

CITY OF TAFT
SINGLE AUDIT REPORT
FOR THE FISCAL YEAR ENDED
JUNE 30, 2011

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PARTNERS
RONALD A LEVY, CPA
CRAIG A HARTZHEIM, CPA
HADLEY Y HUI, CPA

COMMERCIAL ACCOUNTING & TAX SERVICES
9107 WILSHIRE BLVD. SUITE 500
BEVERLY HILLS, CA 90210
TEL: 310.273.2745
FAX: 310.670.1689
www.mlhcpas.com

GOVERNMENTAL AUDIT SERVICES
5800 E. HANNUM, SUITE E
CULVER CITY, CA 90230
TEL: 310.670.2745
FAX: 310.670.1689
www.mlhcpas.com

**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, 2011, which collectively comprise the City's basic financial statements and have issued our report thereon dated May 4, 2012. 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. However, we identified one deficiency in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs as Finding 2011-1 that we consider to be significant deficiency in internal control over financial reporting. 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.

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 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 Findings 2011-2 through 2011-4.

The City of Taft's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City of Taft's responses and, accordingly, we express no opinion on them.

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
Culver City, California
May 4, 2012



MOSS, LEVY & HARTZHEIM LLP

CERTIFIED PUBLIC ACCOUNTANTS

PARTNERS

RONALD A LEVY, CPA
CRAIG A HARTZHEIM, CPA
HADLEY Y HUI, CPA

COMMERCIAL ACCOUNTING & TAX SERVICES

9107 WILSHIRE BLVD, SUITE 500
BEVERLY HILLS, CA 90210
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GOVERNMENTAL AUDIT SERVICES

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CULVER CITY, CA 90230
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FAX: 310.670.1689
www.mlhcpas.com

**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 programs for the fiscal year ended June 30, 2011. The City'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 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, 2011.

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 as Finding 2011-1 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, each major fund, and the aggregate remaining fund information of the City of Taft as of and for the fiscal year ended June 30, 2011, and have issued our report thereon dated May 4, 2012, which contained unqualified opinions on those financial statements. Our audit was performed for the purpose of forming opinions on the financial statements as a whole. The schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements 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
Culver City, California
May 4, 2012

**CITY OF TAFT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal Domestic Assistance Number</u>	<u>Program Identification Number</u>	<u>Program Expenditures</u>
<u>U.S. Department Housing and Urban Development</u>			
Community Development Block Grant			
Pass-through Programs From: State of California			
Community Development Block Grant	14.228	08 STBG-5084	\$ 248,305
Community Development Block Grant	14.228	09-EDEF-6534	16,144
Community Development Block Grant	14.228	08-EDEF-5878	15,375
Community Development Block Grant	14.228	Revolving Loan Fund	111,770
Community Development Block Grant	14.228	09-NSP-1-6278	52,034
Community Development Block Grant	14.228	09-PTAE-6561	<u>263</u>
Total Department of Housing and Urban Development			<u>443,891</u>
<u>U.S. Department of Transportation</u>			
Pass-through Programs From: State of California			
Formula Grants for Other Than Urbanized Areas	20.509	FTA-5311	20,293 *
Formula Grants for Other Than Urbanized Areas	20.509	CA-86-X001	461,647 *
Highway Planning and Construction	20.205	ESPL-5193 (030)	<u>71,163 *</u>
Total Department of Transportation			<u>553,103</u>
Total Expenditures of Federal Awards			<u>\$ 996,994</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, 2011

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, 2011**

NOTE 3 – PROGRAM DESCRIPTIONS (Continued)

U.S. Department of Transportation

Formula Grants for Other than Urbanized Areas - ARRA

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. Also, another objective is are to provide for eligible capital costs transit related projects to improve transit. Certain funds were allocated or used for purchase of bus shelters, minivans, buses, and radios.

Highway Planning and Construction - ARRA

This grant is awarded to assist State transportation agencies in the planning and development of an integrated, interconnected transportation system important to interstate commerce and travel by constructing and rehabilitating the National Highway System (NHS); and for transportation improvements to most other public roads; to provide aid for the repair of Federal-aid highways following disasters; to foster safe highway design; to replace or rehabilitate deficient or obsolete bridges; and to provide for other special purposes.

**CITY OF TAFT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued	<u>Unqualified</u>
Internal control over financial reporting:	
Material weakness(es) identified?	_____ Yes <u> X </u> No
Significant deficiency(ies) identified not considered to be material weaknesses?	<u> X </u> Yes _____ None Reported
Noncompliance material to financial statements noted?	_____ Yes <u> X </u> No

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	_____ Yes <u> X </u> No
Significant deficiency(ies) identified not considered to be material weaknesses?	<u> X </u> Yes _____ None Reported

Type of auditor’s report issued on compliance for major programs:	<u>Unqualified</u>
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Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section 510 (a)	_____ Yes <u> X </u> No
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Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program Cluster</u>
<u> 20.205 </u>	<u>Highway Planning and Construction</u>
<u> 20.509 </u>	<u>Formula Grants for Other than Urbanized Areas</u>

Dollar threshold used to distinguish between Type A And Type B programs:	<u>\$300,000</u>
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Auditee qualified as low-risk auditee:	_____ Yes <u> X </u> No
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**CITY OF TAFT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

Section II – Findings – Financial Statement Findings

2011-1 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 2011 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:

Management is creating a fraud policy that will address internal controls issues to ensure that all internal controls are documented. The Finance Department does have a policy to ensure that IT functions are not disrupted in the event of loss of staff or in a disaster, but this plan is not written. Management will expand the Administrative Policy #121 - Computer/Internet Policy to detail the steps that are being taken currently to ensure that IT functions are not significantly disrupted in the event of a loss of City staff or a disaster. The finance director will continue to oversee the overall financial reporting process with the help of the independent auditors.

2011-2 Business License Applications Are Not Verified:

During our testing of the cash receipts system, we noted that business license 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.

**CITY OF TAFT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

Section II – Findings – Financial Statement Findings (Continued)

2011-2 Business License Applications Are Not Verified (Continued):

Management's 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.

2011-3 Redevelopment Agency Five-Year Implementation Plan:

During the compliance audit for the Redevelopment Agency, we noted that the Five-Year Implementation Plan for 2010-2014 was not approved by the Agency within the required five year period. Section 33490 of the California Health and Safety Code requires that Redevelopment Agencies produce and approve timely an Implementation Plan for each project area every five years.

Effect:

The Redevelopment Agency is not in compliance with the Health and Safety Code for the implementation of a Five Year plan.

Recommendation:

We recommend that the Agency address this issue timely in the future.

Management's Response:

The 2010-2014 plan was adopted by the Board on August 3, 2010. The Redevelopment Agency will make all efforts to ensure that the 2015-2019 plan will be adopted within the required five year period.

2011-4 Bank Reconciliations Analysis:

During our testing of bank reconciliations, it was noted that they are not signed as reviewed and/or approved.

Effect:

Without such signatures over review of bank reconciliations, it is not clear what if any bank reconciliations were checked and approved which would incur the possibility of incorrect bank reconciliations and increase the risk of misappropriation of cash.

Recommendation:

We recommend that the reviewed should initial or sign all the bank reconciliations after checking them for errors as approved.

Management's Response:

The Finance Director does review each and every bank reconciliation. During each review check marks are placed by each number to verifying they match with the appropriate backup. Recently the Finance Director had begun to initial the main lead sheet as a note to the Accountant that no changes were required. If changes were requested then the Finance Director would not initial the lead sheet and place notes of requested changes. From this point forward the Finance Director will initial each bank reconciliation.

**CITY OF TAFT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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

None reported in the current fiscal year.

**CITY OF TAFT
STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

Section II – Finding – Financial Statement Finding

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 2011 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.

Status:

Not implemented. (See Finding 2011-1)

**CITY OF TAFT
SCHEDULE OF PRIOR YEAR FINDINGS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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

None Noted.