

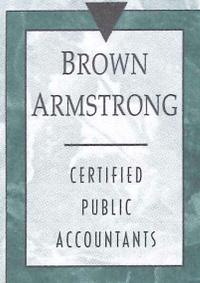
CITY OF DELANO
SINGLE AUDIT REPORTS
FOR THE YEAR ENDED JUNE 30, 2008

**CITY OF DELANO
SINGLE AUDIT REPORTS
JUNE 30, 2008**

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REPORTS



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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 THE BASIC FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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

- Harvey J. McCown, MBA, CPA
Lynn R. Krausse, CPA, MST
Rosalva Flores, CPA
Connie M. Perez, CPA
Diana H. Branthoover, CPA
Thomas M. Young, CPA
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Ariadne S. Prunes, CPA
Samuel O. Newland, CPA
Brooke N. DeCuir, CPA
Kenneth J. Witham, CPA
Clint W. Baird, CPA
Adrian Rich, CPA
Craig A. Rickett, CPA

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Delano, as of and for the year ended June 30, 2008, which collectively comprise the City of Delano's basic financial statements and have issued our report thereon dated March 31, 2009. 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, 4 and 5 through 7 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 finding number 3 to be a 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, which are listed in the accompanying Schedule of Findings and Questioned Costs Section as Finding 2008-1.

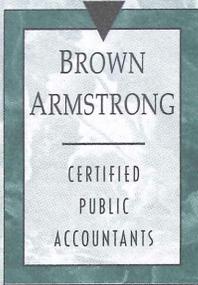
The City of Delano's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City of Delano's responses, and, accordingly, we express no opinion on them.

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 31, 2009



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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

- Harvey J. McCown, MBA, CPA
Lynn R. Krausse, CPA, MST
Rosalva Flores, CPA
Connie M. Perez, CPA
Diana H. Branthoover, CPA
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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, 2008. 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 2008-1 in the accompanying schedule of findings and questioned costs, the City of Delano did not comply with requirements regarding allowable costs/cost principles that are applicable to its CDBG Program. Compliance with such requirements is necessary, in our opinion, for the 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, 2008.

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 do 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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2008-1 not to be a significant deficiency.

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.

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

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, 2008, and have issued our report thereon dated March 31, 2009. 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 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



SUPPLEMENTARY INFORMATION

**CITY OF DELANO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2008**

<u>Agency / Program / Grant</u>	<u>Passed-Through Entity Grant Number</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	N/A	14.219 *	\$ 896,546
First Time Homebuyers' Program	N/A	14.239 *	<u>440,167</u>
Total			<u>1,336,713</u>
<u>U.S. Department of Transportation</u>			
Pass thru CalTrans			
Surface Transportation Program Local	N/A	20.205 *	1,585,443
Federal Transit Administration			
Safe Routes to School	N/A	20.106	63,885
Federal Aviation Administration			
Airport Access Road	N/A	20.509	<u>10,953</u>
Total			<u>1,660,281</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)	N/A	93.045	<u>175,800</u>
<u>U.S. Department of Agriculture</u>			
Pass through State Department on Aging			
Nutrition Services Incentive Program	N/A	93.053	<u>25,114</u>
Grand Total			<u>\$ 3,197,908</u>

* Major Program

**CITY OF DELANO
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2008**

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, 2008**

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

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

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	CDBG Housing Rehabilitation Home Investment Partnership Program (First Time Home Buyer) Highway Planning and Construction
CFDA Number 14.239	
CFDA Number 20.205	

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? No

Section II – Financial Statements Audit Findings and Questioned Costs

Finding Number 1 – Bank Reconciliations – Community Correctional Facility (CCF)

During our review of bank reconciliations for the Community Correctional Facility (CCF) for the 2007 audit, we noted the June 30 bank reconciliations had not been prepared correctly. As a result, the June 30, 2007 bank reconciliations contained unreconciled differences that were not resolved at June 30 and carried over to months subsequent. This issue was not resolved in 2008. Subsequent to the audit finding, Finance implemented a policy to have the CCF staff submit monthly bank reconciliations to Finance to review. However, Finance did not receive reconciliations until December 2008. Additionally, we noted credit balances in the fund's asset accounts due to incorrectly preparing the bank reconciliations. The District is expecting to hire an individual with accounting knowledge to ensure bank reconciliations are prepared correctly however this position has not yet been filled.

Recommendation

We recommend the City assign Finance staff to prepare the bank reconciliations on a monthly basis to ensure they are being done timely and correctly. Once the position is filled, the City can delegate this duty back to CCF and continue to review the bank reconciliations on a monthly basis.

Management Response

An Accounting & Budget Analyst is anticipated to be employed by the CCF as of May 1, 2009. His duties will be to complete financial transactions as well as reconcile bank statements on a monthly basis. The Interim Finance Director will review all transactions and approve the bank reconciliations. In addition, all transactions will be transferred to the City's financial software (MOM) in the near future. This will eliminate any stand alone software packages currently being used. The Interim Finance Director will assist the new Accounting & Budget Analyst in setting up policies and procedures to ensure that all balance sheet line items are reconciled monthly and that the software is set up correctly. This process will be put into place by June 2009.

Finding Number 2 – 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

Policies and procedures for uncollectible accounts receivable specifying a dollar amount limit for city council approval will be written and put into place by July 1, 2009. All accounts receivable will also be reconciled on a monthly basis.

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 some of the projects dated back to fiscal year 2002.
- The City has not performed a physical inventory in the past five years. In 2007 the City attempted to perform a physical count, but did not complete it.
- 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

Construction in progress as of June 30, 2008 has been thoroughly reviewed and adjusted accordingly. Policies and procedures will be put into place by the end of Fiscal Year 08-09 to assure that a senior accountant periodically (quarterly) reconciles the capital assets subsidiary ledger and works with departments to prepare the appropriate journal entries to move work in progress capital improvements at completion of the project. In addition, there will be a reconciliation completed of all CIS inventory. An amount has been placed in the upcoming budget to hire temporary employees to conduct a physical inventory and will be completed in the near future.

Finding Number 4 – Journal Entries

The District does not have a formal written policy regarding journal entries. We noted some journal entries are not reviewed by another individual independent of preparing them.

Recommendation

The City should implement formal procedures regarding the preparation and posting of journal entries. Additionally, an individual independent of preparation is not reviewing journal entries.

Management Response

Formal policies and procedures for the review and approval of all journal entries will be put into place as of April 1, 2009. Senior Accountant entries will be reviewed by the Assistant Finance Director and any journal entries prepared by the Assistant Finance Director will be formally approved by the Finance Director.

Finding Number 5 – Bank Reconciliations – General Account

During our review and understanding of controls over bank reconciliations, we noted a responsible individual, independent of preparing the bank reconciliation for the City's general account, is not reviewing the monthly bank reconciliations.

Recommendation

The City should implement procedures to ensure a responsible individual, independent of preparing bank reconciliations, review the City's general account to ensure it is being prepared correctly and all reconciling items are valid.

Management Response

Policies and procedures will be put into place as of April 1, 2009 to assure that the Assistant Finance Director of Finance Director reviews and formally approves the bank reconciliation for all bank accounts, fiscal agent statements and any other related cash accounts.

Finding Number 6 – Prior Year Findings

The City has not implemented a corrective action plan to remedy all prior year findings.

Recommendation

We recommend the City take immediate action to implement a plan to remedy past identified deficiencies.

Management Response

All prior year findings will be addressed this current fiscal year and will be completed by the beginning of the upcoming fiscal year. The Finance Department has not been fully staffed in over a year and a half. A plan is being put into place to hire adequate and competent staff and train the current ones.

Finding Number 7 – Year-End Close

The City does not have formal written policies and procedures on the year-end close. As a result, we noted the following:

- Construction in progress was not reviewed to ensure projects that were completed were moved to depreciable assets (refer to finding #3 for further details).
- Several journal entries from the 2007 audit were recorded twice.
- Bank reconciliations were not prepared in a timely manner (refer to finding #1 for further details).
- Capital asset sub-ledger was not reconciled to the general ledger.

Recommendation

We recommend the City write up formal written policies and procedures regarding the closing process. A schedule could be developed to assist Finance in ensuring all procedures that are part of the closing have been performed. Additionally, we recommend the Finance Director review the close of the books to ensure the books have been closed correctly.

Management Response

Formal Policies and Procedures will be written and will be implemented during the fiscal year end 08-09. A list of all will be distributed to staff and a period check by the Assistant Finance Director and Finance Director will be performed to assure that their lists are completed timely and accurately.

Finding Number 8 – Cash Receipts – Golf Course

During our review and understanding of controls over receipts for the Golf Course we noted cash collected during the day is kept in an unlocked box in one of the counter drawers.

Recommendation

We recommend the City review their policies and procedures over the Golf Course and implement procedures to ensure all cash receipts collected during the day be placed in a locked drawer until they are deposited.

Management Response

The Assistant Finance Director will work with the Golf Course staff to set up internal control procedures and train staff to keep all receipts in a locked container. A credit card system was implemented March 20, 2009 so that collections for services and supplies will not be collected in cash only. This will eliminate the amount of cash on hand.

Finding Number 9 – Separation of Duties – Community Correctional Facility (CCF)

During our review and walkthroughs over key controls for the CCF we noted the individual responsible for posting receipts is also responsible for custody of the assets and for preparing the bank deposit.

Recommendation

We recommend the City implement procedures whereby the responsibility for custody of receipts, posting receipts and preparing the bank deposit be performed by separate individuals to strengthen controls.

Management Response

The Facility Manager has recently assigned duties differently amongst employees to assure that there is segregation of duties. When the Interim Finance Director works on the site to set up new policies and procedures for all financial transactions she will review the duties to assure the segregation of duties complies with internal control practices.

Section III – Federal Award Findings and Questioned Costs

Finding Number 2008–1

Program: Community Development Block Grants (CDBG)
CDFA No. 14.219
Federal Agencies: U.S. Department of Housing and Urban Development
Grant Award: CDBG Small Cities Program- Freeze Grant
Award Year: Fiscal Year 2008
Compliance Requirement: Allowable Costs/Cost Principles
Questioned Costs: \$0

Criteria

The City's application for eligibility for receiving freeze grants is to demonstrate that you were a victim of the January 2007 freeze, a resident of Delano, and that gross annual income does not exceed a household amounts based on the family size.

Condition

We tested a sample of 12 transactions, which were for freeze disaster assistance. Out of the 12 transactions, we noted 8 did not include in the supporting documentation regarding household income.

Effect

We were unable to verify whether the City made the verification.

Recommendation

We recommend the City keep adequate documentation in the files to support the family size and income verifications.

Management Response/Corrective Action Plan

The Interim Finance Director will report to the RDA and Economic Development Director this finding so that she can have her staff assure that the proper documentation for household income and family size and any other required eligibility information be kept in individual client's files.

Section IV – A Summary of Prior Year Audit Findings (June 30, 2007) and Current Year Status

Finding Number 1 – Bank Reconciliations – Community Correctional Facility (CCF)

During our review of bank reconciliations for the Community Correctional Facility (CCF), we noted the June 30 bank reconciliations were not prepared correctly. As a result, the June 30, 2007 bank reconciliations contained unreconciled differences that were not resolved at June 30 and carried over to months subsequent. Currently, these differences remain unresolved and CCF staff has not performed reconciliations since October 2007 due to these unresolved differences. From discussions with CCF staff assigned to perform the reconciliations, we noted a lack of understanding on how bank reconciliations should be prepared.

Additionally, the City does not have a review process in place for bank reconciliations prepared by outside City departments and does not require the CCF to submit bank reconciliations to Finance for review in a timely manner.

Recommendation

The City should ensure staff assigned to prepare bank reconciliations for all City departments have a good understanding and are properly trained to prepare bank reconciliations. Additionally, the City should implement a policy to have a responsible individual in the Finance department review all bank reconciliations prepared by outside City departments to ensure they are being prepared correctly, are clerically accurate, and contain no material unreconciled differences. Finance should also implement a policy to require the CCF and all other departments handling cash (other than petty cash) to submit monthly bank reconciliations to Finance in a timely manner so that they can be reviewed and differences identified and corrected timely.

Management Response

The City is currently recruiting for the position of Accounting and Budget Specialist at the CCF. The person that fills this position will have an understanding of accounting and will be better prepared to complete accounting tasks such as the bank reconciliation for the accounts that the CCF currently handles. For the interim, Finance will assign someone in our department to help the CCF staff in preparing the bank reconciliations that are currently outstanding. We will require that the bank reconciliations be submitted monthly and that they are in balance.

Current Year Status

Refer to the current year finding.

Finding Number 2 – 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 will work with the City Attorney and together we will submit a policy to Council for approval.

Current Year Status

Refer to the current year finding.

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, 2008.
- 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.

Current Year Status

Refer to current year finding.

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.

Current Year Status

Implemented.

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.

Current Year Status

No current year finding was noted.