

**CITY OF LINDSAY**

**OTHER AUDIT REPORTS  
INCLUDING SINGLE  
AUDIT REPORT**

**JUNE 30, 2007**

**CITY OF LINDSAY**

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June 30, 2007

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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 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 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, 2007, and have issued our report thereon dated August 7, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City'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.

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. [2007-1 and 2007-2.]

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  
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Our consideration of 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 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 [2007-3] 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*.

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

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  
August 7, 2008

## 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, 2007. 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 on the City's compliance with those requirements.

In our opinion, 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, 2007.

### Internal Control Over Compliance

The management of the Commission 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 Commission'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 the Commission's internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control over compliance.

To the Honorable Mayor and City Council  
City of Lindsay, California  
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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.

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. We did not consider any of the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the entities internal control that might be significant deficiencies or material weaknesses.

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, 2007, and have issued our report thereon dated August 7, 2008. Our audit was performed for the purpose of forming opinions on the financial statements taken as a whole. 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  
August 7, 2008

City of Lindsay  
Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2007

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	Freeze	43,568
		05-EDBG-2181	2,000
		04-STBG-1963	247,000
		04-STBG-1907	48,000
		04-EDBG-1030	16,816
		04-PTAA-0787	33,000
Total Community Development Block Grant			<u>390,384</u>
HOME Investment Partnership Program	14.239	03-CALHOME-051	198,884
		03-HOME-0676	101,752
		04-HOME-0736	100,661
Total HOME Investment Partnership Program			<u>401,297</u>
<i>Total U.S. Department of Housing and Urban Development</i>			<u>791,681</u>
<b>U.S. Department of Justice:</b>			
LLEBG	16.592		6,002
<i>Total U.S. Department of Justice</i>			<u>6,002</u>
<b>U.S. Department of Homeland Security:</b>			
Passed through from the Tulare County Office of Emergency Services:			
Interoperable Communications Equipment	97.055		79,415
<i>Total U.S. Department of Homeland Security</i>			<u>79,415</u>
<b>U.S. Department of Transportation:</b>			
Passed through from the California Department of Transportation			
CMAQ	20.205	CML-5189(007)	38,608
		CML-5189(010)	31,329
		CML-5189(016)	74,333
<i>Total U.S. Department of Transportation</i>			<u>144,270</u>
<b>Total Expenditures of Federal Awards</b>			<u><u>\$ 1,021,368</u></u>

**City of Lindsay**  
**Notes to the Schedule of Expenditures**  
**of Federal Awards**  
**Year Ended June 30, 2007**

**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.

**Schedule of Findings and Questioned Costs**

**City of Lindsay  
Schedule of Findings and Questioned Costs  
Year Ended June 30, 2007**

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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

*Federal Awards:*

Internal control over major programs:

- Material weaknesses identified? No
- Significant deficiency identified that are not considered to be material weaknesses? None reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? No

Identification of major programs:

CFDA #14.228	Community Development Block Grant
CFDA #14.239	HOME Investment Partnership Program

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

Auditee qualified as low-risk auditee? Yes

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

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**Significant Deficiencies:**

**2007-1: 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.

**City of Lindsay**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2007**

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

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**2007-1: Recording Budget Amendments – Accounting and Administrative Controls (continued)**

*Condition (continued):* 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:*

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

**2007-2: 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.

**City of Lindsay**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2007**

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

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**2007-2: Pooled Investment Earnings Allocations - Accounting Controls (continued)**

*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:*

- 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.

**Material Weaknesses:**

**2007-3: 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, 2007.

**City of Lindsay**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2007**

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

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**2007-3: Reconciling Accounts to Supporting Documentation – Accounting Controls (continued)**

*Cause:* Management has not reviewed its policies and procedures to ensure that 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, 2007, 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.
- 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.

**City of Lindsay**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2007**

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

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**2007-3: Reconciling Accounts to Supporting Documentation – Accounting Controls (continued)**

- 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:*

- 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.

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

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None

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

**City of Lindsay  
Summary Schedule of Prior Audit Findings  
Year Ended June 30, 2007**

**Financial Statement Audit**

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

**Reportable conditions:**

**06-01, 05-1 & 04-1:** Department of Transportation– Congestion Mitigation and Air Quality– CFDA # 20.205; Request for Reimbursements

*Condition:* Request for reimbursements for expenditures incurred during the Department of Transportation - CMAQ funded expansion of streets and roads and purchase of street equipment were not being completed on a timely basis.

*Criteria:* Timing issues regarding the matching of revenues to their expenditures is being affected by the delay in the requesting of the reimbursements.

*Effect:* Funds are not recording the revenues that should be matched to expenditures in the same period.

*Recommendation:* The City should request reimbursements on a monthly basis and at a minimum quarterly. The request should be done as soon as the expenditures can be determined, so the City can book the corresponding revenues during the same period.

*City Response:* The City has hired an employee to oversee all future CMAQ projects. That employee's duties include the timely submittal of reimbursement and requests.