

CITY OF TAFT

SINGLE AUDIT REPORT

For the Fiscal Year Ended June 30, 2016

City of Taft

Single Audit Report

For the Fiscal Year Ended June 30, 2016

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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, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the 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), California, as of and for the fiscal year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated March 31, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions 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.

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. *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.

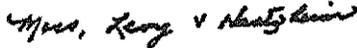
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City’s financial statements are free from 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*.

Purpose of the Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity’s internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Moss, Levy & Hartzheim, LLP
Culver City, California
March 31, 2017



MOSS, LEVY & HARTZHEIM LLP

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

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

Report on Compliance for Each Major Federal Program

We have audited the City of Taft's (City) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the City's major federal program for the fiscal year ended June 30, 2016. 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.

Management's Responsibility

Management is responsible for compliance with the requirements of federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the City's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*. Those standards and Uniform Guidance 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City of Taft complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the fiscal year ended June 30, 2016.

Report on Internal Control over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance and to test and report on internal control over compliance in accordance with the *Uniform Guidance*, 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 noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. 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.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

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, as of and for the fiscal year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated March 31, 2017, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic 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 basic 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 basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Moss, Levy & Hartzheim, LLP
Culver City, California
March 31, 2017

City of Taft
 Single Audit Report
 Schedule of Expenditures of Federal Awards
 For the Fiscal Year Ended June 30, 2016

| Federal Grantor/ Pass - Through Grantor Program Title | Federal CFDA Number | Agency or Pass-Through Program Number | Federal Expenditures |
|--|---------------------------|--|-------------------------|
| U.S. Department of Transportation: | | | |
| Passed through the State of California Department of Transportation: | | | |
| Formula Grants for Rural Areas Section 5311 | 20.509 | 64BO15-00284 | \$ 29,237 |
| | | | <u>29,237</u> |
| Federal Highway Administration (FHWA) - Highway Planning and Construction | | | |
| Passed through the State of California Department of Transportation: | | | |
| Highway Planning and Construction - Hillard Street from A St. to Rails to Trails | 20.205 | RPSTPLE - 5193 (033) | 1,416 * |
| Highway Planning and Construction - Center St. - 4th St. to 6th St. | 20.205 | STPL - 5193 (035) | 243,946 * |
| Highway Planning and Construction - Safe Routes to Schools | 20.205 | SRTSLNI - 5193(034) | 2,866 * |
| Highway Planning and Construction - Church St. from Pilgrim St to Alley So of Rainer Ave | 20.205 | STPL - 5193 (038) | 3,576 * |
| Highway Planning and Construction - Former Sunset Corridor - from 2nd St. to SR 119 | 20.205 | RPSTPLE - 5193 (036) | 395,855 * |
| | | | <u>647,659</u> |
| Total U.S. Department of Transportation | | | <u>676,896</u> |
| U.S. Department of Housing and Urban Development: | | | |
| Passed through programs from the State of California Department of Housing and Community Development | | | |
| Home Investment Partnership Program (HOME) | 14.239 | N/A | 128,029 |
| Community Development Block Grant (CDBG) | 14.228 | N/A | 37,646 |
| Total U.S. Department of Housing and Urban Development | | | <u>165,675</u> |
| U.S. Department of Agriculture: | | | |
| Rural Economic Development Loans and Grants - Wastewater Treatment Plant Upgrade Project | 10.854 | N/A | 367,346 |
| Total U.S. Department of Housing and Urban Development | | | <u>367,346</u> |
| TOTAL EXPENDITURES OF FEDERAL AWARDS | | | <u>\$ 1,209,917</u> |

* - Denotes major program
 N/A – Not applicable

See accompanying notes to schedule of expenditures of federal awards.

CITY OF TAFT

Notes to Schedule of Expenditures of Federal Awards For the Fiscal Year Ended June 30, 2016

NOTE 1 – REPORTING ENTITY

The financial reporting entity consists of (a) the primary government, City of Taft (City), and (b) component unit which includes an organization 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 unit of the City is:

- Wastewater Treatment Plant of the City of Taft/Ford

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.

Home Investment Partnerships

The Home Investment Partnerships Program was authorized under Title II of the National Affordable Housing Act of 1990. The primary objective of the Home Investment Partnerships Program is to expand the supply of affordable housing, particularly rental housing, for low and very low income Americans; to strengthen the abilities of State and local governments to design and implement strategies for achieving adequate supplies of decent, affordable housing; and to extend and strengthen partnerships among all levels of government and the private sector, including for-profit and nonprofit organizations, in the production and operation of affordable housing.

CITY OF TAFT
Notes to Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2016

NOTE 3 – PROGRAM DESCRIPTIONS (Continued)

U.S. Department of Transportation

Formula Grants for Rural Areas

The objective of this grant is to improve, initiate, or continue public transportation service in nonurbanized areas (rural areas and small cities under 50,000 in population) and to provide technical assistance for rural transportation providers. The Section 5311 program supports both the maintenance of existing public transportation services and the expansion of those services through the following program goals: enhancing access in rural areas to health care, shopping, education, employment, public services, and recreation; assisting in the maintenance, development, improvement, and use of public transportation systems in rural areas; encouraging and facilitating the most efficient use of all transportation funds used to provide passenger transportation in rural areas through the coordination of programs and services; providing financial assistance to help carry out national goals related to mobility for all, including seniors, individuals with disabilities, and low-income individuals; increasing availability of transportation options through investments in intercity bus services; assisting in the development and support of intercity bus transportation; encouraging mobility management, employment-related transportation alternatives, joint development practices, and transit-oriented development; and providing for the participation of private transportation providers in rural public transportation.

Highway Planning and Construction

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. Federal-aid highway funds are generally apportioned by statutory formulas to the States. They are generally restricted to roads open to the public and not functionally classified as rural minor collectors or local roads. Exceptions to this highway functional classification restriction include: planning and research activities, bridges, bicycle and pedestrian paths, and safety improvements that may be on any public road, non-motorized transportation, the FLTP, and public transportation improvement. For highway projects, funds may be used for environmental studies, engineering and design services, right-of-way acquisition and relocation assistance, and construction for capital improvement projects classified as new construction, reconstruction, restoration, rehabilitation, and resurfacing, or for functional, geometric, or safety reasons. Funds may also be used for planning; research, development, and technology transfer; intelligent transportation systems projects; roadside beautification; wetland and natural habitat mitigation; traffic management and control improvements; improvements necessary to accommodate other transportation modes; development and establishment of transportation management systems; billboard removal; construction of bicycle facilities and pedestrian walkways; fringe and corridor parking; car pool and van pool projects; transportation alternatives and enhancements such as scenic and historic highway improvements; and recreational trails. Funds generally cannot be used for routine highway operational activities.

CITY OF TAFT

Notes to Schedule of Expenditures of Federal Awards For the Fiscal Year Ended June 30, 2016

NOTE 3 – PROGRAM DESCRIPTIONS (Continued)

U.S. Department of Agriculture

Rural Economic Development Loans and Grants

This grant is awarded to promote rural economic development and job creation projects, including funding for project feasibility studies, start-up costs, incubator projects, and other reasonable expenses for the purpose of fostering rural development.

The Obligations are being issued for the purpose of (a) paying the costs of the acquisition and construction of certain additions, betterments, extensions and improvements (the "*Project*") to the Wastewater Treatment System, consisting of a new headworks structure to be constructed next to the existing headworks and will consist of new flow channels, parshall flume and screening and solids transport equipment, a new screening system for the dump station, a new Biolac aeration system, including new diffuser chains and blowers, the refurbishment and returning to service of Ponds 2 and 3 (including outfitting with Solar Bees solar-powered circulators or equivalent technology for effluent polishing), improvements to restore the operational status of transfer structures and related yard piping and an extensive electrical upgrade, including a new electrical service, new switch-gear, and new conduit conductors as is required for code compliance and replacement of the existing standby generator with a new 375 KW generator (the "*Projects*").

NOTE 4 – AMOUNTS PROVIDED TO SUBRECIPIENTS

For the fiscal year ended June 30, 2016, the City did not have payments passed through to other agencies.

CITY OF TAFT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued

Unmodified

Internal control over financial reporting:

Material weakness(es) identified?

_____ Yes X No

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

_____ Yes X 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:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance, 2 CFR 200.516 (a)

_____ Yes X No

Identification of major programs:

CFDA Number

Name of Federal Program or Cluster

20.205

Highway Planning and Construction

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

\$ 750,000

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, 2016

Section II – Findings– Financial Statement Audit

None reported in the current fiscal year.

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

None reported in the current fiscal year.

CITY OF TAFT
STATUS OF PRIOR YEAR'S FINDINGS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

Section IV – Status of Prior Year Findings and Questioned Costs

Significant Deficiencies

2015-01 Bank reconciliations not completed in a timely manner:

During our audit, it was noted that bank reconciliations were not being prepared in a timely manner.

Effect:

Proper bank reconciliations prepared in a timely manner help safeguard cash by detecting errors on the part of the bank or City. In addition, bank reconciliations help create stronger internal controls and establish accountability for cash. Delays in completing bank reconciliations increase the risk that errors and irregularities may occur and go undetected, which can lead to a misappropriation of funds.

Recommendation:

We recommend that the City prepare and finalize bank reconciliations in a timely manner, within 30 days of the bank statement date.

Current Status:

Implemented

2015-02 TDA Claims were not submitted in a timely manner:

During our audit, it was noted that the City has not yet submitted its TDA claims for the 2015 fiscal year.

Effect:

By not submitting the claims, the City has not received the money from the County Treasury, causing a negative fund balance in the Transit fund and having a negative effect on investment earnings.

Recommendation:

We recommend the City file its claims for the 2015 fiscal year and continue to file claims in a timely manner.

Current Status:

Implemented