

CITY OF TAFT
SINGLE AUDIT REPORT
FOR THE FISCAL YEAR ENDED
JUNE 30, 2010

**CITY OF TAFT
SINGLE AUDIT REPORT
FOR THE FISCAL YEAR ENDED
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MOSS, LEVY & HARTZHEIM LLP

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**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***

To the Honorable Mayor and Members of the City Council
of the City of Taft
Taft, California

We have audited the financial statements of governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Taft (City), California as of and for the fiscal year ended June 30, 2010, which collectively comprise the City's basic financial statements and have issued our report thereon dated March 21, 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 the City'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 the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

We noted certain other matters that we reported to management of the City in a separate letter dated March 23, 2011.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the City's management, federal awarding agencies, and pass-through entities, and should not be used by anyone other than these specified parties.

Moss, Levy & Hartzheim

MOSS, LEVY & HARTZHEIM, LLP
Beverly Hills, California
March 21, 2011



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**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**

To the Honorable Mayor and Members of City Council
of the City of Taft
Taft, California

Compliance

We have audited the City of Taft's (City) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on the City's major federal program for the fiscal year ended June 30, 2010. The City's major federal program is 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 its major federal program is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

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

In our opinion, the City complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the fiscal year ended June 30, 2010.

Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order 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 the City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material non-compliance 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 deficiency described (Finding 2010-1) in the accompanying schedule of findings and questioned costs to be a significant deficiency.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the City of Taft as of and for the fiscal year ended June 30, 2010, and have issued our report thereon dated March 21, 2011. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise the Town's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the City's management, federal awarding agencies, and pass-through entities, and should not be used by anyone other than these specified parties.

Moss, Levy & Hartzheim

MOSS, LEVY & HARTZHEIM, LLP
Beverly Hills, California
March 21, 2011

**CITY OF TAFT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

<u>Federal Program/Pass-Through Grantor</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity ID Number</u>	<u>Program Expenditures</u>
U.S. Department of Housing and Urban Development			
Community Development Block Grant -			
Pass through Programs From: State of California Department of Housing and Community Development			
Community Development Block Grant	14.228	08 STBG-5084	\$ 243,470 *
Community Development Block Grant	14.228	04 EDBG-1025 TARP	36,630 *
Community Development Block Grant	14.228	08-EDEF-5878	9,441 *
Community Development Block Grant	14.228	Revolving Loan Fund	32,306 *
Total Community Development Block Grants			<u>321,847</u>
Pass through Programs From: State of California Department of Housing and Community Development			
Home Partnership Program			
Home - Entitlement Grants	14.218	B-09-MC-06-0051	23,956
Total Home Partnership Program			<u>23,956</u>
Total Department of Housing and Urban Development			<u>345,803</u>
U.S. Department of Transportation			
Pass-through Programs From: State of California			
Highway planning and construction			
ARRA- Formula Grants for Other Than Urbanized Areas	20.209	ESPL-5193	233,093
Formula Grants for Other Than Urbanized Areas	20.209	FTA-5311	22,569
Total Department of Transportation			<u>255,662</u>
Total Expenditures of Federal Awards			<u>\$ 601,465</u>

* Denotes Major Program

See accompanying notes to the schedule of expenditures of federal awards

CITY OF TAFT
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 1 – REPORTING ENTITY

The financial reporting entity consists of (a) the primary government, City of Taft (City), and (b) component units which include organizations for which the primary government is financially accountable, and other organizations for which the primary government is not accountable, but for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The component units of the City are:

- Taft Community Development Agency
- Wastewater Treatment Plant of the City of Taft/Ford City-Taft Heights Sanitation District

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNT POLICIES

Basis of Accounting

Funds received under various grant programs have been recorded within the general fund, special revenue funds, and capital project funds of the City. The City utilizes the modified accrual method of accounting, whereby grant revenues are recognized when they become measurable and available, and expenditures are recognized when the related fund liability is incurred.

Schedule of Expenditures of Federal Awards

The accompanying schedule presents the activity of all federal financial assistance programs of the City. Federal financial assistance received directly from federal agencies as well as federal financial assistance passed through the State of California are also included in the schedule.

The schedule was prepared from only the accounts of various grant programs and, therefore, does not present the financial position or results of the City's operations.

NOTE 3 – PROGRAM DESCRIPTIONS

U.S. Department of Housing and Urban Development

Community Development Block Grant (CDBG)

The Community Development Block Grant (CDBG) Program was authorized under Title I of the Housing and Community Development Act of 1974. The primary objective of the CDBG Program is the development of viable urban communities, including adequate housing, a suitable living environment, and expansion of economic opportunities principally for persons of low to moderate income. Under this program, the Department of Housing and Urban Development (HUD) distributes funds based upon approved applications to eligible local governmental units for the purpose of community improvement and betterment. The City uses CDBG funds to finance a comprehensive home improvement program that assists low and moderate income residents through low interest subsidies and deferred loans.

CITY OF TAFT
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 3 – PROGRAM DESCRIPTIONS (Continued)

U.S. Department of Transportation

Formula Grants for Other than Urbanized Areas

The objectives of these grants are to improve, or continue public transportation service in non-urbanized areas and to provide technical assistance for rural transportation providers. The funds may be used for eligible capital expenses, project administration, and operating expenses needed to provide efficient and coordinated public transportation service in non-urbanized areas.

**CITY OF TAFT
SUMMARY OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued

Unqualified

Internal control over financial reporting:

Material weakness(es) identified?

_____ Yes X No

Significant deficiency(ies) identified not considered to be material weaknesses?

X Yes _____ None Reported

Noncompliance material to financial statements noted?

_____ Yes X No

Federal Awards

Internal control over major programs:

Material weakness(es) identified?

_____ Yes X No

Significant deficiency(ies) identified not considered to be material weaknesses?

_____ Yes X None Reported

Type of auditor’s report issued on compliance for major programs:

Unqualified

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section 510 (a)

_____ Yes X No

Identification of major programs:

CFDA Number(s)

14.228

20.209

Name of Federal Program Cluster

Community Development Block Grant
Formula Grants for Other than Urbanized
Areas

Dollar threshold used to distinguish between Type A And Type B programs:

\$300,000

Auditee qualified as low-risk auditee:

_____ Yes X No

**CITY OF TAFT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

Section II – Findings – Financial Statement Findings

None Noted

**CITY OF TAFT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

Section III – Findings and Questioned Costs – Major Federal Awards Program Audit

None reported in the current fiscal year.

**CITY OF TAFT
SCHEDULE OF PRIOR YEAR FINDINGS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

Section II – Findings – Financial Statement Findings

2010-1 Risk Assessment and Monitoring Over Financial Reporting

U.S. generally accepted auditing standards and Government Auditing Standards require auditors to assess an organization's design of internal controls and determine whether the controls have been placed in operation for all elements of internal control over financial reporting. If controls did not exist, were poorly designed or did not operate effectively, the auditor must evaluate the control deficiency and report the deficiency to management, including whether the control deficiency is a significant deficiency or material weakness. As a result of the 2010 audit, the following is recommended:

- Management should review the existing documentation of its internal controls over significant accounting areas (e.g. cash receipts, cash disbursements) to ensure that all current internal controls are documented.
- Management should review and expand its existing internal control assessment process and internal comprehensive risk assessment, which would include monitoring the adequacy and effectiveness of internal control that the risk environment should be evaluated at least annually to consider any changes to the City's operating environments.
- Management should also develop written contingency plan relating to the City's information technology processes to ensure that IT functions are not significantly disrupted in the event of a loss of City staff or a disaster.

Effect:

Without regular internal control risk assessment by management, errors and irregularities may occur and go undetected.

Recommendation:

We recommend the City ensures that a management level employee reviews and assessment risks in controls over financial reporting.

Management's Response:

The City does not have the budget to dedicate employees to documenting risk assessment over financial reporting, along with IT functions. The finance director will continue to oversee the overall financial reporting process with the help of the independent auditors.

**CITY OF TAFT
SCHEDULE OF PRIOR YEAR FINDINGS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

Section III – Findings and Questioned Costs – Major Federal Awards Program Audit

No Single Audit performed in the prior year.

CITY OF TAFT
MANAGEMENT REPORT
AND
AUDITOR'S COMMUNICATION LETTER
JUNE 30, 2010

**CITY OF TAFT
JUNE 30, 2010**

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Taft, California

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Taft (City) as of and for the fiscal year ended June 30, 2010, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) 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 the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weakness and therefore, there can be no assurance that all such deficiencies have been identified. However, as discussed below, we identified one deficiency in internal control that we consider to be a significant deficiency.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We noted one deficiency in internal control that we consider to be a significant deficiency described in the current year recommendations section as Finding 2010-1.

During our audit, we noted a certain other matter involving internal controls and their operations, and are submitting, for your consideration, related recommendations designed to help the City make improvements and achieve operational efficiencies. This recommendation described in the current year recommendations section as Finding 2010-02. Our comment reflects our desire to be of continuing assistance to the City.

The City's written responses to the findings identified in our audit are described in the current year recommendations section. We did not audit the City's responses and, accordingly, we express no opinion on them. In addition, we would be pleased to discuss the recommendations in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing these recommendations.

We have included in this letter a summary of the communication with the members of the City Council as required by professional auditing standards. We have also provided a status of prior year recommendations made. We would like to thank the City's management and staff for the courtesy and cooperation extended to us during the course of our engagement. The accompanying communications and recommendations are intended solely for the information and use of management, the members of the City Council, and others within the City, and is not intended to be and should not be used by anyone other these specified parties.

Moss, Levy & Hartzheim

MOSS, LEVY & HARTZHEIM, LLP
Beverly Hills, CA
March 23, 2011



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Taft, California

We have audited the financial statements of the City of Taft (City) for the fiscal year ended June 30, 2010, and have issued our report thereon dated March 21, 2011. Professional standards require that we provide you with the information about our responsibilities under auditing standards generally accepted in the United States of America, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated June 21, 2010. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City are described in Note 1 to the financial statements. As discussed in Note 1 of the notes to the basic financial statements effective July 1, 2009, the City adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No.45 – *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*, GASB Statement No. 51, *Accounting and Financial Reporting by Intangible Assets*, GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and GASB Statement No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*. We noted no transactions entered into by the City during the fiscal year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Management's estimate of the historical cost of capital assets and the estimated useful life of the capital assets are based on historical data, industry guidelines and outside consultants which were hired by the City. Management's estimate of the funding progress for PERS is based on PERS estimates.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. These misstatements included adjustments to accounts receivable and accounts payable. Management has corrected all such misstatements.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated March 21, 2011.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Information in Documents Containing Audited Financial Statements

This information is intended solely for the use of the City Council and management of the City and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Moss, Levy & Hartzheim

MOSS, LEVY & HARTZHEIM, LLP
Beverly Hills, CA
March 23, 2011

CURRENT YEAR RECOMMENDATIONS

Significant Deficiencies

2010-1 Risk Assessment and Monitoring Over Financial Reporting

U.S. generally accepted auditing standards and Government Auditing Standards require auditors to assess an organization's design of internal controls and determine whether the controls have been placed in operation for all elements of internal control over financial reporting. If controls did not exist, were poorly designed or did not operate effectively, the auditor must evaluate the control deficiency and report the deficiency to management, including whether the control deficiency is a significant deficiency or material weakness. As a result of the 2010 audit, the following is recommended:

- Management should review the existing documentation of its internal controls over significant accounting areas (e.g. cash receipts, cash disbursements) to ensure that all current internal controls are documented.
- Management should review and expand its existing internal control assessment process and internal comprehensive risk assessment, which would include monitoring the adequacy and effectiveness of internal control that the risk environment should be evaluated at least annually to consider any changes to the City's operating environments.
- Management should also develop written contingency plan relating to the City's information technology processes to ensure that IT functions are not significantly disrupted in the event of a loss of City staff or a disaster.

Effect:

Without regular internal control risk assessment by management, errors and irregularities may occur and go undetected.

Recommendation:

We recommend the City ensures that a management level employee reviews and assessment risks in controls over financial reporting.

Management's Response:

The City does not have the budget to dedicate employees to documenting risk assessment over financial reporting, along with IT functions. The finance director will continue to oversee the overall financial reporting process with the help of the independent auditors.

Other Matters

2010-2 Finding – Business license applications are not verified:

During our examination of the cash receipts system, we noted that applications did not contain gross receipts information, and as such, we are unable to determine if the fees collected are correct.

Effect:

Omission of gross receipts information can lead to the wrong fees being collected.

Recommendation:

We recommend the City implement procedures to ensure that gross receipts information are filled out on business license applications.

Response:

The City will create well highlighted instructions that will be included with the business license renewal form; plainly explaining that they must fill out the annual gross receipts. If for some reason they still do not comply we will make every effort to contact them to obtain this information. Unfortunately it is not feasible at this time to return all renewal forms, if we cannot obtain the required information, but we can compare it to prior years and then if the information does not seem reasonable at that point we can choose to return the renewal form and request the missing information.

STATUS OF PRIOR YEAR RECOMMENDATIONS

No findings, observations, recommendations, or suggestions were noted in the prior year.

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To the Honorable Mayor and Members of City Council
of the City of Taft
Taft, California

We have audited the financial statements of the City of Taft (City) for the fiscal year ended June 30, 2010, and have issued our report thereon dated March 21, 2011. Professional standards require that we provide you with the information about our responsibilities under auditing standards generally accepted in the United States of America, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated June 21, 2010. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City are described in Note 1 to the financial statements. As discussed in Note 1 of the notes to the basic financial statements effective July 1, 2009, the City adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 45 – *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*, GASB Statement No. 51, *Accounting and Financial Reporting by Intangible Assets*, GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and GASB Statement No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*. We noted no transactions entered into by the City during the fiscal year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Management's estimate of the historical cost of capital assets and the estimated useful life of the capital assets are based on historical data, industry guidelines and outside consultants which were hired by the City. Management's estimate of the funding progress for PERS is based on PERS estimates.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. These misstatements included adjustments to accounts receivable and accounts payable. Management has corrected all such misstatements.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated March 21, 2011.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Information in Documents Containing Audited Financial Statements

This information is intended solely for the use of the City Council and management of the City and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Mrs. Levy & Hartzheim

MOSS, LEVY & HARTZHEIM, LLP
Beverly Hills, CA
March 23, 2011

CURRENT YEAR RECOMMENDATIONS

Significant Deficiencies

2010-1 Risk Assessment and Monitoring Over Financial Reporting

U.S. generally accepted auditing standards and Government Auditing Standards require auditors to assess an organization's design of internal controls and determine whether the controls have been placed in operation for all elements of internal control over financial reporting. If controls did not exist, were poorly designed or did not operate effectively, the auditor must evaluate the control deficiency and report the deficiency to management, including whether the control deficiency is a significant deficiency or material weakness. As a result of the 2010 audit, the following is recommended:

- Management should review the existing documentation of its internal controls over significant accounting areas (e.g. cash receipts, cash disbursements) to ensure that all current internal controls are documented.
- Management should review and expand its existing internal control assessment process and internal comprehensive risk assessment, which would include monitoring the adequacy and effectiveness of internal control that the risk environment should be evaluated at least annually to consider any changes to the City's operating environments.
- Management should also develop written contingency plan relating to the City's information technology processes to ensure that IT functions are not significantly disrupted in the event of a loss of City staff or a disaster.

Effect:

Without regular internal control risk assessment by management, errors and irregularities may occur and go undetected.

Recommendation:

We recommend the City ensures that a management level employee reviews and assessment risks in controls over financial reporting.

Management's Response:

The City does not have the budget to dedicate employees to documenting risk assessment over financial reporting, along with IT functions. The finance director will continue to oversee the overall financial reporting process with the help of the independent auditors.

Other Matters

2010-2 Finding – Business license applications are not verified:

During our examination of the cash receipts system, we noted that applications did not contain gross receipts information, and as such, we are unable to determine if the fees collected are correct.

Effect:

Omission of gross receipts information can lead to the wrong fees being collected.

Recommendation:

We recommend the City implement procedures to ensure that gross receipts information are filled out on business license applications.

Response:

The City will create well highlighted instructions that will be included with the business license renewal form; plainly explaining that they must fill out the annual gross receipts. If for some reason they still do not comply we will make every effort to contact them to obtain this information. Unfortunately it is not feasible at this time to return all renewal forms, if we cannot obtain the required information, but we can compare it to prior years and then if the information does not seem reasonable at that point we can choose to return the renewal form and request the missing information.

STATUS OF PRIOR YEAR RECOMMENDATIONS

No findings, observations, recommendations, or suggestions were noted in the prior year.