

**CITY OF DELANO
SINGLE AUDIT REPORT
For the Fiscal Year Ended
June 30, 2010**

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**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 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, and the aggregate remaining fund information of the City of Delano as of and for the year ended June 30, 2010, which collectively comprise the City of Delano's basic financial statements and have issued our report thereon dated January 31, 2011. 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 as a basis for designing our auditing procedures 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 of Delano's 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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses (2010-1 and 2010-2.)

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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 charge with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies (2010-3, 210-4, 2010-5, 2010-6, and 2010-7).

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 other matters that are required to be reported under *Government Auditing Standards* and which are described in Section III of the accompanying schedule of findings and questioned costs.

We noted certain other matters that we reported to management of the City of Delano in a separate letter dated January 31, 2011

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

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

Bakersfield, California
March XX, 2011



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REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

Compliance

We have audited the City of Delano's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City of Delano's major federal programs for the year ended June 30, 2010. 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. 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 of the City of Delano's compliance with those requirements.

In our opinion, the City of Delano complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010.

Internal Control Over Compliance

Management of the City of Delano is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of Delano's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an

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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.

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.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in Section III of the accompanying schedule of findings and questioned costs. *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.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the government 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, 2010, and have issued our report thereon dated January 31, 2011. Our audit was performed for the purpose of forming opinions 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. 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.

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 the responses.

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

Bakersfield California
March XX, 2011

CITY OF DELANO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2010

AGENCY / PROGRAM / GRANT	Federal CFDA Number	Federal Expenditures
<u>U.S. Department of Housing and Urban Development</u>		
Community Development Block Grant Program*	14.218	928,969
Home Investment Partnership Program HOME Grant 09	14.239	45,545
Home Investment Partnership Program HOME Grant 07	14.239	228,067
ARRA: CDBG-R*	14.253	212,577
Office of Community Planning and Development Neighborhood Stabilization Program	14.228	17,772
Passed through State of California		
CDBG Small Cities Program*	14.219	549,513
Total U.S. Department of Housing and Urban Development		<u>1,982,443</u>
<u>Environmental Protection Agency Office of Water</u>		
Passed through California State Water Resource Control Board		
ARRA: SRF Wastewater Treatment*	66.458	5,767,799
Total Environmental Protection Agency Office of Water		<u>5,767,799</u>
<u>U.S. Department of Transportation</u>		
Passed through the State of California/CalTrans		
ARRA: Overlay Project #1 Federal RSTP Funding*	20.205	934,745
ARRA: Overlay Project #2 Federal RSTP Funding*	20.205	99,505
RSTP County Line Road Project*	20.205	745,200
Total U.S. Department of Transportation		<u>1,779,450</u>
<u>U.S. Department of Energy-EECBG</u>		
ARRA: National Energy Technology Laboratory	81.128	19,658
Total U. S. Department of Energy-EECBG		<u>19,658</u>
<u>U.S. Department of Health and Human Services</u>		
<u>Administration on Aging</u>		
Passed through California State Department on Aging		
Special Program for the Aging Title III Part C1 (Older American Grant)	93.045	80,397
Passed through California State Department on Aging		
Nutrition Services Incentive Program C2	93.053	22,177
Total U.S. Department of Health and Human Services Administration on Aging		<u>102,574</u>
<u>U.S. Department of Justice</u>		
ARRA: Edward Byrne Memorial Justice Assistance Grant Program Equipment Grant	16.803	30,468
ARRA: Edward Byrne Memorial Justice Assistance Grant Program CSO Grant	16.803	56,543
ARRA: Office of Community Oriented Policing Services (COPS) CHRP	16.710	33,921
Total U. S. Department of Justice		<u>120,932</u>
Total Expenditures of Federal Awards		<u>\$ 9,772,856</u>

CITY OF DELANO
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2010

I. Summary of significant accounting policies

A. Basis of Accounting

Monies received under the grant programs have been recorded within the special revenue funds of the City of Delano. The City utilizes the modified accrual basis of accounting for the special revenue funds, which is described in Note 1 of the City's basic financial statements. 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 Award is prepared from the accounts of the grant programs and, therefore, does not present the financial position or results of operations of the City of Delano. The City's reporting entity is defined in Note 1 of the notes to the City's basic financial statements. All financial assistance received directly from federal agencies as well as federal financial assistance passed through other government agencies to the City is included in the accompanying schedule.

CITY OF DELANO
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2010

Section I – Summary of Auditors’ Results

a) Financial Statements

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

c) Identification of Major Programs

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
14.218	Community Development Block Grant
14.253	ARRA: CDGB-R
14.219	CDBG Small Cities Program
66.458	SRF Wastewater Treatment
20.205	ARRA: Overlay Project #1
	Federal RSTP Funding
20.205	ARRA: Overlay Project #2
	Federal RSTP Funding
20.205	RSTP County Line Road Project

Dollar threshold used to distinguish between Type A and Type B programs:	\$300,000
Auditee qualified as low-risk auditee?	No

CITY OF DELANO
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2010

Section II - Financial Statements Findings

2010-1 – Accounts Receivable Classification

Condition

Governmental funds' receivables that were not received within period of availability (60 days) were improperly classified as revenues.

Cause of Condition

Lack of procedures in determining receivables not received within period of availability and failure to reclassify revenues from such receivables to deferred revenues.

Effect of Condition

MHM proposed a journal entry to reclassify \$3.5 million of receivables to deferred income which the City accepted. Without the adjustment, the receivables and revenues were overstated while the deferred income was understated.

Recommendation

We recommend that the City review their procedures for determining receivable adjustment if needed for the 60-day receivable rule. This will help ensure that the receivables, revenues, and deferred income are properly stated.

Management's Response

2010-2 – Prior Period Restatement of Water and Sewer Fund

Condition

Funds received from California State Water Resources Control Board (SWRCB) should have been recorded as long-term debt instead of revenue as outlined in the project finance agreement with SWRCB.

Cause of Condition

Lack of proper review and failure to determine financing provisions of project finance agreement.

Effect of Condition

Prior year restatement of Water and Sewer fund's fund balance was required in the amount of \$8.7 million.

CITY OF DELANO
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2010

Recommendation

Though the issue has been resolved and prior year restatements were made, we recommend thorough review of all future project finance or grant agreements to ensure that grantor's requirements and all other financing provisions are duly noted.

Management's Response

2010-3 – Continuing Education

Condition

Mayer, Hoffman, McCann P.C., drafted and prepared the financial statements, statement of cash flows and footnotes for the City of Delano. Management accepts the responsibility to establish and maintain effective internal controls over financial reports and for adjusting the financial statements as prepared by Mayer, Hoffman, McCann P.C. in order to correct any material mistakes. Management should possess the knowledge of the disclosures and schedules required to be a part of the financial statements in order to have adequate internal control over financial reporting.

Cause of Condition

Although financial statement closing procedures checklist have been implemented, checklist of respective financial statement presentation and related disclosures have not been fully established. There is also lack of continuing education as to changing standards affecting the industry.

Effect of Condition

The risk of misstatements over financial reporting will not be prevented or detected in a timely manner.

Recommendation

To sufficiently reduce the risk that misstatements will not be prevented or detected in a timely manner, MHM recommends that one or more of the following be implemented:

Each year, the City should obtain the latest checklist for their respective financial statement presentation and related disclosures, from a credible source to ensure accuracy and completeness of the financial statements, in accordance with accounting principles generally accepted in the United States.

The City should remain up to date with the changing standards affecting their industry in future years. As the accounting environment continues to change, the complexity of the accounting standards affecting the City will increase, and management should be proactive in educating themselves as to applicable accounting issues. We recommend GFOA's intermediate and advanced classes in governmental accounting as a good source of continuing education.

CITY OF DELANO
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2010

Management's Response

2010-4 – Customer Deposits Not Supported by Listing per Depositor

Condition

There is no available detailed listing by depositor to support one of the customer deposit accounts under the Trust Deposit fund. Also, the total amount on one of the customer deposit accounts under the Inmate Trust fund does not agree with detailed listing by depositor.

Cause of Condition

Detailed listing by depositor is not kept and tracked properly.

Effect of Condition

Future misstatement on customer deposit accounts could occur if detailed listing by depositor that supports the account total is not kept or tracked properly.

Recommendation

We recommend that management impose on every department that holds customer deposits to maintain an accurate detailed listing by name of depositor that supports the customer deposit payable amounts in the general ledger.

Management's Response

2010-5 – Operating Loss in Enterprise Funds

Condition

Charges for services and other operating revenues charged by Enterprise funds during the fiscal years June 30, 2009 and 2010 did not cover operating expenses.

Cause of Condition

Current utility rates and transportation fares are not sufficient to cover increasing expenses.

CITY OF DELANO
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2010

Effect of Condition

During the review of the financial statements, it was noted that the Enterprise funds have had an operating loss of approximately \$4.3 million and \$2.7 million for the fiscal year ending June 30, 2010 and 2009, respectively. It was also noted that the Enterprise funds owed other funds approximately \$2.9 million as of June 30, 2010.

Recommendation

We recommend that the city review the rates for adequacy. By adjusting the rates when needed, the Enterprise funds could reduce the amount due to the other funds and increase the revenues.

Management's Response

2010-6 – General Fund Interfund Financing

Condition

We noted the General Fund financed other funds' operations during the 2010 fiscal year which amounted to approximately \$5.2 million. This represents approximately 71% of the General fund's unreserved fund balance.

Cause of Condition

There is lack of review and consideration of financing other funds' operation using the General fund's reserves.

Effect of Condition

Continuous use of majority of the General fund's unreserved fund balance to finance other fund's operation can possibly lead to a deficit in the General fund's fund balance in the future.

Recommendation

We recommend the City review its practice of financing other funds' operations with the General Fund reserves.

Management's Response

CITY OF DELANO
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2010

2010-7 – Bank Account for Developer Impact Fees Fund Cash

Condition

Developer Impact Fees Fund has approximately \$10.2 million in cash that is restricted for certain allowable purposes; however, the cash is pooled with other funds of the City.

Cause of Condition

A separate bank account for the Developers Impact Fees Fund has not been established.

Effect of Condition

Restricted cash pooled with other fund's cash could inadvertently be used for purposes other than certain allowable purposes.

Recommendation

We recommend that the City consider segregating the Developer Impact Fees Fund cash into a separate bank account to prevent the inadvertent used by other funds via pooling of cash.

Management's Response

Section III - Federal Award Findings and Questioned Costs

2010-8 – CDBG – Personnel Action Form Not Reconciling with Approved Pay Scale

Program CFDA No.: 14.218 and 14.253

CFDA Program Title: CDBG and CDBG-R

Federal Award No.: B-09-MC-06-0600 and B-09-MY-06-0600

Federal Award Year: 2009

Pass-Through Entity: Not applicable

Condition

Pay rate indicated on the employee's Personnel Action Form did not agree with the City's approved pay scale on one of the payroll samples selected.

Cause of Condition

Lack of reconciliation between the pay rates in employee's Personnel Action Form and the City's pay scale.

Criteria

CITY OF DELANO
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2010

Employee's pay rate not considered reasonable in accordance with OMB Circular A-87.
Effect of Condition

Although pay rate is not considered reasonable, there is no questioned cost since monthly salary indicated in the approved pay scale is higher than the employee's monthly pay.

Recommendation

We recommend that employee files, including Personnel Action Forms, be updated and reconciled with the approved City-wide pay scale.

Management's Response

2010-9 – No Available Personal Activity Report

Program CFDA No.: 14.218

CFDA Program Title: CDBG

Federal Award No.: B-09-MC-06-0600

Federal Award Year: 2009

Pass-Through Entity: Not applicable

Condition

On one of five payroll samples selected, the employee's payroll should be allocated 50% between CDBG fund and Community Redevelopment Agency Low and Moderate Housing fund per approved Personnel Action File. Payroll for the sample selected was 100% charged to CDBG fund. There was no available support for this unusual allocation.

Cause of Condition

The use of Personal Activity Report to support hours worked or employee wages charged to a federal fund other than what was approved in the employee's personal file has not been implemented as required by OMB circular A-87, Attachment B paragraph 11.h.

Criteria

When employees work on multiple activities, a distribution of their salaries or wages should be based on the personal activity reports unless other substitute system has been approved by the cognizant Federal Agency as outlined in OMB circular A-87, Attachment B paragraph 11.h, support for salaries and wages.

Effect of Condition

Questioned cost of \$1,113 on the sample selected was determined by multiplying 50% of total amount of payroll allocated to CDBG fund.

CITY OF DELANO
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2010

Recommendation

We recommend that Personal Activity Reports, for employees working on multiple activities, be filled out according to the following guidelines:

- Reflects an after-the-fact distribution of the actual activity of each employee,
- Accounts for the total activity for which each employee is compensated,
- Prepared at least monthly and must coincide with one or more pay periods,
- Signed by the employee.

Management's Response

2010-10 – Purchasing Policy Not Covering Suspension and Debarment

Program CFDA No.: All Federal Awards

CFDA Program Title: All Federal Awards

Federal Award No.: All Federal Awards

Federal Award Year: 2009 and 2010

Pass-Through Entity: Not applicable

Condition

Formal purchasing policy does not contain considerations on suspension and debarment.

Cause of Condition

Procedures covering suspended and debarred vendors were over-looked or not considered when formal purchasing policy was adopted and approved.

Criteria

Local governments which are not sub-recipients of States may use their own procurement procedures provided that they conform to applicable Federal law and regulations and standards identified in the A-102 Common Rule. These purchasing policies must include a policy on suspension and debarment of vendors.

Effect of Condition

Lack of policies and procedures covering suspension and debarment could lead to possible non-compliance on future procurement transactions.

CITY OF DELANO
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2010

Recommendation

We recommend that official policies to be in place covering suspension and debarment that:

- Contain or reference the federal requirements
- Prohibit the award of a sub-award, contract, or any other agreement for program administration, goods, services, or any other program purpose with any suspended or debarred party
- Require staff to determine that entities receiving subawards of any value and procurement contracts equal to or exceeding \$25,000 and their principals are not suspended or debarred, and specify the means that will be used to make that determination, i.e., checking the Excluded Parties Listing System (EPLS), which is maintained by the General Services Administration; obtaining a certification; or inserting a clause in the agreement

Management's Response

2010-11 – CDBG – Reports Not Agreeing with Accounting Records

Program CFDA No.: 14.218 and 14.253

CFDA Program Title: CDBG and CDBG-R

Federal Award No.: B-09-MC-06-0600 and B-09-MY-06-0600

Federal Award Year: 2009

Pass-Through Entity: Not applicable

Condition

Reported federal expenditure amounts included on two of CDBG reports (CAPER and Online 1512 Report for CDBG-R) tested did not agree with accounting records that support the audited financial statements and the Schedule of Expenditures of Federal Awards.

Cause of Condition

Journal entries for federal expenditures were not analyzed and adjusted in time to be used for CAPER, and lack of reconciliation between finance department's accounting records and Economic Development and Redevelopment Department who's in charge of filing Online 1512 reports for CDBG-R. Late adjustments and analysis of federal expenditures also caused the Schedule of Expenditures of Federal Awards to be revised and adjusted multiple times and not provided to the auditors in a timely manner.

Criteria

CITY OF DELANO
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2010

Per OMB Circular A-133, required reports for Federal Awards must include all activity of the reporting period, supported by applicable accounting or performance records, and are fairly presented in accordance with governing requirements.

Effect of Condition

Required reports for Federal awards that are submitted are inaccurate and not fully supported by accounting in accordance with accounting principles generally accepted in the United States of America.

Recommendation

We recommend timely analysis of journal entries needed for final posting of Federal expenditures and proper review of reconciliation of reports with accounting records before submission of required Federal awards' reports

Management's Response

Section IV - A Summary of Prior year Audit Findings (June 30, 2009) and Current Year Status is as Follows:

Finding Number 1 - Capital Assets

Condition

There were errors contained in the capital assets schedule, partially due to unresolved prior year problems and partially due to errors in current year capitalization and recording of capital outlays, As a result, the capital asset schedule was not reconciled to the beginning balance and was not completed during the closing process.

Recommendation

It was recommended that the City provide training to staff in charge of capital assets accounting and purchase new accounting software for capital assets, In addition, the City's Finance Department should review staff's work during the closing process.

Management's Response

The City has purchased the new GFOA publication, Accounting for Capital Assets. The City has purchased, and is in the process of installing, the Capital Asset module for the accounting software "MOM." Training has been scheduled for the City staff responsible for Capital Asset accounting. Finance staff will review future closing procedures for the capitalization of fixed assets.

Current Year Status

The City is in process of implementing above response.

CITY OF DELANO
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2010

Finding Number 2 - Lack of Accounting Staff at Community Correction Facility (CCF)

Condition

Issues were noted at CCF regarding segregation of duties. Cash receipts were distributed among the administrative staff that may not have enough accounting knowledge or training for their responsibilities. This was due to change in personnel in the CCF.

Recommendation

It was recommended that the CCF either start hiring more accounting professionals to fulfill the separation purpose or provide relatively formal training to those administrative staff on a regular basis to ensure the work they are performing is proper and efficient.

Management's Response

Financial Consultants have been hired by the City and are working with the CCF to correct the improper segregation of duties, writing policies and procedures in the finance area, and giving their recommendations to the Finance Director for implementation. In addition, recruitment is underway for an Accounting Assistant I with the required skills to assist Finance staff at the CCF. This position will replace a previous Accounting Assistant I that did not have the suitable skills.

Current Year Status

Implemented.

Finding Number 3 - Year-End Close

Condition

The City does not effectively follow up its formal policies and procedures on the year-end close. As a result, the following was noted:

Transactions for the Chevron projects were not completed and booked during the closing process, although the entries presented to the auditors for posting were done correctly.

Deposits with Central San Joaquin Valley Risk Management Authority remained unchanged from the prior year's balance and not analyzed at year-end.

A deferred revenue balance was not analyzed and updated for a prior year balance.

One accounts receivable accrual for Measure I was not recorded.

One prior year accounts receivable balance was not analyzed and reversed.

CITY OF DELANO
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2010

Recommendation

It was recommended that the City enforce its policies and procedures regarding the closing process. A checklist can be developed to assist Finance staff to ensure that all procedures that are part of the closing have been performed. Additionally, it was recommended that the Finance Department review the close of the books to ensure the books have been closed correctly.

Management's Response

Financial consultants have been hired to re-write the current year-end closing procedures which will include an updated check list of all areas involved with year-end closing. The Finance Department staff will follow these new procedures in the future to assure that the year-end books are properly closed. In addition, Finance Department staff is being trained in the area of correct closing procedures. Assigned Finance Department staff will review the year-end trial balance to assure that the proper analysis and recording of the necessary year-end entries have been completed before submission to the external auditor.

Current Year Status

The City is in process of implementing above response.

Finding Number 4 - Schedule of Federal Expenditures

Condition

During the review of the final schedule of federal expenditures, it was noted that it contained numerous material errors as follows: certain federal award amounts received versus expended were used as total expenditure listings in the schedule and numerous federal expenditures had to be revised due to incorrect source data, which was prepared by a temporary employee who did not have adequate knowledge about how to provide the correct information to be used in the schedule. As a result, the final schedule of federal expenditures contained numerous errors, and the final schedule was not provided to the auditors in a timely manner.

Recommendation

We recommend the City review its 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. We also recommend supervisors review and monitor staff's work.

Management's Response

Management is in the process of writing more efficient procedures in relation to the preparation of the schedules of federal expenditures. For the final schedule of federal

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expenditures, the Finance Department staff did trace each line item to the general ledger and verified each line item for the correct funding source and will continue to do so in the future. The final schedule did balance to the general ledger.

Current Year Status

Not fully implemented. See current year finding 2010-11 in Section III of this schedule.

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