

CITY OF TAFT

SINGLE AUDIT REPORT

For the Fiscal Year Ended June 30, 2013

City of Taft

Single Audit Report

For the Fiscal Year Ended June 30, 2013

TABLE OF CONTENTS

	<u>Page</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 <i>Government Auditing Standards</i>	1
Independent Auditor's Report on Compliance For Each Major Program and on Internal Control over Compliance Required By OMB Circular A-133	3
Schedule of Expenditures of Federal Awards	5
Notes to the Schedule of Expenditures of Federal Awards	6
Schedule of Findings and Questioned Costs	8
Status of Prior Year's Findings	10



MOSS, LEVY & HARTZHEIM LLP

CERTIFIED PUBLIC ACCOUNTANTS

PARTNERS

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

COMMERCIAL ACCOUNTING & TAX SERVICES

433 N. CAMDEN DR., SUITE 730
BEVERLY HILLS, CA 90210
TEL: 310.273.2745
FAX: 310.670.1689
www.mlhcpas.com

GOVERNMENTAL AUDIT SERVICES

5800 E. HANNUM AVE, 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, 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, 2013, 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, 2014.

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.

The results of our tests disclosed one significant deficiency in internal control over financial reporting which is listed in the accompanying schedule of findings and questioned costs as 2013-1.

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 that are required to be reported under *Government Auditing Standards*. We noted certain other matters that we reported to management of the City, in a separate letter dated March 31, 2014.

City's Responses to Findings

The City's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the City Council, and 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.

Moss, Levy & Hartzheim

Moss, Levy & Hartzheim, LLP
Culver City, California
March 31, 2014



MOSS, LEVY & HARTZHEIM LLP

CERTIFIED PUBLIC ACCOUNTANTS

PARTNERS

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

COMMERCIAL ACCOUNTING & TAX SERVICES

433 N. CAMDEN DR., SUITE 730
BEVERLY HILLS, CA 90210
TEL: 310.273.2745
FAX: 310.670.1689
www.mlhcpas.com

GOVERNMENTAL AUDIT SERVICES

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

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

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 U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the fiscal year ended June 30, 2013. 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.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs 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 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 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 each of its major federal programs for the fiscal year ended June 30, 2013.

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 of compliance, 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 for each major federal program 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 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 OMB Circular A-133

We have audited the financial statements of the governmental activities, 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, 2013, 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, 2014, which contained unmodified opinions on the 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 U.S. Office of Management and Budget Circular A-133 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 financial statements taken 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Moss, Levy & Hartzheim

Moss, Levy & Hartzheim, LLP
Culver City, California
March 31, 2014

City of Taft
Single Audit Report
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2013

Federal Grantor/ Pass - Through Grantor Program Title	Federal CFDA Number	Pass-Through Program Number	Federal Expenditures
U.S. Department of Transportation:			
Passed through the State of California Department of Transportation:			
Transportation Cluster			
Job Access and Reverse Commute (JARC) Grant	20.509	Section 5316	\$ 200,000 *
New Freedom Grant	20.521	Section 5317	125,000 *
Total Transportation Cluster			<u>325,000</u>
Federal Highway Administration (FHWA) - Highway Planning and Construction			
Passed through the State of California Department of Transportation:			
Highway Planning and Construction - 10th Street Kern to Ash	20.205	STPL 5193 (31)	428,461 *
Highway Planning and Construction - 6th Street Kern to Warren	20.205	STPL 5193 (XX)	4,738 *
Highway Planning and Construction - Safe Routes to Schools	20.205	SRTSLNI - 5193	24,289 *
Highway Planning and Construction - Congestion Management and Air Quality (CMAQ)	20.205	CML-5193	18,176 *
Passed through the Kern County Council of Governments:			
TDA Rails to Trails	20.205	MO#09-01, MO#10-3 and MO#11-01	301,977 *
Total U.S. Department of Transportation			<u>777,641</u> <u>1,102,641</u>
U.S. Department of Housing and Urban Development:			
Passed through programs from the State of California			
Community Development Block Grant	14.228	08-EDEF 5878	10,745
Community Development Block Grant	14.228	09-EDEF 6534	31
Community Development Block Grant	14.228	Housing Revolving Loan Fund- CDBG	23,632
Community Development Block Grant	14.228	Housing Revolving Loan Fund	8,808
Community Development Block Grant	14.228	Business Loan Revolving Loan Fund - EDBG	28,477
Community Development Block Grant	14.228	10-6859	12,520
Total U.S. Department of Housing and Urban Development			<u>84,213</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 1,186,854</u>

* Denotes major programs

See accompanying notes to schedule of expenditures of federal awards.

CITY OF TAFT

Notes to Schedule of Federal Awards
For the Fiscal Year Ended June 30, 2013

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 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 and Kern County, 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 Schedule of Federal Awards
For the Fiscal Year Ended June 30, 2013

NOTE 3 – PROGRAM DESCRIPTIONS (Continued)

U.S. Department of Transportation

Transportation Cluster

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. For urbanized areas with populations under 200,000, funds may be used to finance transit operating costs. Recipients of these grants are required to make information available to the public and to publish a program of projects to afford affected citizens opportunities through public hearings to submit comments on the proposed program and the performance of the recipient.

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
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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?

 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:

Unmodified

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

Name of Federal Program or Cluster

20.205
20.509, 20.521

Highway Planning and Construction
Transportation Services Program Cluster

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, 2013

Section II – Finding– Financial Statement Audit

2013-1 Significant Deficiency – Repeated in the Current Year

2013-1 Segregation of Duties and Size of Finance/Accounting Department:

Due to budget constraints the finance/accounting department is operating with minimum personnel, which has caused key finance department personnel to assist other employees in the accounting department. This situation has created an overlap of duties from time to time, such as in the payroll function. Key personnel are also significantly burdened having to work significant overtime to attempt to keep up with the finance/accounting processes. In addition, the closure of the Redevelopment Agency has added reporting burdens to key accounting department personnel. Further, turnover in the finance/accounting department, such as in the payroll function has further tasked the Director of Finance to work with the replacement of such a key position in the accounting function.

Effect:

These additional finance/accounting duties and staff turnover create an accounting environment that increases the opportunity for errors and delayed deadlines.

Recommendation:

Within budget constraints we recommend the City consider this burden for the potential for part-time or full time assistance within the Finance Department to reduce the risk of accounting errors, increase the timeliness of reporting and to assist in additional reporting requirements such “ROPS” schedules and communications to the State of California.

Management’s Response:

The City of Taft had to reorganize due to loss of revenue from the closure of the correctional facility. The City is actively pursuing the contract with another agency to reopen the facility. After reopening the facility, the previous position, Accounting Assistant, will be presented to the Personnel Committee to be reestablished, then presented to the Finance Committee to determine if there are sufficient funds for the position. Then if the item is approved by both committees it will be presented to the City Council for approval.

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, 2013

Section IV – Status of Prior Year Findings and Questioned Costs

Significant Deficiency

2012-1 Segregation of Duties and Size of Finance/Accounting Department:

Due to budget constraints the finance/accounting department is operating with minimum personnel, which has caused key finance department personnel to assist other employees in the accounting department. This situation has created an overlap of duties from time to time, such as in the payroll function. Key personnel are also significantly burdened having to work significant overtime to attempt to keep up with the finance/accounting processes. In addition, the closure of the Redevelopment Agency has added reporting burdens to key accounting department personnel. Further, turnover in the finance/accounting department, such as in the payroll function has further tasked the Director of Finance to work with the replacement of such a key position in the accounting function.

Effect:

These additional finance/accounting duties and staff turnover create an accounting environment that increases the opportunity for errors and delayed deadlines.

Recommendation:

Within budget constraints we recommend the City consider this burden for the potential for part-time or full time assistance within the Finance Department to reduce the risk of accounting errors, increase the timeliness of reporting and to assist in additional reporting requirements such "ROPS" schedules and communications to the State of California.

Current Status:

Not implemented as the City is still operating with minimum personnel.

