regulation and the provision of contracts or grant agreements. ACAP could not provide evidence that such monitoring had been performed. ACAP has a total of seven subrecipients, of which only one had a current audited report/financial statements in the ACAP files.

Questioned costs:

Unable to determine.

Effect:

Subrecipients could expend federal awards for unauthorized purpose.

Cause:

Due to lack of knowledge on the part of ACAP management, no internal controls were in place to monitor subrecipients. Also the former Executive Director and Grants Manager were terminated and most other staff were laid off before audit started. Most of accounting records were misfiled; therefore, ACAP was unable to provide evidence of subrecipients monitoring.

Recommendation:

We recommend that ACAP set up internal controls to monitor the activities of the subrecipients to ensure that the subrecipients are in compliance with federal laws and regulations.

Views of responsible officials and planned corrective actions:

ACAP concurs that monitoring of sub-recipients should occur; however, as noted above, ACAP will have no grants in the future and therefore will have no sub-recipients.

Finding 10-09

General

Criteria or specific requirement:

Governing Board regular meeting

**ASSOCIATED COMMUNITY ACTION PROGRAM
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2010**

Condition:

The Governing Board of ACAP consists of 13 members: one representative from County and one representative from each of the 12 cities. The Governing Board's bylaws require the Governing Board to meet at least once every 90 days. However, only two meetings were held in 2010. Also, the Governing Board is responsible for overseeing ACAP's activities. This issue was also discovered in Alameda County's internal audit report. Please refer to County's report, finding of oversight by governing board (10-10, 11B(a)).

Questioned costs:

None

Effect:

Lack of active board and follow through of operational matters could potentially create opportunities for management to commit fraud and misappropriation of assets.

Cause:

Board members are from 12 different cities and the County of Alameda; it may be difficult to confirm a schedule for meeting together.

Recommendation:

We recommend that board members should be more active in monitoring ACAP's operational activities.

Views of responsible officials and planned corrective actions:

The member agencies of ACAP revised the ACAP Joint Powers in 2011 to change the composition of the Governing Board and ACAP's purpose. Since ACAP's functions in the future are solely related to those legally required to accomplish the dissolution of ACAP, the new Governing Board will meet annually and call special meetings as required.

Finding 10-10

Alameda County Auditor-Controller Agency's Internal Audit Unit performed an audit of ACAP that covered the period from January 1, 2010 to February 28, 2011. In general we concur with their findings as we observed and experienced similar status of accounting records. In their report they identified several findings grouped into two major categories summarized as follows:

**ASSOCIATED COMMUNITY ACTION PROGRAM
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2010**

IA. FINDINGS ON NONCOMPLIANCE AND ABUSE

- (a) Violation of Assets for Independence (AFI) Program Requirements.
- (b) Commingling of Program Funds.
- (c) Improper Accounting for the Grant Revenues and Expenditures.
- (d) ACAP funds not deposited into County Treasury.
- (e) Unallowable and Unsupported Reimbursement of Business Expenses.
- (f) Inaccurate Accounts Payable records.
- (g) Potential abuse of Authority.

IIB. FINDINGS ON INTERNAL CONTROL OVER COMPLIANCE

- (a) Oversight by Governing Board.
- (b) Alameda County Social Services Agency.
- (c) Risk Assessment.
- (d) Segregation of duties.
- (e) Conflict of Interest.
- (f) Ineffective Budgetary Controls.
- (g) Accounting Policies and Procedures.

Recommendation:

ACAP should implement recommendations made by other auditors in response to their findings.

Views of responsible officials and planned corrective actions:

ACAP concurs with the auditor's recommendation in this finding. Once the ACAP Governing Board and its member agencies became aware of the problems with financial management, the Governing Board took decisive steps to correct the problems. ACAP management staff responsible for financial decisions was terminated, and an outside consulting firm in March 2011 was hired and tasked with identifying ACAP's outstanding financial obligations and taking all steps necessary to dissolve ACAP. Since March 2011 the City of Dublin, one of ACAP's member agencies, assumed the role of fiscal agent for ACAP. Since that time the City of Dublin has maintained a set of accounting records for ACAP. In November, 2011, the ACAP member agencies approved an amendment to the ACAP Joint Powers Agreement that changed the purpose of ACAP "to continue the existence of ACAP for the sole purpose of winding up its affairs". All programs were closed out, all employees were laid off, and ACAP will not be applying for or receiving any more grant funds.

**ASSOCIATED COMMUNITY ACTION PROGRAM
STATUS OF PRIOR YEAR FINDINGS
YEAR ENDED DECEMBER 31, 2010**

Finding 09-1:

During the year, the Cash Account in County Treasury, a separate fund within the County of Alameda Social Services Agency, was not reconciled with the QuickBooks accounting system. As a result, the account balance of the Cash Account in County Treasury in QuickBooks did not agree to the County of Alameda records. Also the Grants Receivable and Deferred Revenue account balances were not reconciled in a timely manner.

Status:

Not Implemented
See Finding 10-01