

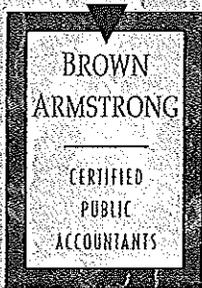
CITY OF DELANO
SINGLE AUDIT REPORTS
FOR THE YEAR ENDED JUNE 30, 2007

CITY OF DELANO
SINGLE AUDIT REPORTS
JUNE 30, 2007

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REPORTS



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- Samuel O. Newland, CPA
- Richard A. Gammel, CPA

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
 FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
 BASED ON AN AUDIT OF THE BASIC FINANCIAL STATEMENTS PERFORMED
 IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Honorable City Council of
 The City of Delano, California

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, the fiduciary funds and the aggregate remaining fund information of the City of Delano, as of and for the year ended June 30, 2007, which collectively comprise the City of Delano's basic financial statements and have issued our report thereon dated March 28, 2008. 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 of Delano'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 its internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Delano's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we considered to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We considered the deficiencies described in the accompanying schedule of findings and questioned costs, summarized as findings number 1, 2, 3, and 4 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, of the significant deficiencies described above, we considered findings number 3 and 4 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Delano'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*.

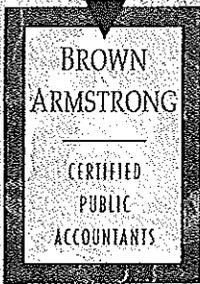
The City of Delano's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City of Delano's responses, and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the City Council and management and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

BROWN ARMSTRONG PAULDEN
McCOWN STARBUCK THORNBURGH & KEETER
ACCOUNTANCY CORPORATION



Bakersfield, California
March 28, 2008



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**AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
 TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
 COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the City Council
 City of Delano, California

Lynn R. Krausse, CPA, MST
 Rosalva Flores, CPA
 Connie M. Perez, CPA
 M. Sharon Jones, CPA, MST
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Compliance

We have audited the compliance of the City of Delano with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2007. The City of Delano'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 of Delano's management. Our responsibility is to express an opinion on the City of Delano'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 of Delano's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Delano's compliance with those requirements.

As described in item 2007-1 in the accompanying schedule of findings and questioned costs, the City of Delano did not comply with requirements regarding special tests and provisions that are applicable to its First Time Homebuyer Program. Compliance with such requirements is necessary, in our opinion, for City of Delano to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the City of Delano complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007.

Internal Control Over Compliance

The management of the City of Delano is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Delano's internal control over compliance with 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we not express an opinion on the effectiveness of the City of Delano's internal control over compliance.

Our consideration of the internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses as defined below.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

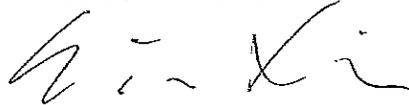
Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies 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 government activities, the business-type activities, each major fund, the fiduciary funds, and the aggregate remaining fund information of the City of Delano, as of and for the year ended June 30, 2007, and have issued our report thereon dated March 28, 2008. Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the City of Delano'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 of the City of Delano. 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 audit committee, management, 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.

BROWN ARMSTRONG PAULDEN
McCOWN STARBUCK THORNBURGH & KEETER
ACCOUNTANCY CORPORATION



Bakersfield, California
March 28, 2008

SUPPLEMENTARY INFORMATION

CITY OF DELANO
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED JUNE 30, 2007

<u>Agency / Program / Grant</u>	<u>CFDA #</u>	<u>Award Expended</u>
<u>U.S. Department of Housing and Urban Development</u>		
CDBG Small Cities Program, Pass through the County of Kern	14.219 *	\$ 407,631
First Time Homebuyers' Program	14.239 *	<u>404,086</u>
Total		<u>811,717</u>
<u>U.S. Department of Transportation</u>		
Federal Transit Administration		
Airport Improvement Program	20.106	35,852
Airport Improvement Program	20.106	<u>202,546</u>
Total		<u>238,398</u>
<u>U.S. Department of Health and Human Services</u>		
Pass thru State Department on Aging		
Special Program for the Aging Title III Part C (Older Americans Grant)	93.045	<u>109,672</u>
<u>U.S. Department of Agriculture</u>		
Pass through State Department on Aging		
Nutrition Services Incentive Program	93.053	<u>26,322</u>
<u>U.S. Department of Justice</u>		
Office of Community Oriented Policing Services		
Public Safety Partnership Community Grant (COPS MORE - '02CMWX0026)	16.710	4,235
Bureau of Justice Assistance		
LLEBG '03-LBVX2640	16.592	<u>27,653</u>
Total		<u>31,888</u>
Grand Total		<u>\$ 1,217,997</u>

* Major Program

CITY OF DELANO
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2007

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting

Monies received under the grant programs have been recorded within the funds of the City of Delano. The City utilizes the modified accrual basis of accounting for its governmental funds and accrual basis for its business-type activities. The accompanying Schedule of Expenditures of Federal Awards has been prepared accordingly.

B. Schedule of Expenditures of Federal Awards

The Schedule of Expenditures of Federal Awards is prepared from the accounts of the grant programs and, therefore, does not present the financial position or results of the operations of the City of Delano.

FINDINGS AND QUESTIONED COSTS SECTION

**CITY OF DELANO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

Section I – Summary of Auditor's Results

A. Financial Statements

Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
Material weaknesses identified?	Yes
Deficiencies and significant deficiencies identified not considered to be material weaknesses?	Yes
Noncompliance material to financial statements noted?	No

B. Federal Awards

Internal control over major programs:	
Material weaknesses identified?	No
Deficiencies and significant deficiencies identified not considered to be material weaknesses?	No
Type of auditor's report issued on compliance for major programs:	Qualified
Any audit finding disclosed that are required to be reported in accordance with Circular A-133, Section 510(a)?	Yes

C. Identification of major programs

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
CFDA Number 14.219 CFDA Number 14.239	CDBG Housing Rehabilitation Home Investment Partnership Program (First Time Home Buyer)
Dollar threshold used to distinguish between Type A and Type B programs:	\$300,000
Auditee qualified as low-risk auditee?	Yes

Finding Number 3 – Capital Assets

During our testing of capital assets we noted the following conditions:

- Construction in progress is not being reviewed at year-end. As a result, during our testing of capital assets we identified several projects that had been completed but were not moved to depreciable capital assets. The completion date for one project dated back to fiscal year 2002, while another major project dated back to fiscal year 2004. From the projects that were reviewed, \$1,568,731 were identified as projects that were completed but had not been moved to depreciable assets.
- The City has not performed a physical inventory in the past four years. In 2007 the City attempted to perform a physical count, but did not complete it.
- Several idle and fully depreciated pieces of equipment have not been removed from the books because they have not been identified thru the physical inventory process.
- Several assets that were sold 3 years ago remained in the City's sub-ledger and general ledger at June 30, 2007.
- The capital assets subsidiary is not reconciled to the general ledger on an annual basis.
- The City has implemented a process to tag all computer related items. The City's CIS Coordinator keeps an inventory list of all items that includes the location, department, model, serial number, tag no., etc. However, this list is not reconciled to the sub-ledger or the general ledger.

Recommendation

We recommend the City review their policies and procedures with regards to capital assets and implement the following:

We recommend the City perform a physical inventory at least once every other year to ensure the City's capital assets still exist, are in good working condition and are still being used. This would also identify any adjustments needed to reconcile the general ledger to the physical count. Upon performing a physical count, the City should ensure that all unused and inoperable equipment are removed from the books to ensure that the general ledger only includes capital assets that are still in use and therefore are true assets to the City. Furthermore, a supervisor should ensure the subsidiary has been reconciled to the general ledger. A worksheet or other support showing the general ledger being reconciled to the subsidiary on an annual basis during closing would ensure the subsidiary has been reconciled. Additionally, this worksheet could require signatures from the person responsible for reconciling and the supervisor's signature signifying approval and review.

Finally, the City should review construction in progress during the year-end close and work together with the City's Engineering department to identify completed projects. All projects that have been completed should be moved to depreciable assets and depreciated as soon as they have been placed in operation.

Management Response

City Finance department will work together with the City Attorney to ensure that a policy is written and submitted to Council for approval regarding the City's Capital Assets. In the interim, Finance will direct staff to ensure that a physical inventory be done at a minimum of once every two years. The inventory will be compared to the City's general ledger to ensure that the two reports balance. In regards to the construction in progress, the Finance department will work with the City Engineering department to ensure that they report back to Finance any projects that have been completed so that we can adjust the City's general ledger accounts accordingly. Also, the City hired a permanent IT employee and all CIS equipment is now being inventoried. We are working with this department to ensure that inoperable equipment is written off of the City's capital assets reports and that they are being depreciated correctly.

Finding Number 4 – Schedule of Federal Expenditures

During our review of the final schedule of federal expenditures we noted it contained numerous material errors as follows:

- Several non-federal grant expenditures were reported in the schedule. We identified a total of \$665,471 and adjusted the schedule of federal expenditures accordingly.
- The City received funding from Title III C1 and Title III C2, which include federal, state, and county funds. These monies are recorded in two separate funds to distinguish between the two different federal funding sources. In the current year, the Nutrition Services Incentive Program was incorrectly recorded together with the Older Americans grant. Additionally, the total federal expenditures reported for the Older Americans grant was overstated due to; 1) including the Nutrition Services Incentive Program expenditures; and 2) including donations and other non-federal expenditures in the total. The error resulted in an adjustment to the schedule of federal expenditures of \$164,806.
- The schedule of federal expenditures contained numerous expenditures without a Catalog of Federal Domestic Assistance (CFDA) or grant name making it difficult to determine the source of the funds.
- Each amount in the schedule of federal expenditures is identified with a project name rather than a grant name. Additionally, when the City receives funds from federal sources, it does not document the grant name making it difficult to determine the source of grant funding when the schedule of federal expenditures is prepared.
- The final schedule of federal expenditures is not reviewed for accuracy, as a result, it contained numerous errors as noted above.

Recommendation

We recommend the City review their policies and procedures and implement a policy to review the schedule of federal expenditures for accuracy, trace each line item to the general ledger and verify each line item for funding source. Additionally, the City should implement procedures to adequately track revenues and easily identify the funding source and ensure each line item in the schedule is identified with the grant name and include a CFDA number.

Management Response

The City agrees with the auditor's recommendation and will put into place procedures to ensure that federal expenditures and revenues are reported accurately listing the CFDA number within the description of the line item.

Section III – Federal Award Findings and Questioned Costs

2007-1 – HOME Investment Partnership Program 14.239

We tested a sample of 5 participants to review their file and noted 1 out of the 5 participants tested was missing the home inspection documentation, as a consequence, we were unable to test whether City performed on-site inspections and whether any needed repairs were performed.

Recommendation

We recommend on-site inspections be performed for all participants receiving HOME assistance to be in compliance with the housing quality standards (24 CFR sections 92.251, 92.252 and 92.504(b)).

Management Response

The City agrees with the audit recommendation and will ensure all home inspections are done and documentation kept in the file.

Section IV – A Summary of Prior Year Audit Findings (June 30, 2006) and Current Year Status

Finding Number 1 – Payroll

During our testing of payroll we noted the following conditions:

- We tested a sample of 40 payroll checks, which included 20 direct deposit checks and 20 regular checks. Out of the sample of 40 we noted 1 instance in which the incorrect over time rate was used. This resulted in an overpayment of \$4.69 to the employee.
- The payroll accountant responsible for processing payroll has the ability and the duty to change payroll rates.

Recommendation

We recommend the City review their policies and procedures with regards to payroll duties. The processing of payroll and the duty to change pay rates should not be delegated to the payroll accountant. The entering/updating of pay rates should be delegated to the human resource department. In addition, the City should restrict the access to enter/update pay rates to the human resource department. The separation of these duties would benefit the City by strengthening internal controls. In addition, this would serve as a second layer of review to verify accurate pay rates. The payroll accountant would verify the rates entered into the system by the human resource department and matched them with the pay rate authorization forms, thereby reducing the potential for errors.

Management Response

The City is currently looking at adding a new module to the financial system that will allow only HR to input new information relating to employee names, their social security number, position, pay rates and deny the payroll technician the ability to change any of this information in the system to enhance internal control.

Current Year Status

No similar finding noted.

Finding Number 2 – City Issued Credit Cards

During our review of cash disbursements we tested a sample of City issued credit card expenditures. These are credit cards issued to board members and certain members of management with specific dollar limits. We selected 5 cardholders to test and 3 months for each for a total sample of 15. We noted 4 transactions (3 from the same cardholder and 1 from another cardholder) did not contain adequate support. Therefore, we could not verify whether these expenditures were City related. For these same 4 transactions the cardholders failed to complete the expenditure authorization forms as required by the City's policy. In addition, for 1 cardholder, the bank statement was missing for 1 month.

Recommendation

We recommend the City review their policies and procedures with regards to City issued credit cards. As this is an area of potential abuse we recommend the City increase their oversight of credit cards by performing the following:

- On a monthly basis a responsible individual should review the statements and corresponding invoices/documentation to ensure all documentation is received.
- This same individual should verify that all cardholders submit the required expenditure authorization forms as required by the City's policy.

Management Response

It is the City's current policy to require individuals to submit documentation for credit card transactions. The City bills the credit card holder for any undocumented transactions in the credit card and eventual cancellation of credit card privileges will ensue if the practice is continued.

Current Year Status

Implemented. City has been requesting reimbursement for all transactions not supported by receipts from each cardholder.

Finding Number 3 – Cash Receipts

During the performance of audit procedures we observed the handling of cash receipts and noted that cash receipts collected for utility bills are kept in a locked drawer, however, the keys are kept in the locked drawer rather than being kept with the utility billing clerks.

Recommendation

Good physical controls strengthen internal controls and reduce the possibility of theft. We recommend the City ensure cash receipts are properly safeguarded at all times requiring that all utility billing clerks keep the keys to the locked drawer at all times to ensure no unauthorized individuals have access to the drawer.

Management Response

The City has alerted all cashiers to lock their drawers and pocket the key when the drawers are not in use.

Current Year Status

Implemented.

Finding Number 4 – Uncollectible Accounts Receivable

The City does not have a written policy that sets a specific dollar limit for obtaining board authorization prior to writing off uncollectible accounts receivable. Consequently, account receivable can be written off without board approval for any amount.

Recommendation

We recommend the City write up a policy specifying a dollar amount that is allowed to write off uncollectible accounts receivable in the normal course of performing duties prior to seeking board approval. This policy would benefit the City by increasing the controls over uncollectible accounts receivable and eliminating the possibility of unauthorized write-off of receivables.

Management Response

The City Finance Department referred this matter verbally to the department involved as well as the City Attorney who said that the matter cannot be pursued further, before the write-off was undertaken. However, in the future, write-offs will be referred to the City Council for approval.

Current Year Status

Refer to the current year similar finding.

Finding Number 5 – Sick and Overtime Pay

The City does not accrue sick time and overtime earned.

Recommendation

Employees earn 12 days of sick leave per year. Upon separation of employment, employees can be reimbursed for at least 50% of normal pay rate for days greater than 90 days balance. Since at least 50% of sick pay earned over 90 days can be reimbursed, we recommend the City calculate this liability on an annual basis. If this amount is significant, the City should accrue it annually. In addition, the City should review the overtime balance earned and accrue if significant.

Management Response

Overtime earned is definitely accrued since it is paid when it is reported. We will accrue sick leave hours in excess of the established threshold at the end of the fiscal year for financial statement purposes.

Current Year Status

Implemented.

Finding Number 6 – Opening/Closing Bank Accounts

The City does not have a written policy requiring board approval for opening/closing bank accounts.

Recommendation

We recommend the City review their policies and procedures in the area of bank accounts and implement a written policy whereby board approval is required for all opening and closing of accounts. This would strengthen controls in this area by reducing the possibility for unauthorized accounts being opened and transferring City monies to these accounts.

Management Response

City council resolution No. 2000-77 authorizes only three persons in the city that can open/close invest withdraw city funds and that is the City Manager, City Clerk and City Finance Director. The policy has been in effect since August 7, 2000. No city accounts may be opened or closed without the approval of any of these Persons.

Current Year Status

No similar finding noted.

Finding Number 7 – Capital Assets

During our testing of capital assets we noted the following conditions:

- The City has not performed a physical inventory in the past three years.
- Several idle and fully depreciated pieces of equipment have not been removed from the books.
- The capital assets subsidiary is not reconciled to the general ledger on an annual basis.
- The City has contracted with PumaSoft, Inc. to tag all new capital purchases. Among PumaSoft's responsibilities include tagging all new capital purchases and determining to which department they belong. We noted several computers purchased in prior year are being recorded as construction in progress in the internal service fund rather than being depreciated and recorded in the fund/department in which they are benefiting.

Recommendation

We recommend the City review their policies and procedures with regards to capital assets and implement the following:

We recommend the City perform a physical inventory at least once every other year to ensure the City's capital assets still exist, are in good working condition and are still being used. This would also identify any adjustments needed to reconcile the general ledger to the physical count. Upon performing a physical count, the City should ensure that all unused and inoperable equipment are removed from the books to ensure that the general ledger only includes capital assets that are still in use and therefore are true assets to the City. Furthermore, a supervisor should ensure the subsidiary has been reconciled to the general ledger. A worksheet or other support showing the general ledger being reconciled to the subsidiary on an annual basis during closing would ensure the subsidiary has been reconciled. Additionally, this worksheet could require signatures from the person responsible for reconciling and the supervisor's signature signifying approval and review.

Finally, the City should review its contract with PumaSoft, Inc. and review the City and the vendors' responsibilities regarding this contract. All capital asset purchases should be tagged in a timely manner to ensure they are recorded in the correct department/fund and are being depreciated.

Management Response

An annual inventory will be undertaken at least once a year and the subsidiary ledger will be reconciled to the control account in the general ledger on a monthly basis.

The designations made by Pumasoft with respect to the department served for purposes of allocating the labor element on the installation of computer equipment is being actively pursued.

Current Year Status

Refer to the current year similar finding.