

**CITY OF LINDSAY**

**OTHER AUDIT REPORTS  
INCLUDING SINGLE  
AUDIT REPORT**

**JUNE 30, 2009**

**CITY OF LINDSAY**

**TABLE OF CONTENTS**

June 30, 2009

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	1
Single Audit Reports:	
Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133	3
Schedule of Expenditures of Federal Awards	6
Notes to Schedule of Expenditures of Federal Awards	7
Schedule of Findings and Questioned Costs	
Summary of Audit Results	8
Financial Statement Findings and Responses	9
Federal Award Findings and Questioned Costs and Responses	14
Summary Schedule of Prior Audit Findings	17

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

To the Honorable Mayor and City Council  
City of Lindsay

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 Lindsay, California (City) as of and for the year ended June 30, 2009, which collectively comprise the City's basic financial statements and have issued our report thereon dated September 8, 2010. 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'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's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City'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 over financial reporting that we consider 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 City'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 City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting. [2009-FS-01, 2009-FS-02 and 2009-FS-04.]

A *material weakness* is a significant deficiency, or a 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 City's internal control.

To the Honorable Mayor and City Council  
City of Lindsay  
Page two

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider item [2009-FS-03] to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the City in a separate letter dated September 8, 2010.

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

This report is intended solely for the information and use of the City's management, others within the organization, 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.

*Pressley & Associates, Inc.*

Accountancy Corporation  
Bakersfield, California  
September 8, 2010

**INDEPENDENT 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 Honorable Mayor and City Council  
City of Lindsay, California

Compliance

We have audited the compliance of the City of Lindsay, California (City) with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2009. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City'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'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's compliance with those requirements.

As described in item 2009-SA-01, in the accompanying schedule of findings and questioned costs, the city did not comply with requirements regarding *allowable costs/cost principles* that are applicable to its Transportation Enhancement Act (TEA). Compliance with such requirements is necessary, in our opinion, for the City to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the City 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, 2009.

To the Honorable Mayor and City Council  
City of Lindsay, California  
Page two

#### Internal Control Over Compliance

The management of the City 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's internal control over compliance with the 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's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the City's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies and others that we consider to be material weaknesses.

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 a 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 deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2009-SA-03, To be significant deficiencies.

A *material weakness* is a significant deficiency, or a 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. Of the significant deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs, we consider items 2009-SA-01 and 2009-SA-02, to be material weaknesses.

The City's response to the findings identified in our audit are 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.

To the Honorable Mayor and City Council  
City of Lindsay, California  
Page three

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of and for the year ended June 30, 2009, and have issued our report thereon dated September 8, 2010. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City'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.

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

*Pressley & Associates, Inc.*

Accountancy Corporation  
Bakersfield, California  
September 8, 2010

**City of Lindsay**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2009**

Federal Grantor/pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
<b>U.S. Department of Housing and Urban Development:</b>			
Passed through from the California Department of Housing and Urban Development:			
Community Development Block Grant	14.228	08-STBG-4843	14,305
Community Development Block Grant	14.228	08-PTAE-5408	23,211
Community Development Block Grant	14.228	07-PTAG-3664	31,500
Community Development Block Grant	14.228	07-PTAE-3130	31,500
Community Development Block Grant	14.228	06-STBG-2647	34,850
Community Development Block Grant	14.228	05-EDBG-2181	33,406
Total Community Development Block Grant			<u>168,772</u>
HOME Investment Partnership Program	14.239	08-HOME-4912	225,000
HOME Investment Partnership Program	14.239	07-HOME-3081	268,933
HOME Investment Partnership Program	14.239	05-HOME-167	201,700
HOME Investment Partnership Program	14.239	06-HOME-205	160,000
HOME Investment Partnership Program	14.239	06-HOME-2466	237,186
Total HOME Investment Partnership Program			<u>1,092,819</u>
<i>Total U.S. Department of Housing and Urban Development</i>			<u>1,261,591</u>
<b>U.S. Department of Agriculture:</b>			
Community Facilities Loans	10.766	N/A	1,599,539
<i>Total U.S. Department of Agriculture</i>			<u>1,599,539</u>
<b>U.S. Department of Transportation:</b>			
Passed through from the California Department of Transportation			
TEA	20.205	RPSTPLE-5189-8	2,250,687
<b>Total Expenditures of Federal Awards</b>			<u>\$ 5,111,817</u>

The accompanying notes are an integral part of this schedule.

**City of Lindsay**  
**Notes to the Schedule of Expenditures**  
**of Federal Awards**  
**Year Ended June 30, 2009**

**Note 1: Basis of Presentation**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Lindsay, California and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

**Note 2: Loan Balances**

The City had the following loan balances outstanding at June 30, 2009. The portion of the loan balance expended for the project is included in the federal expenditures presented in the schedule.

<u>Program Title</u>	<u>CFDA Number</u>	<u>Amount Outstanding</u>
USDA - Water	10.706	\$ 2,134,296
USDA - Sewer	10.706	6,258,775
USDA - Sewer	10.706	448,586
USDA - Tulare Road	10.766	1,599,539
USDA - Wellness Center	10.766	<u>1,130,689</u>
		<u>\$ 11,571,885</u>

## **Schedule of Findings and Questioned Costs**

**City of Lindsay**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2009**

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**Section I - Summary of Auditor's Results**

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*Financial Statements:*

Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
• Material weaknesses identified?	Yes
• Significant deficiency identified that are not considered to be material weaknesses?	Yes
Noncompliance material to financial statements noted?	No

*Federal Awards:*

Internal control over major programs:	
• Material weaknesses identified?	Yes
• Significant deficiency identified that are not considered to be material weaknesses?	Yes
Type of auditor's report issued on compliance for major programs:	Qualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	Yes
Identification of major programs:	
CFDA #10.766	USDA Community Facilities Loans
CFDA #20.205	USDOT Transportation Enhancement Act
Dollar threshold used to distinguish between type A and type B programs:	\$300,000
Auditee qualified as low-risk auditee?	No

**City of Lindsay**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2009**

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**Section II – Financial Statement Findings and Responses**

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**Significant Deficiencies:**

**2009-FS-01: Recording Budget Amendments – Accounting and Administrative Controls**

*Condition:* Management is responsible for establishing and maintaining internal controls, including monitoring, that allow for the fair presentation of the City's required supplementary information, which presents the results of actual operations compared to the City's final adopted budget. Currently, the City adopts a two-year budget. During this two-year period, the City's Council adopts various amendments to the original adopted budget; however, these amendments are not recorded to the City's financial accounting system.

*Cause:* Currently, management has not recorded budget expenditure appropriation adjustments, revised revenue estimates, or other financing sources and uses budget items authorized by the City's Council to its financial accounting system.

*Effect:* The absence of the internal accounting and administrative control to ensure the budget amendments are recorded to the financial accounting system is considered a significant deficiency because the potential exists that a more than inconsequential but less than material misstatement of the financial statements could occur and not be prevented or detected by the City's internal control.

*Recommendation:* We recommend all budget amendments approved and authorized by the City's Council be recorded to the financial accounting system to ensure proper preparation and presentation of the Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual. This statement is required supplementary information when reporting the City results of operation in conformity with U.S. generally accepted accounting principles.

*Response and Corrective Action Plan:*

- Management will record all future budget amendments approved and authorized by the City's Council.

**City of Lindsay**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2009**

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**Section II – Financial Statement Findings and Responses (continued)**

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**2009-FS-02: Pooled Investment Earnings Allocations - Accounting Controls**

*Condition:* The City follows the practice of pooling cash and investments of all the funds except for monies required to be held by outside fiscal agents under the provisions of bond indentures. Interest income earned on the pooled cash and investments is allocated quarterly to the various funds based on the monthly cash balances. During our audit, we identified that the City's assets known as "Due from Other Funds" were not reimbursed to the City within one year of July 1, 2008. Generally, "Due from Other Funds" are considered short-term lending arrangements to cover cash flow requirements in other funds; however, these funds should be repaid within no later than 1 year.

*Cause:* Management has not reviewed its internal accounting controls to ensure that monies due from other funds are repaid within one year, which will ensure that monthly cash balances in each of the City's fund are accurate when computing the quarterly interest income allocations.

*Effect:* Since the balances in the "Due from Other Funds" held by the City were not repaid on a timely basis, monthly cash balances were understated during the fiscal year, which resulted in an understatement of interest earnings. The estimated understatement of pool investment earnings in the Low and Moderating Income Housing Special Revenue Fund is \$10,241, while the understatement of interest earnings in the Agency's Capital Projects Fund is estimated to be \$55,269.

*Recommendations:* It is recommended that management review its policies and procedures to ensure interest earned from deposits, especially in the Low and Moderating Income Housing Special Revenue Fund, are deposited or accrued to each fund in a manner that is equitable and accurate insofar as each fund earns its proportionate share of the pooled investment earnings. Because the Agency is a separate legal entity, we also recommend the any monies loaned and/or transferred to/from the City of Lindsay be approved and authorized by the Board.

*Response and Corrective Action Plan:*

- Management will review its policies and procedures to ensure that interest earned from deposits accrue to each fund in a manner that is equitable and accurate insofar as each fund earns its proportionate share of the pooled investment earnings.

**City of Lindsay**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2009**

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**Section II – Financial Statement Findings and Responses (continued)**

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**2009-FS-04: Reconciling Bank Reconciliations**

*Condition:* Bank reconciliations are not being reviewed in a timely fashion.

*Effect:* Bank reconciliation needed adjustments up to fourteen months after year end.

*Cause:* Bank reconciliation adjustments to the general ledger are not being posted to the proper accounting periods.

*Criteria:* City policy and procedures require monthly bank reconciliations.

*Recommendation:* Finance Director should review monthly bank reconciliations. Accounting supervisor should posted adjustments to the bank reconciliations in the proper accounting period.

*Response and Corrective Action Plan:* Finance Director will review banks reconciliations monthly with posted adjustments.

**City of Lindsay**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2009**

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**Section II – Financial Statement Findings and Responses (continued)**

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**Material Weaknesses:**

**2009-FS-03: Reconciling Accounts to Supporting Documentation – Accounting Controls**

*Condition:* The City does not reconcile its general ledger accounts to supporting documents. In order to make the interim and annual financial statements meaningful, we recommend the City reconcile the general ledger accounts for cash with fiscal agent, property held for resale, and bond issuance proceeds, premiums and issuance costs to supporting documentation on a monthly or routine basis. During our audit, we identified certain adjustments to general ledger assets and liabilities that impacted the operating results of the City for the year ended June 30, 2009.

*Cause:* Management has not reviewed its policies and procedures to ensure that general ledger accounts are supported by adequate documentation on a monthly or routine basis. Management is responsible for establishing and maintaining internal controls, including reconciling general ledger accounts to supporting documents.

We are responsible to communicate significant deficiencies and material weaknesses in accordance with professional standards regardless of management's decisions to establish and monitor its own internal controls.

*Effect:* The absence of performing monthly and/or routine reconciliations provides an opportunity that errors can accumulate and these errors may go undetected. The benefit of monthly reconciliations is that errors do not accumulate but can be identified and attributed to a particular period (month), which makes it easier to perform future reconciliations. Because the procedures recommended below were not in place during the year ended June 30, 2009, these are considered a material weaknesses because a material misstatement of the financial statements would have occurred and not been prevented or detected by the City's existing internal controls.

*Recommendations:* We recommend management establish monthly and/or routine reconciliation policies and procedures, including the performance of the following functions:

- Cash and investments held with the City's fiscal agent should be reconciled from the bond trustee statement balance to the general ledger balance on a monthly basis to determine that all cash transactions, including investment earnings, have been recorded properly and to discover trustee errors. The proper recordation of fiscal agent transactions will provide for the fair presentation of the financial statements.

**City of Lindsay**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2009**

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**Section II – Financial Statement Findings and Responses (continued)**

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**2009-FS-03: Reconciling Accounts to Supporting Documentation – Accounting Controls (continued)**

*Recommendations (continued):*

- Upon the issuance of long-term debt, such as bonds, the recording of bond proceeds, premiums/discounts and bond issuance costs should be recorded to the appropriate general ledger accounts based on supporting information found in the Official Bond Statement. Typically, the Official Bond Statement will report the sources and uses of the bond issuance. The proper recordation of the bond issuance to the general ledger will provide for the fair presentation of the financial statements, which is the responsibility of management.
  
- Upon the purchase and/or sale of City real property, the inventory adjustment to property held for resale and the corresponding gain/loss on the sale of real property should be recorded to the general ledger accounts, and reconciled to supporting documentation provided by the title company. The recording of real property transactions should be performed shortly after the transactions have closed escrow. These reconciliations and adjustments to the general ledger accounts will ensure meaningful and accurate interim and annual financial statements.

*Response and Corrective Action Plan:*

- Management will perform a monthly reconciliation of cash and investments held with the City's fiscal agent. The reconciliation from the bond trustee statement balance will be made to the general ledger on a monthly basis to ensure that all cash transactions are properly recorded.
  
- For future bond issuances, management will obtain, if necessary, professional consultation services to ensure that transactions are recorded properly.
  
- Management will record the gain or loss from all future property transactions immediately after the sale is recorded.

**City of Lindsay**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2009**

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**Section III – Federal Award Findings and Questioned Costs**

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**Significant Deficiencies:**

**2009-SA-03: City's accounting procedures for Federal grant awards**

*Federal Grantor:* U.S. Department of Transportation

*Title and CFDA:* TEA; CFDA 20.205

*Award No.:* RPSTPLE-5189-8

*Year:* 2007/2008

*Pass-Through Entity:* California Department of Transportation

*Compliance Requirement:* Reporting

*Reporting Requirement:* Significant Deficiency

*Criteria:* OMB Circular A-133 states that a Federal grant recipient should have sufficient accounting procedures to provide reasonable assurance that program income is correctly recorded and used in accordance with the program requirements. The recipient shall identify, in its accounts, all Federal awards received and expended and the Federal programs under which they were received.

*Condition:* The City did not adequately account for Federal grant income and expenditures in specific general ledger accounts.

*Questioned costs:* None

*Context:* During our audit we noted Federal revenues and expenditures were recorded in three funds of the City's general ledger. These transactions were not properly segregated and identified. This required a reconciliation of multiple transactions over multiple funds in order to accurately determine the total activity for a specific grant.

*Effect:* This condition, if not corrected, could result in the inaccurate recording of Federal grant revenues and expenditures.

*Cause:* The finance department did not review the grant accounting on a regular basis.

*Recommendations:* We recommend that management modify accounting procedures that relate to Federal grants and other matching funding sources. Specific funds should be designated for Federal grant programs and specific accounts should be assigned for related revenues and expenditures. Transactions should be reviewed periodically to insure that financial reporting for Federal grants is accurate and clearly understandable.

*Response and corrective action plan:* City staff prepared journal entries to correct the condition and accurately report Federal grant revenues and expenditures. Management will implement accounting procedures to insure that Federal grant fund activities are properly segregated and reported accurately and clearly in the City's general ledger.

**City of Lindsay  
Schedule of Findings and Questioned Costs  
Year Ended June 30, 2009**

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**Section III – Federal Award Findings and Questioned Costs (continued)**

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**Material Weaknesses:**

**2009-SA-01: City's purchasing and contracting provisions**

*Federal Grantor:* U.S. Department of Transportation

*Title and CFDA:* TEA; CFDA 20.205

*Award No.:* RPSTPLE-5189-8

*Year:* 2007/2008

*Pass-Through Entity:* California Department of Transportation

*Compliance Requirement:* Allowable costs/cost principles

*Reporting Requirement:* Material Weakness

*Criteria:* Per Section 3.04.090 of the City of Lindsay's Purchasing and Contracting provisions: Formal bid procedure. The procedure set out in this section shall be utilized for all purchases or contracts involving amounts of seventy-five thousand dollars or more. Award of all contracts and purchases made pursuant to the procedures of this section shall be made to the lowest responsible bidder meeting specifications... The City Council shall award, or may reject, all purchases or contracts developed under the procedures of this section and proposed to be awarded pursuant to this section."

*Condition:* The City approved, through its competitive bid process, a construction project. The project was subsequently expanded with change orders in excess of the City's competitive bid threshold. These changes were not submitted to the City Council for approval in accordance with the formal bid process.

*Questioned costs:* \$656,059

*Context:* During our audit we tested five invoices which represented 100% of the specific vendor's costs.

*Effect:* Grant programs are subject to review by grantor agencies. Such review could result in the disallowance of expenditures under the terms of the grant or reductions of future grant funds.

*Cause:* Management did not require the entire scope of the construction project to be included in the formal bid process.

*Recommendations:* We recommend that management adhere to the City's contract management procedures which include Council approval for contracts in excess of \$75,000, and notification of contract change orders. In addition, we recommend that the complete project scope be included in future formal requests for bids.

*Response and corrective action plan:* Staff will adhere to City's contract management procedures which include notification of Council of all change orders. We will also include the complete project scope in future formal bid requests.

**City of Lindsay**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2009**

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**Section III – Federal Award Findings and Questioned Costs (continued)**

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**2009-SA-02: Federal Clearinghouse Data Collection Form submission**

*Federal Grantor:* U.S. Department of Agriculture  
*Title and CFDA:* Community Facilities Loans; CFDA 10.766  
*Award No.:* N/A  
*Year:* 2008/09  
*Pass-Through Entity:* n/a

*Federal Grantor:* U.S. Department of Transportation  
*Title and CFDA:* Transportation Enhancement Act; CFDA 20.205  
*Award No.:* RPSTPLE-5189-8  
*Year:* 2007/08  
*Pass-Through Entity:* California Department of Transportation

*Compliance requirement:* Reporting  
*Reporting Requirement:* Material Weakness

*Criteria:* OMB Circular A-133 states that all auditees shall submit the Data Collection Form to the Federal clearinghouse within the earlier of 30 days after receipt of the auditor's report(s), or nine months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for audit.

*Condition:* The City did not timely file the Data Collection Form with the Federal clearinghouse.

*Questioned costs:* None

*Context:* Our review of the Data Collection Form indicated that it was not timely filed and no approved extension was obtained in advance.

*Effect:* Future funding of Federal grants may be delayed, modified or denied as a result of the City's failure to timely file the Data Collection Form with the Federal clearinghouse.

*Cause:* The City's accounting records were not closed in a timely fashion in order to allow an accurate reporting of the Data Collection Form.

*Recommendations:* We recommend management make every effort in the future to timely file the Data Collection Form with the Federal clearinghouse. In the event management determines that the deadline may not be met, we recommend they obtain an advance extension from their cognizant or oversight agency.

*Response and corrective action plan:* Management will make every effort to timely file the Data Collection Form with the Federal clearinghouse. If it appears that a timely filing is not possible, then an extension will be requested from the cognizant or oversight agency.

## **Summary Schedule of Prior Audit Findings**

**City of Lindsay**  
**Summary Schedule of Prior Audit Findings**  
**Year Ended June 30, 2009**

**Financial Statement Audit**

Significant deficiencies

**2008-FS1;2007-FS1: Recording Budget Amendments – Accounting and Administrative Controls**

*Condition:* Management is responsible for establishing and maintaining internal controls, including monitoring, that allow for the fair presentation of the City's required supplementary information, which presents the results of actual operations compared to the City's final adopted budget. Currently, the City adopts a two-year budget. During this two-year period, the City's Council adopts various amendments to the original adopted budget; however, these amendments are not recorded to the City's financial accounting system.

*Cause:* Currently, management has not recorded budget expenditure appropriation adjustments, revised revenue estimates, or other financing sources and uses budget items authorized by the City's Council to its financial accounting system.

*Effect:* The absence of the internal accounting and administrative control to ensure the budget amendments are recorded to the financial accounting system is considered a significant deficiency because the potential exists that a more than inconsequential but less than material misstatement of the financial statements could occur and not be prevented or detected by the City's internal control.

*Recommendation:* We recommend all budget amendments approved and authorized by the City's Council be recorded to the financial accounting system to ensure proper preparation and presentation of the Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual. This statement is required supplementary information when reporting the City results of operation in conformity with U.S. generally accepted accounting principles.

*Response and Corrective Action Plan:*

- Management will record all future budget amendments approved and authorized by the City's Council.

*Status:* These items are still open.

**City of Lindsay**  
**Summary Schedule of Prior Audit Findings**  
**Year Ended June 30, 2009**

Significant deficiencies

**2008-FS2;2007-FS2: Pooled Investment Earnings Allocations - Accounting Controls**

*Condition:* The City follows the practice of pooling cash and investments of all the funds except for monies required to be held by outside fiscal agents under the provisions of bond indentures. Interest income earned on the pooled cash and investments is allocated quarterly to the various funds based on the monthly cash balances. During our audit, we identified that the City's assets known as "Due from Other Funds" were not reimbursed to the City within one year of July 1, 2006. Generally, "Due from Other Funds" are considered short-term lending arrangements to cover cash flow requirements in other funds; however, these funds should be repaid within no later than 1 year.

*Cause:* Management has not reviewed its internal accounting controls to ensure that monies due from other funds are repaid within one year, which will ensure that monthly cash balances in each of the City's fund are accurate when computing the quarterly interest income allocations.

*Effect:* Since the balances in the "Due from Other Funds" held by the City were not repaid on a timely basis, monthly cash balances were understated during the fiscal year, which resulted in an understatement of interest earnings. The estimated understatement of pool investment earnings in the Low and Moderating Income Housing Special Revenue Fund is \$10,241, while the understatement of interest earnings in the Agency's Capital Projects Fund is estimated to be \$55,269.

*Recommendations:* It is recommended that management review its policies and procedures to ensure interest earned from deposits, especially in the Low and Moderating Income Housing Special Revenue Fund, are deposited or accrued to each fund in a manner that is equitable and accurate insofar as each fund earns its proportionate share of the pooled investment earnings. Because the Agency is a separate legal entity, we also recommend the any monies loaned and/or transferred to/from the City of Lindsay be approved and authorized by the Board.

*Response and Corrective Action Plan:*

- Management will review its policies and procedures to ensure that interest earned from deposits accrue to each fund in a manner that is equitable and accurate insofar as each fund earns its proportionate share of the pooled investment earnings.

*Status:* These items are still open.

**City of Lindsay**  
**Summary Schedule of Prior Audit Findings**  
**Year Ended June 30, 2009**

Significant deficiencies

**2008-FS4: Reconciling Bank Reconciliations**

*Condition:* Bank reconciliations are not being reviewed in a timely fashion.

*Effect:* Bank reconciliation needed adjustments up to fourteen months after year end.

*Cause:* Bank reconciliation adjustments to the general ledger are not being posted to the proper accounting periods.

*Criteria:* City policy and procedures require monthly bank reconciliations.

*Recommendation:* Finance Director should review monthly bank reconciliations. Accounting supervisor should posted adjustments to the bank reconciliations in the proper accounting period.

*Response and Corrective Action Plan:* Finance Director will review banks reconciliations monthly with posted adjustments.

*Status:* This item is still open.

**City of Lindsay  
Summary Schedule of Prior Audit Findings  
Year Ended June 30, 2009**

**Material Weaknesses:**

**2008-FS3;2007-FS3: Reconciling Accounts to Supporting Documentation – Accounting Controls**

*Condition:* The City does not reconcile its general ledger accounts to supporting documents. In order to make the interim and annual financial statements meaningful, we recommend the City reconcile the general ledger accounts for cash with fiscal agent, property held for resale, and bond issuance proceeds, premiums and issuance costs to supporting documentation on a monthly or routine basis. During our audit, we identified certain adjustments to general ledger assets and liabilities that impacted the operating results of the City for the years ended June 30, 2007 and June 30, 2008.

*Cause:* Management has not reviewed its policies and procedures to ensure that general ledger accounts are supported by adequate documentation on a monthly or routine basis. Management is responsible for establishing and maintaining internal controls, including reconciling general ledger accounts to supporting documents.

We are responsible to communicate significant deficiencies and material weaknesses in accordance with professional standards regardless of management's decisions to establish and monitor its own internal controls.

*Effect:* The absence of performing monthly and/or routine reconciliations provides an opportunity that errors can accumulate and these errors may go undetected. The benefit of monthly reconciliations is that errors do not accumulate but can be identified and attributed to a particular period (month), which makes it easier to perform future reconciliations. Because the procedures recommended below were not in place during the years ended June 30, 2007 and 2008, these are considered a material weaknesses because a material misstatement of the financial statements would have occurred and not been prevented or detected by the City's existing internal controls.

*Recommendations:* We recommend management establish monthly and/or routine reconciliation policies and procedures, including the performance of the following functions:

- Cash and investments held with the City's fiscal agent should be reconciled from the bond trustee statement balance to the general ledger balance on a monthly basis to determine that all cash transactions, including investment earnings, have been recorded properly and to discover trustee errors. The proper recordation of fiscal agent transactions will provide for the fair presentation of the financial statements.

**City of Lindsay**  
**Summary Schedule of Prior Audit Findings**  
**Year Ended June 30, 2009**

**2008-FS3;2007-FS3: Reconciling Accounts to Supporting Documentation – Accounting Controls (continued)**

*Recommendations (continued):*

- Upon the issuance of long-term debt, such as bonds, the recording of bond proceeds, premiums/discounts and bond issuance costs should be recorded to the appropriate general ledger accounts based on supporting information found in the Official Bond Statement. Typically, the Official Bond Statement will report the sources and uses of the bond issuance. The proper recordation of the bond issuance to the general ledger will provide for the fair presentation of the financial statements, which is the responsibility of management.
- Upon the purchase and/or sale of City real property, the inventory adjustment to property held for resale and the corresponding gain/loss on the sale of real property should be recorded to the general ledger accounts, and reconciled to supporting documentation provided by the title company. The recording of real property transactions should be performed shortly after the transactions have closed escrow. These reconciliations and adjustments to the general ledger accounts will ensure meaningful and accurate interim and annual financial statements.

*Response and Corrective Action Plan:*

- Management will perform a monthly reconciliation of cash and investments held with the City's fiscal agent. The reconciliation from the bond trustee statement balance will be made to the general ledger on a monthly basis to ensure that all cash transactions are properly recorded.
- For future bond issuances, management will obtain, if necessary, professional consultation services to ensure that transactions are recorded properly.
- Management will record the gain or loss from all future property transactions immediately after the sale is recorded.

*Status:* These items are still open.

**City of Lindsay  
Summary Schedule of Prior Audit Findings  
Year Ended June 30, 2009**

**Findings and Questioned Costs – Major Federal Award Programs Audit**

None reported