CITY OF LINDSAY

SINGLE AUDIT REPORT

JUNE 30, 2013

CITY OF LINDSAY
SINGLE AUDIT REPORT
JUNE 30, 2013

TABLE OF CONTENTS

BROWN
ARMSTRONG
CERTIFIED
PUBLIC
ACCOUNTANTS

MAIN OFFICE
4200 TRUXTUN AVENUE
SUITE 300
BAKERSFIELD, CA 93309
TEL 661.324.4971
FAX 661.324.4997
EMAIL info@bacpas.com

560 CENTRAL AVENUE
SHAFTER, CALIFORNIA 93263
TEL 661.746.2145
FAX 661.746.1218

7673 N. INGRAM AVENUE
SUITE 101
FRESNO, CALIFORNIA 93711
TEL 559.476.3592
FAX 559.476.3593

206 S. LOS ROBLES AVENUE
SUITE 326
PASADENA, CALIFORNIA 91101
TEL 626.204.6542
FAX 626.204.6547

5250 CLAREMONT AVENUE
SUITE 237
STOCKTON, CA 95207
TEL 209.451.4833

PKF North America

REGISTERED with the Public Company Accounting Oversight Board and MEMBER of the American Institute of Certified Public Accountants

BROWN ARMSTRONG

Certified Public Accountants

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*

The Honorable Mayor and City Council
of the City of Lindsay, California

We have audited, in accordance with the 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, 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 (the City), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon March 27, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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: 2013-01 through 2013-11.

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 charged with governance. We noted no deficiencies to be significant deficiencies; all deficiencies described in the accompanying schedule of findings and questions costs are assessed as material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from 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 *Governmental Auditing Standards.*

The City's Response to Findings

The City's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Brown Armstrong
Accountancy Corporation

Bakersfield, California
March 27, 2014

BROWN
ARMSTRONG
CERTIFIED
PUBLIC
ACCOUNTANTS

MAIN OFFICE
4200 TRUXTUN AVENUE
SUITE 300
BAKERSFIELD, CA 93309
TEL 661.324.4971
FAX 661.324.4997
EMAIL info@bacpas.com

560 CENTRAL AVENUE
SHAFTER, CALIFORNIA 93263
TEL 661.746.2145
FAX 661.746.1218

7673 N. INGRAM AVENUE
SUITE 101
FRESNO, CALIFORNIA 93711
TEL 559.476.3592
FAX 559.476.3593

206 S. LOS ROBLES AVENUE
SUITE 326
PASADENA, CALIFORNIA 91101
TEL 626.204.6542
FAX 626.204.6547

5250 CLAREMONT AVENUE
SUITE 237
STOCKTON, CA 95207
TEL 209.451.4833

PKF
North America

REGISTERED with the Public Company Accounting Oversight Board and MEMBER of the American Institute of Certified Public Accountants

BROWN ARMSTRONG

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE OVER REQUIRED WITH OMB CIRCULAR A-133

The Honorable Mayor and City Council
of the City of Lindsay, California

Report on Compliance for Each Major Federal Program

We have audited City of Lindsay, California's (the City) 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's major federal programs for the year ended June 30, 2013. 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.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of 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, 2013.

Report on Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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 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.

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. 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.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

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, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated March 27, 2014, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the 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 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Brown Armstrong
Accountancy Corporation

Bakersfield, California
March 27, 2014

CITY OF LINDSAY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

Federal Grantor/Pass-Through Grantor/Program or Cluster Title		Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. Department of Housing and Urban Development:				
Passed through from the California Department of Housing and Urban Development:				
Community Development Block Grant	*	14.228	05-EDBG-2181	$ 112,424
Community Development Block Grant	*	14.228	09-EDEF-6362	106,971
Community Development Block Grant	*	14.228	09-PTAE-6560	6,952
Community Development Block Grant	*	14.228	10-STBG-6723	65,806
Total Community Development Block Grant				292,153
Total U.S. Department of Housing and Urban Development				**292,153**
U.S. Department of Agriculture:				
Community Facilities Loans (Wellness Center)	*	10.766	97-13	340,837
Total U.S. Department of Agriculture				**340,837**
U.S. Department of Justice:				
DOJ - Public Safety Partnership & Community Policing		16.710	COPS- To-Vet	16,688
DOJ - Public Safety Partnership & Community Policing		16.710	DOJ Vest Grant	554
Total U.S. Department of Justice				**17,242**
U.S. Department of Homeland Security:				
Homeland Security		97.067	N/A	3,192
Total U.S. Department of Homeland Security				**3,192**
Total				**$ 653,424**

* Denotes major program.

See accompanying notes to schedule of expenditures of federal awards and independent auditor's report on compliance for each major program and on internal control over compliance over required with OMB Circular A-133.

CITY OF LINDSAY
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2013

NOTE 1 – BASIS OF ACCOUNTING

The accompanying Schedule of Expenditures of Federal Awards includes the Federal grant activity of the City of Lindsay, California (the City), and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of U.S. Office of Management and Budget (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 financial statements.

NOTE 2 – LOAN BALANCES

The City had the following loan balances outstanding at June 30, 2013. The portion of the loan balance expended for the USDA Wellness Center project is included in the federal expenditures presented in the current year schedule. All other loan amounts occurred in prior year's Schedule of Federal Expense.

Program Title	CFDA Number	Amount Outstanding
USDA - Water	10.706	$ 1,965,591
USDA - Sewer	10.706	5,758,782
USDA - Sewer	10.706	423,809
USDA - Tulare Road	10.766	1,374,563
USDA - Wellness Center	10.766	2,201,221
USDA - Library	10.766	530,378
		$ 12,254,344

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

CITY OF LINDSAY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013

SECTION I – SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness identified? _X_ Yes ___ No
- Significant deficiencies identified that are not considered to be material weaknesses? ___ Yes _X_ None Reported

Noncompliance material to financial statements noted? ___ Yes _X_ No

Federal Awards

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

Internal control over major Federal programs:

- Material weakness identified? ___ Yes _X_ No
- Significant deficiencies identified that are not considered to be material weaknesses? ___ Yes _X_ None reported

Any audit findings disclosed that are required to be reported in accordance with OMB Circular A-133, Section .510(a)? ___ Yes _X_ No

Identification of major programs:

CFDA #(s)	Name of Federal Program or Cluster
14.228	U.S. Department of Housing and Urban Development Community Development Block Grant
10.766	U.S. Department of Agriculture Community Facilities Loans

The threshold for distinguishing type A & B programs was $300,000.

Auditee qualified as low-risk auditee? ___ Yes _X_ No

SECTION II – FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS

Material Weakness

2013-01: Accounts Receivable

Criteria:

In accordance with *Government Auditing Standards* and accounting principles generally accepted in the United States of America, internal controls should be designed to provide reasonable assurance of achieving effective and efficient operations, reliable financial performance reporting, or compliance with applicable laws and regulations.

Condition:

During our analysis of the City of Lindsay's (the City) accounts receivable, we noted that multiple material adjustments were required to arrive at the accurate and complete accounts receivable balance as of June 30, 2013.

Cause of Condition:

The City does not reconcile accounts receivable and we have noted various deficiencies in the Accounts Receivable Cycle which include the following: first, the Billing Clerk can make changes to the Utility Billing software along with post adjustments that are not reviewed by a second person. At times, the Billing Clerk will collect utility payments at the front desk while being capable of overriding the system; second, the City does not currently have a written policy for the write-off of receivables; and lastly, there is no reconciliation of accounts receivable module to the general ledger which has caused a difference between the accounts receivable aging report and the general ledger.

Effect of Condition:

The ability of the Billing Clerk to make changes to the Utility Billing software, as well as make adjustments that are not reviewed, presents a serious lack of segregation of duties. In addition, although the City has made multiple adjustments to bring accounts receivable to its true balance, not reconciling accounts receivable on a consistent basis throughout the year may cause accounts receivable and revenue to be overstated. Management has stated that at times adjustments get posted to the accounts receivable module and not updated on the general ledger, contributing to the need for consistent reconciliation of accounts receivable.

Recommendation:

The City should consider implementing controls to insure that only the Finance Director can post an adjustment to an account by having the Billing Clerk write down adjustments on paper cards approved by the Billing Clerk, then final approval and posting by the Reconciling Accountant or Finance Director. Lastly, we recommend the City reconcile the accounts receivable module directly to the general ledger on a monthly basis to insure both modules reconcile.

Management's Response:

The administration recognizes that this continues to be a weakness in our daily operating routine and has taken some steps to establish better controls relative to both the adjustment and reconciliation procedures, including a provision for the segregation of duties requirement. Unfortunately, as a small department - that does not close for the lunch period as many cities do - all staff is cross-trained to work any module within the department as the work flow and employee attendance dictates, which includes taking and entering payments, in order to ensure the highest level of customer service for our citizens. The City is in the midst of an upgrade to the financial system, including the Utility Billing system that will be completed before the end of fiscal year 2014; the new system will have improved reporting and reconciliation features, not available with the current system that will facilitate this process

2013-02: Accounts Payable

Criteria:

In accordance with *Government Auditing Standards* and accounting principles generally accepted in the United States of America, internal controls should be designed to provide reasonable assurance of achieving effective and efficient operations, reliable financial performance reporting, or compliance with applicable laws and regulations.

Condition:

During our audit of accounts payable, we noted that the City failed to reverse prior year accruals, resulting in a material adjustment to reconcile accounts payable to the City's general ledger.

Cause of Condition:

The City lacks adequate staff with sufficient accounting knowledge to ensure accounts payable is correctly stated for year-end financial statement presentation.

Effect of Condition:

Failure to reverse prior year accruals results in a misstatement of accounts payable.

Recommendation:

We recommend that the City reconcile accounts payable during the year-end financial close process, which includes reversing prior year accruals and accruing expense incurred prior to the fiscal year-end.

Management's Response:

Staff has concentrated on writing, implementing, and strictly enforcing purchasing controls in the last few years, which has eliminated wasteful and/or unnecessary spending, as well as ensuring proper accounting for all expenditures. While staff agrees that all accounting practices are important, priority was given to the control of *actual cash expenditures* vs. expenditure reallocation to the previous year; steps are being taken to reorganize the Finance Department in a manner that redistributes duties and provides additional training so personnel, other than the Finance Director, have the capability of assisting with reconciliation and year-end financial close procedures.

2013-03: Capital Assets

Criteria:

In accordance with *Government Auditing Standards* and accounting principles generally accepted in the United States of America, internal controls should be designed to provide reasonable assurance of achieving effective and efficient operations, reliable financial and performance reporting, or compliance with applicable laws and regulations.

Condition:

During our testing of capital assets, we noted several material deficiencies affecting capital assets as follows:

- The City failed to post current year depreciation expense for multiple depreciable assets. We also noted that the City failed to set assets to depreciate in its capital asset system which resulted in multiple depreciation adjustments.
- The City failed to properly track multiple capital outlay additions and deletions.

- Noted during our physical observation of assets that the City failed to delete an obsolete asset from its capital asset tracking software. Further, the City replaced the obsolete asset with a new asset that was improperly excluded from the City's capital asset listing.
- Noted during capital asset additions testing that the City inadvertently submitted the same equipment invoice twice for reimbursement for a State funded project which resulted in capital asset additions being overstated.

Cause of Condition:

The City lacks adequate controls and staff lack adequate knowledge of capital asset accounting to ensure capital assets are correctly accounted for on the financial statements and reconciled on a timely basis.

Effect of Condition:

The absence of performing monthly and/or routine capital asset 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, 2013, these are considered 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.

Recommendation:

We recommend management establish the following functions:

- We recommend the City perform reconciliation of all capital assets on a quarterly basis to insure assets can be capitalized in a timely manner.
- City should keep better track of all costs for construction related assets to insure all assets/costs can be accounted for and vouched. Also, upon project completion all construction related assets should be transferred and depreciated according the City's capital asset policy.
- As part of the closing process, the City should make the necessary entries to account for depreciation expense.

Management's Response:

Although the City has made tremendous strides in updating and managing the capital assets system, management recognizes the need for improvement. Staff constraints in both time and expertise have made it difficult to properly maintain the database which is not only time intensive, but requires a very high level of accounting experience. Staff has made improvements by hiring a consultant to assist with updating the database and reconciling to the general ledger, segregating equipment purchased with federal funds, increasing the capitalization threshold, requiring all department heads to update their inventory annually, and implementing the use of project coding within the general ledger which will assist with the identification of capital expenses, particularly infrastructure improvements. Staff will allocate more time and resources to implementing the auditor recommendations in fiscal year 2014.

2013-04: Notes Receivable

Criteria:

In accordance with *Government Auditing Standards* and accounting principles generally accepted in the United States of America, internal controls should be designed to provide reasonable assurance of achieving effective and efficient operations, reliable financial and performance reporting, or compliance with applicable laws and regulations.

Condition:

During our year-end audit procedures, we noted that, as of the date of fieldwork, the year-end reconciliation of notes receivable to the City's general ledger had not yet been completed. In addition, during our notes receivable payment testing, we noted instances where payments were not being properly applied to outstanding note balances for those loan holders with multiple outstanding loans.

Cause of Condition:

During our walkthrough of the notes receivable process and testing, we noted the City does not reconcile notes receivable in a timely manner. It was further noted during notes receivable payment testing that the City does not verify the proper allocation of principal payments for those notes receivables managed by Self-Help Enterprises.

Effect of Condition:

Although the City makes adjustments to bring notes receivable to its true balance, not reconciling notes receivable on a consistent, timely basis throughout the year allows errors to accumulate and delays the year-end closing and audit process. In addition, improper allocation of receivable payments results in the misstatement of year-end outstanding loan balances.

Recommendation:

We recommend that the City reconcile notes receivable on a monthly basis, or at the very least quarterly. During the reconciliation process, we recommend that the City verify the proper allocation of payments to outstanding loan balances. Payments should be allocated based on amortization schedules. Any payments received in excess of the amortization schedule should be applied in proportion of the outstanding loan balance for those loans that are being amortized. If a loan holder makes a payment and all loans are deferred, the payment should be applied in proportion of the outstanding loan balances.

Management's Response:

Steps are being taken to reorganize the Finance Department in a manner that redistributes duties and provides additional training so personnel, other than the Finance Director, have the capability of assisting with reconciliation and year-end financial close procedures that will ensure more timeliness in the reconciliations process. This procedure will become a priority in fiscal year 2014, but has been delayed due to other more pressing matters such as cash flow and debt restructuring.

2013-05: Lack of Segregation of Duties

Criteria:

In accordance with *Government Auditing Standards* and accounting principles generally accepted in the United States of America, internal controls should be designed to provide reasonable assurance of achieving effective and efficient operations, reliable financial and performance reporting, or compliance with applicable laws and regulations.

Condition:

While performing our test of controls and walkthrough of the City's journal entry process, we noted several journal entries did not have a signature of approval on the journal entry or the Finance Director would prepare, enter, and approve the journal entry. While performing our audit procedures over cash, we noted that cash reconciliations were not being completed in a timely manner as the Finance Director was the only City personnel with adequate accounting knowledge required to complete the reconciliations. Lastly, we noted during the financial reporting process that the Finance Director handled most all the year-end closing procedures including calculating and posting year-end accruals, preparation of final trial balance figures, reconciling due to/due from and transfers in/out, and implementing new accounting principles generally accepted in the United States of America (GAAP) and Governmental Accounting Standards Board (GASB) Statements.

Cause of Condition:

City staff lack adequate knowledge of governmental accounting that would ensure the accounting records are correctly stated for preparation of the financial statements. Currently, the Finance Director is the only City personnel with knowledge of governmental accounting.

Effect of Condition:

The Finance Director is able to post journal entries, prepare cash reconciliations, and conduct financial closing procedures with little oversight. This may result in the misstatement of financial information due to improper postings of journal entries or improper financial closing procedures.

Recommendation:

We recommend that the City either hire individuals with governmental accounting knowledge to aid the Finance Director in completing financial reporting duties or train current staff to obtain a basic understanding of governmental accounting. To improve segregation of duties, cash reconciliations should be prepared by an individual other than the Finance Director, limiting the Finance Director's role to review and approval of reconciliations. In addition, journal entries should be approved by someone other than the preparer of the entry.

Management's Response:

Steps are being taken to reorganize the Finance Department in a manner that redistributes duties and provides additional training so personnel, other than the Finance Director, have the capability of assisting with reconciliation and year-end financial close procedures that will ensure more timeliness in the reconciliations process as well as ensure the segregation of duties.

This procedure will become a priority in fiscal year 2014, but has been delayed due to other more pressing matters such as the writing, implementing, and enforcing of internal control policies, cash flow management, debt restructuring, and the financial system upgrade project.

2013-06: Financial Reporting

Criteria:

The City should design and implement internal controls over the financial reporting process to ensure the following: 1) that the general ledger undergoes adequate procedures to ensure the proper application of fiscal year cut-off, 2) that the general ledger fiscal year period is closed and related financial statement supporting schedules are prepared in a timely manner allowing for a more efficient audit, and 3) that the final trial balance figures are subject to sufficient management review so that balances are presented in accordance with GAAP.

Condition:

During our fieldwork, we noted that the City did not have year-end closing procedures in place which would have allowed the financial statements to be issued in a timely manner. We noted that the closing procedures currently in place did not include a sufficient review of the information before it was provided to the external auditors. Based upon our audit, we noted there were several post-close adjustments made by the City which included errors that led to additional adjustments and reversal of adjustments. Adjustments made by management considered to be material to the financial statement were related to beginning fund balance/net assets for prior period adjustments, accounts payable, accounts receivable, deferred revenue, capital assets, long-term debt, and revenue and expenditure/expense accounts. Also, during our testing of year-end cutoff procedures and over financial statements account balances, we proposed audit adjustments to properly state the year-end account balances of certain accounts in accordance with GAAP. All adjustments that were proposed during the current year audit were presented to management and subsequently posted to the financial statements.

Cause of Condition:

Internal controls have not been suitably designed and implemented over the financial reporting process to ensure that the timely closure of the general ledger and sufficient management supervision of this process results in reliable and materially correct ending account balances in accordance with GAAP. In addition, the City has not implemented training programs for staff with financial reporting responsibilities.

Effect of Condition:

Untimely closing and lack of financial statement preparation procedures resulted in final fieldwork for the audit of the City's being postponed. This was aggravated by employees who were not properly trained in financial closing processes. As a result, material adjustments were proposed and posted to the City's financial statements for the year ended June 30, 2013.

Recommendation:

We recommend that the City implement stronger policies and procedures to ensure that a comprehensive closing of the general ledger is performed in a timely manner and that sufficient resources and adequate oversight are available to oversee the City's year-end closing procedures and preparation of the financial statement supporting schedules. We also recommend that the City strengthen its year-end closing procedures to ensure that all transactions related to the fiscal year are properly captured and recorded in the general ledger to ensure the accuracy and completeness of the financial statements. Lastly, we recommend the City invest in training and cross-training programs for those employees with financial reporting responsibilities.

Management's Response:

Financial reporting to the governing body has been significantly improved in the past few years and continues to be a top priority for this administration as we consider information and transparency of the utmost importance in the decision-making process. While the more complicated financial reporting processes used for audit purposes have been greatly improved, there are still weaknesses and deficiencies, as defined above, that staff is working to correct. As previously stated: Steps are being taken to reorganize the Finance Department in a manner that redistributes duties and provides additional training so personnel, other than the Finance Director, have the capability of assisting with reconciliation and year-end financial close procedures that will ensure more timeliness in the reconciliations process as well as ensure the segregation of duties.

Staff hopes we can achieve the auditor's recommendation that the City assign "sufficient resources" to the financial reporting and close-out process. As we move forward and correct the most serious negative conditions that faced, or are facing the City, the priority list will change to address these remaining deficiencies and fully implement all the auditor recommendations as outlined herein. Staff is appreciative of the diligence of the audit staff and can attest to the effectiveness of auditor recommendations implementation from previous years.

2013-07: Reconciling Accounts to Supporting Documentation

Criteria:

In accordance with *Government Auditing Standards* and accounting principles generally accepted in the United States of America, internal controls should be designed to provide reasonable assurance of achieving effective and efficient operations, reliable financial and performance reporting, or compliance with applicable laws and regulations.

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; accounts receivable; notes receivable; 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 numerous adjustments to general ledger assets and liabilities that impacted the operating results of the City.

Cause of Condition:

Management has not reviewed its policies and procedures to ensure that the general ledger accounts are supported on a monthly basis. Management is responsible for establishing and maintaining internal controls, including reconciling general ledger accounts to supporting documents.

Effect of Condition:

The absence of performing monthly and/or routine reconciliations provides an opportunity for errors to 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, 2013, these are considered material weaknesses because a material misstatement of the financial statements could have occurred and not been prevented or detected by the City's existing internal controls.

Recommendation:

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's 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 transactions will provide for the fair presentation of the financial statements.

- An aging schedule for accounts receivable should be generated from the City's financial system on a monthly basis. Anything deemed uncollectable per the aging schedule should be written off. The proper recordation of uncollectable accounts receivable balances will provide for fair presentation of the accounts receivable balance per the year-end financial statements.

- Notes receivable should be reconciled from the payment history reports month-end balance to the notes receivable schedules kept by City personnel on a monthly basis to ensure that all note holder payments are properly recorded. The proper recordation of note holder payments will provide for fair presentation of the notes receivable balance per the year-end financial statements.

Management's Response:

Staff appreciates the thorough and concise recommendations made by the audit team and have made many improvements in this area; we will strive to continue to improve the reconciliation processes as defined above.

2013-08: Cash and Cash Equivalents

Criteria:

In accordance with *Government Auditing Standards* and accounting principles generally accepted in the United States of America, internal controls should be designed to provide reasonable assurance of achieving effective and efficient operations, reliable financial and performance reporting, or compliance with applicable laws and regulations.

Condition:

While performing our audit procedures over cash and cash equivalents, we noted that the City was not performing cash reconciliations to the general ledger on a timely basis.

Cause of Condition:

The City Finance Department is short staffed and did not have an accountant that could reconcile cash accounts on a monthly basis.

Effect of Condition:

By not regularly performing cash reconciliations, errors or discrepancies are allowed to accumulate and create difficulty in reconciling accounts. Regular reconciliations would address discrepancies as they arise and aid in preparing year-end reconciliations.

Recommendation:

We recommend that the City perform cash reconciliations for all accounts on a monthly basis.

Management's Response:

Staff concurs with the finding and recommendation – reorganization of existing staff and additional training on these procedures have been implemented, but we are still falling short in this area and are hoping to find the resources to add one additional staff person with accounting expertise to assume the reconciliation duties for cash and notes receivable.

2013-09: Due To/From Other Funds

Criteria:

In accordance with Government Accounting Standards, transfer of funds using due to/from are intended to be short-term in nature. A due to/from remaining outstanding over an entity's operating cycle is essentially a loan and should be classified as such.

Condition:

While performing our audit of due to/from, we noted that the total $5.5 million due to/from balance was composed of transactions outstanding for more than one year. Further, we noted that $4.8 million of the outstanding balance was attributable to amounts owed to other funds from the City's General Fund. Due to City funding shortages, we believe that there is a low probability this $4.8 million will be paid back to the corresponding funds.

Cause:

Due to the City's cash flow issues, prior management would transfer funds from one fund to another in order to avoid showing negative cash balances. However, this was usually done without the intention of the funds being paid back. Due to a current shortage of funds, the City has been unable to fix these improper transfers made by prior management.

Effect:

Allowing due to/from transactions to last more than one year creates misleading fund balances. Due to/from transactions are indented to be short-term in nature and, therefore, transfers which exceed one year are long-term.

Recommendation:

We recommend that the City transfer funds using due to/from only if the funds are expected to be paid back within one year. We also recommend that the City take the necessary steps to reclassify, reverse, or pay-down the outstanding $5.5 million balance due to/from balance composed of transactions outstanding for more than one year.

Management's Response:

Referring back to the "Cause of Condition" section: The amounts in the Due To/From general ledger lines are compounded amounts from many, many years worth of entries that were made without proper documentation and support which makes proper reconciliation impossible. The best we can hope do to is unravel the stated amounts, tracing back through many years of entries, and attempt to discern the proper reconciling entries. Staff has not addressed this issue to date and will not do so until we feel the reconciling entries are true, correct, and properly supported. Our goal is to have this condition corrected by the end of fiscal year 2014.

2013-10: Utility Billing Receipts

Criteria:

In accordance with Government Accounting Standards, internal controls should be designed to provide reasonable assurance of achieving effective and efficient operations, reliable financial performance reporting, or compliance with applicable laws and regulations.

Condition:

During our test of controls over the City's utility billing process, we noted 5 instances out of the 40 billings tested where the City was using unauthorized billing rates for either refuse or sewer services.

Cause:

In one instance, we noted that the City was using a "split-can" rate for disposal services which was an old rate that had been phased out several years prior. We noted three instances whereby the City applied a senior discount to the users' disposal charge when senior discounts are no longer authorized. The remaining discrepancy is not attributable to the use of a rate that was previously authorized and phased out but instead appears to be a sewer rate that was improperly entered in the City's utility billing software upon set-up of the customer's account. As a result, the customer was being over-charged $6.86 per billing cycle for sewer usage during the fiscal year under audit.

Effect:

The City is not properly applying authorized billing rates across all customer accounts which results in the over and under collection of utility billing revenue.

Recommendation:

We recommend that the City identify those customers who are being charged unauthorized billings rates for water, refuse, and sewer services and make the necessary corrections in the City's billing software.

Management's Response:

The City is in the midst of upgrading the entire financial reporting system, including the utility billing and business license modules that have become cumbersome and inaccurate over the many years as special rates have been added or discontinued. Staff concurs that an internal audit review is necessary to ensure all accounts are being properly billed. This process has already been started, in cooperation with Sunset Waste, to ensure the accounts and service for which the City is being billed matches the City's billing records. This is a very tedious process; staff is optimistic that this internal review will be completed with the conversion to the upgraded financial system in May 2014.

2013-11: Payroll Testing

Criteria:

In accordance with Government Accounting Standards, internal controls should be designed to provide reasonable assurance of achieving effective and efficient operations, reliable financial performance reporting, or compliance with applicable laws and regulations.

Condition:

During our test of controls over the City's payroll process, we noted two controls deficiencies as follows:

1) During our test of controls, for 1 out of 40 payroll disbursements selected for testing, we noted that an employee was given a 3% motorcycle stipend as authorized per review of the employee's personnel file. However, upon recalculation, we noted that the employee was receiving $4.07 more than the authorized motorcycle stipend of 3%.

2) During our testing of controls, for 1 out of 40 payroll disbursements selected for testing, we noted that an employee was receiving additional assignment pay based on a flat rate. Per review of the employee's personnel file, we noted that additional assignment pay was authorized based on a percentage of the employee's gross pay, not a flat rate.

Cause:

The cause of the first deficiency was attributable to the stipend being incorrectly entered into the City's payroll system upon set-up. The cause of the second deficiency was attributable to inadequate documentation of the employee's change in assignment pay determination. Although change from a percentage to a flat rate was later determined to be authorized, it was not properly documented in the employee's personnel file.

Effect:

Paying employees at a rate different from what is documented in his or her personnel file indicates that personnel files are not maintained or updated regularly and that employees have the ability to be paid at rates other than those at which they are approved.

Recommendation:

We recommend that the City compare authorized rates per employee personnel files to rates input into the City's payroll system to ensure that the appropriate payroll amounts are being paid to employees each pay period.

Management's Response:

The City has implemented a biannual comparison check between the Human Resources Department, that maintains the employee files, and the Payroll Department, that processes the payroll, to ensure accuracy.

SECTION III – STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

Material Weakness

2012-01: Accounts Receivable

Criteria:

In accordance with *Government Auditing Standards* and accounting principles generally accepted in the United States of America, internal controls should be designed to provide reasonable assurance of achieving effective and efficient operations, reliable financial performance reporting, or compliance with applicable laws and regulations.

Condition:

During our analysis of the City of Lindsay's (the City) accounts receivable, we noted that multiple material adjustments were required to arrive at the accurate and complete accounts receivable balance as of June 30, 2012.

Cause of Condition:

The City does not reconcile accounts receivable and we have noted various deficiencies in the Accounts Receivable Cycle which include the following: first, the Billing Clerk can make changes to the Utility Billing software along with post adjustments that are not reviewed by a second person. At times, the Billing Clerk will collect utility payments at the front desk while being capable of overriding the system; second, the City does not currently have a written policy for the write-off of receivables; and lastly, there is no reconciliation of accounts receivable module to the general ledger which has caused a difference between the accounts receivable aging report and the general ledger.

Effect of Condition:

The ability of the Billing Clerk to make changes to the Utility Billing Software, as well as make adjustments that are not reviewed, presents a serious lack of segregation of duties. In addition, although the City has made multiple adjustments to bring accounts receivable to its true balance, not reconciling accounts receivable on a consistent basis throughout the year may cause accounts receivable and revenue to be overstated. Management has stated that at times adjustments get posted to the accounts receivable module and not updated on the general ledger, contributing to the need for consistent reconciliation of accounts receivable.

Recommendation:

The City should consider implementing controls to insure that only the Finance Director can post an adjustment to an account by having the Billing Clerk write down adjustments on paper cards approved by the Billing Clerk then final approval and posting by the Reconciling Accountant or Finance Director. The City should also implement a write off/adjustment policy to insure a standardized process can be followed for writing off accounts and making adjustments. Lastly, we recommend the City reconcile the accounts receivable module directly to the general ledger on a monthly basis to insure both modules reconcile.

Management's Response:

The administration recognizes that this is a weakness in our daily operating routine and will take steps to establish better controls relative to both the adjustment and the reconciliation procedures. The City did write and implement a write off/adjustment policy in fiscal year 2012 as part of the new Accounting Policy and Procedure Manual (#11. Uncollectible Receivables page 65), but will take greater steps toward ensuring the write-off procedure includes reconciling the approved adjustments to both the general ledger and Utility Billing Software module.

Current Year Status:

See current year finding at 2013-01.

2012-02: Accounts Payable

Criteria:

In accordance with *Government Auditing Standards* and accounting principles generally accepted in the United States of America, internal controls should be designed to provide reasonable assurance of achieving effective and efficient operations, reliable financial performance reporting, or compliance with applicable laws and regulations.

Condition:

During our audit of accounts payable, we noted that the City does not have a policy on how to handle long outstanding checks. Checks not cashed 6 months after issuance are voided and written off. If this occurs the vendor/payee must request another issuance of the check. Also, we noted during our search for unrecorded liabilities that the City failed to post $480,858 in accrued expenses.

Cause of Condition:

The City does not have a formal policy on how to treat long outstanding checks. Therefore, outstanding checks are reported as an outstanding bank reconciling item for months without proper consideration of State escheat laws. In addition, the City overlooked material expenses for goods and services provided prior to the fiscal year-end that should have been accrued.

Effect of Condition:

Long outstanding checks may be improperly reported as bank reconciling items when they should be removed per State escheat laws. Non-compliance with State escheat laws may cause the cash balance at year-end to be misstated. In addition, failure to accrue expenses that were incurred prior to fiscal year end result in the misstatement of accounts payable.

Recommendation:

We recommend that the City adopt a formal long outstanding check policy that adheres to State escheat laws. We also recommend that the City perform its own search for unrecorded liabilities as part of the City's financial close process in order to detect and accrue any expenses representing goods and services that were provided before year-end.

Management's Response:

Staff will develop and implement a formal long-outstanding check policy that adheres to State escheat laws before the end of fiscal year 2013.

Current Year Status:

See current year finding at 2013-02.

2012-03: Capital Assets

Criteria:

In accordance with *Government Auditing Standards* and accounting principles generally accepted in the United States of America, internal controls should be designed to provide reasonable assurance of achieving effective and efficient operations, reliable financial and performance reporting, or compliance with applicable laws and regulations.

Condition:

During our testing of capital assets, we noted several material deficiencies affecting capital assets as follows:

- Management does not maintain a capital asset reconciliation that is updated throughout the fiscal year.
- No inventory for capital assets was performed to insure all assets included on the capital asset schedules were accounted for and properly stated.
- The City failed to post current year depreciation expense.
- The City failed to properly track multiple capital outlay additions and deletions.
- Noted during our physical observation of assets that the City failed to delete an obsolete asset from its capital asset tracking software. Further, the City replaced the obsolete asset with a new asset that was improperly excluded from the City capital asset listing.

Cause of Condition:

The City lacks adequate controls and staff lack adequate knowledge of capital asset accounting to ensure capital assets are correctly accounted for on the financial statements and reconciled on a timely basis.

Effect of Condition:

The absence of performing monthly and/or routine capital asset reconciliations provides opportunities for errors which can accumulate and 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. In addition, the absence of performing an annual physical asset inventory results in the reporting of obsolete assets and/or the omission of newly acquired assets from the City's financial statements. Lack of a physical asset inventory also increases the risk and opportunity of theft as assets may be taken without detection. Because the procedures recommended below were not in place during the year ended June 30, 2012, these are considered material weaknesses because a material misstatement of the financial statements could have occurred and not been prevented or detected by the City's existing internal controls.

Recommendation:

We recommend management establish the following functions:

- We recommend the City perform reconciliation of all capital assets on a monthly/quarterly basis to insure assets can be capitalized in a timely manner.
- City should keep better track of all costs for construction related assets to insure all assets/costs can be accounted and vouched for.
- City should perform an inventory of capital assets each year to insure all assets are accounted for and still being used by the City. Any assets that are not in use should be deleted from the City's capital asset system.
- As part of the closing process, the City should make the necessary entries to account for depreciation expense.

Management's Response:

The City has made tremendous improvements in the area of accounting for capital assets compared to previous years; however, we recognize that improvements are still needed and more staff time needs to be allocated for this process. This is a complex process that requires a level of expertise current staff does not possess. In order to rectify the problem, we will be adding more staff training and bringing in a CPA specialist to assist with capital asset management and depreciation calculations both for year-end for fiscal year 2013 and quarterly for fiscal year 2014.

Current Year Status:

See current year finding at 2013-03.

2012-04: Notes Receivable

Criteria:

In accordance with *Government Auditing Standards* and accounting principles generally accepted in the United States of America, internal controls should be designed to provide reasonable assurance of achieving effective and efficient operations, reliable financial and performance reporting, or compliance with applicable laws and regulations.

Condition:

During our audit of the City's notes receivable account, we noted several notes receivable that were improperly omitted from prior year accounting records. In addition, we noted that prior year ending balances for notes receivable, per the schedules provided, did not tie to current year beginning balances. As a result, several material adjustments were made to properly report the true year-end balance of notes receivable.

Cause of Condition:

During our walkthrough of the notes receivable process, we noted that the City does not reconcile notes receivable. The lack of this reconciliation process most likely led to the omission of notes receivable in the prior year and the inability to tie prior period notes receivable balances per the schedule provided to beginning balances per the general ledger.

Effect of Condition:

Although the City made adjustments to bring notes receivable to its true balance, not reconciling notes receivable on a consistent basis throughout the year may cause notes receivable and revenue to be overstated.

Recommendation:

We recommend that the City reconcile notes receivable on a monthly basis, or at the very least quarterly.

Management's Response:

Now that all balances have been properly defined, staff will reconcile quarterly in fiscal year 2013 with the goal of monthly reconciliations to being in fiscal year 2014.

Current Year Status:

See current year finding at 2013-04.

2012-05: Lack of Segregation of Duties

Criteria:

In accordance with *Government Auditing Standards* and accounting principles generally accepted in the United States of America, internal controls should be designed to provide reasonable assurance of achieving effective and efficient operations, reliable financial and performance reporting, or compliance with applicable laws and regulations.

Condition:

While performing our test of controls and walkthrough of the City's journal entry process, we noted several journal entries did not have a signature of approval on the journal entry or the Finance Director would prepare, enter, and approve the journal entry. While performing our audit procedures over cash we noted that cash reconciliations were not being completed in a timely manner as the Finance Director was the only City personnel with adequate accounting knowledge required to complete the reconciliations. Lastly, we noted during the financial reporting process that the Finance Director handled most all the year-end closing procedures including calculating and posting year-end accruals, preparation of final trial balance figures, reconciling due to/from and transfers in/out, and implementing new GAAP and GASB Statements.

Cause of Condition:

City staff lack adequate knowledge of governmental accounting that would ensure the accounting records are correctly stated for preparation of the financial statements. Currently, the Finance Director is the only City personnel with knowledge of governmental accounting.

Effect of Condition:

The Finance Director is able to post journal entries, prepare cash reconciliations, and conduct financial closing procedures with little oversight. This may result in the misstatement of financial information due to improper postings of journal entries or improper financial closing procedures. In addition, lack of governmental accounting knowledge by City personnel has resulted in late filing of both the Comprehensive Annual Financial Report (CAFR) and Single Audit report.

Recommendation:

We recommend that the City either hire individuals with governmental accounting knowledge to aid the Finance Director in completing financial reporting duties or train current staff to obtain a basic understanding of governmental accounting. To improve segregation of duties, cash reconciliations should be prepared by an individual other than the Finance Director, limiting the Finance Director's role to review and approval of reconciliations. In addition, journal entries should be approved by someone other than the preparer of the entry.

Management's Response:

The Account Clerk III will be trained to take over the duties of cash reconciliations now that all cash accounts have been accurately balanced and brought up-to-date. A limited budget prohibits any additional staff or consulting arrangements with individuals well-versed in public finance procedures in fiscal year 2013, but we will make provisions for additional training and oversight procedures in fiscal year 2014, including retaining a CPA, or qualified outside professional, to review all reconciliations on a quarterly basis and provide an independent report certifying correctness or irregularities. We hope to be able to afford a position of P/T Finance Manager in fiscal year 2015 to provide the necessary separation of duties and oversight.

Current Year Status:

See current year finding at 2013-05.

2012-06: GANN Limit

Criteria:

In accordance with *Government Auditing Standards* and accounting principles generally accepted in the United States of America, internal controls should be designed to provide reasonable assurance of achieving effective and efficient operations, reliable financial and performance reporting, or compliance with applicable laws and regulations.

Condition:

While performing our procedures for GANN Limit, we noted that the City has not been in compliance to annual appropriation limits established in accordance with Article XIIIB of the California Constitution. Under this article of the California Constitution, the City must compute an annual appropriations limit that places a ceiling on the total amount of tax revenues the City can actually appropriate annually.

Cause of Condition:

The City has not established an appropriations limit that places a ceiling on the total amount of tax revenues the City can actually appropriate annually.

Effect of Condition:

As the City has not established a GANN Limit, the City is not properly or accurately setting a ceiling on the total amount of tax revenues the City can actually appropriate annually, which could allow the City to appropriate more than the ceiling would allow.

Recommendation:

We recommend that the City establish a GANN Limit, which would set a ceiling on the total amount of tax revenues the City can appropriate annually.

Management's Response:

That oversight was discovered, self-reported, and corrected while preparing the fiscal year 2013 budget – the City is now in compliance with the GANN Appropriations Limit Act – the City was well under the ceiling.

Current Year Status:

Resolved.

2012-07: Financial Reporting

Criteria:

The City should design and implement internal controls over the financial reporting process to ensure the following: 1) that the general ledger undergoes adequate procedures to ensure the proper application of fiscal year cut-off, 2) that the general ledger fiscal year period is closed and related financial statement supporting schedules are prepared in a timely manner allowing for a more efficient audit, and 3) that the final trial balance figures are subject to sufficient management review so that balances are presented in accordance with accounting principles generally accepted in the United States of America (GAAP).

Condition:

During our fieldwork, we noted that the City did not have year-end closing procedures in place which would have allowed the financial statements to be issued in a timely manner. We noted that the closing procedures currently in place did not include a sufficient review of the information before it was provided to the external auditors. Based upon our audit, we noted there were several post-close adjustments made by the City which included errors that led to additional adjustments and reversal of adjustments. Adjustments made by management considered to be material to the financial statement were related to beginning fund balance/net assets for prior period adjustments, accounts payable, accounts receivable, deferred revenue, capital assets, long-term debt, and revenue and expenditure/expense accounts. Also, during our testing of year-end cutoff procedures and over financial statements account balances, we proposed audit adjustments to properly state the year-end account balances of certain accounts in accordance with GAAP. All adjustments that were proposed during the current year audit were presented to management and subsequently posted to the financial statements.

Cause of Condition:

Internal controls have not been suitably designed and implemented over the financial reporting process to ensure that the timely closure of the general ledger and sufficient management supervision of this process results in reliable and materially correct ending account balances in accordance with GAAP. In addition, the City has not implemented training programs for staff with financial reporting responsibilities.

Effect of Condition:

Untimely closing and lack of financial statement preparation procedures resulted in final fieldwork for the audit of the City's being postponed. This was aggravated by employees who were not properly trained in financial closing processes. As a result, material adjustments were proposed and posted to the City's financial statements for the year ended June 30, 2012, and the Single Audit March 31, 2013, filing deadline was not met.

Recommendation:

We recommend that the City implement stronger policies and procedures to ensure that a comprehensive closing of the general ledger is performed in a timely manner and that sufficient resources and adequate oversight are available to oversee the City's year-end closing procedures and preparation of the financial statement supporting schedules. We also recommend that the City strengthen its year-end closing procedures to ensure that all transactions related to the fiscal year are properly captured and recorded in the general ledger to ensure the accuracy and completeness of the financial statements. Lastly, we recommend the City invest in training and cross-training programs for those employees with financial reporting responsibilities.

Management's Response:

We concur that this is, by far, been our greatest failing as we have focused on the implementation of other internal control policies and procedures we felt were more pressing to regain control of the City's finances. We have not adequately addressed the year-end process. Implementing the auditor recommendation above is the number one priority, in addition to the cash reconciliations, for the new fiscal year to ensure the accuracy of the financial statements and the timeliness of our next audit report.

Current Year Status:

See current year finding at 2013-06.

2012-08: Due to/Due from Other Governments

Criteria:

In accordance with *Government Auditing Standards* and accounting principles generally accepted in the United States of America, internal controls should be designed to provide reasonable assurance of achieving effective and efficient operations, reliable financial and performance reporting, or compliance with applicable laws and regulations.

Condition:

While performing our audit of transfers and due to and due from, we noted that the City does not reconcile its due to and due from schedule on a regular basis. We also noted during our audit procedures that many of the due to and due from borrowing last for more than one year.

Cause of Condition:

Prior City management did not enforce controls relating to reconciling items such as due to and due from other funds. Due to the City's cash flow issues, prior management would transfer funds from one fund to another in order to avoid showing negative cash balances. However, this was usually done without the intention of the funds being paid back.

Effect of Condition:

By not reconciling the due to and due from schedule, it is possible for errors to occur and accumulate over time, going unnoticed. Year after year, management has increased due to and due from in order to keep funds in the positive cash balance instead of addressing the actual problem of overspending. In addition, allowing due to and due from transactions to last more than one year creates misleading fund balances. Due to and due from transactions are intended to be short-term in nature and, therefore, transfers which exceed one year are long-term.

Recommendation:

We recommend that the City reconcile its due to and due from schedules on a monthly basis. At a minimum, this reconciliation should be performed quarterly. This would clearly show where funds are going and coming from. In addition, we recommend that the City transfer funds using due to and due from only if the funds are expected to be paid back within one year.

Management's Response:

This administration made one (1) Due To/From entry for fiscal year 2012 that was immediately reversed in fiscal year 2013 as is the norm. There were no other entries made, thus nothing to reconcile except the inherited balances we know to be incorrect – refer back to the "Cause of Condition" section. Since the amounts in the Due To/From general ledger line are compounded amounts from many, many years worth of entries, without any supporting documentation, proper reconciliation is impossible. The best we can hope to do is unravel the stated amounts, tracing back through the many years of entries, and attempt to discern the proper reconciling entries. As there was never any supporting documentation for the original entries year-after-year, staff is moving slowly on this issue to ensure that the adjusting entries necessary to correct this problem are fully supportable and correct.

Current Year Status:

Implemented

2012-09: Reconciling Accounts to Supporting Documentation

Criteria:

In accordance with *Government Auditing Standards* and accounting principles generally accepted in the United States of America, internal controls should be designed to provide reasonable assurance of achieving effective and efficient operations, reliable financial and performance reporting, or compliance with applicable laws and regulations.

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; accounts receivable; notes receivable; 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 numerous adjustments to general ledger assets and liabilities that impacted the operating results of the City.

Cause of Condition:

Management has not reviewed its policies and procedures to ensure that the general ledger accounts are supported on a monthly basis. Management is responsible for establishing and maintaining internal controls, including reconciling general ledger accounts to supporting documents.

Effect of Condition:

The absence of performing monthly and/or routine reconciliations provides an opportunity for errors to 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, 2012, these are considered material weaknesses because a material misstatement of the financial statements could have occurred and not been prevented or detected by the City's existing internal controls.

Recommendation:

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's 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 transactions will provide for the fair presentation of the financial statements.

- An aging schedule for accounts receivable should be generated from the City's financial system on a monthly basis. Anything deemed uncollectable per the aging schedule should be written off. The proper recordation of uncollectable accounts receivable balances will provide for fair presentation of the accounts receivable balance per the year-end financial statements.

- Notes receivable should be reconciled from the payment history reports month-end balance to the notes receivable schedules kept by City personnel on a monthly basis to ensure that all note holder payments are properly recorded. The proper recordation of note holder payments will provide for fair presentation of the notes receivable balance per the year-end 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.

- Upon the purchase and/or sale of the City real property, the inventory adjustment to property held for redevelopment 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.

Management's Response:

Staff appreciates the thorough and concise recommendations made by the audit team and will strive for immediate implementation.

Current Year Status:

See current year finding at 2013-07.

2012-10: Cash and Cash Equivalents

Criteria:

In accordance with *Government Auditing Standards* and accounting principles generally accepted in the United States of America, internal controls should be designed to provide reasonable assurance of achieving effective and efficient operations, reliable financial and performance reporting, or compliance with applicable laws and regulations.

Condition:

While performing our audit procedures over cash and cash equivalents, we noted the following deficiencies:

- They City is not performing cash reconciliations to the general ledger on a timely basis and at times cannot get bank reconciliations to tie to the general ledger.
- During our audit of cash, we noted that two of the City's bank accounts could not be reconciled by City staff from the bank balance to the general ledger balance.
- We noted for one of the cash accounts, McDermont Field House and Recreation Center, credit card receipts are not being tracked properly as a reconciling item.

Cause of Condition:

The City Finance Department is short staffed and did not have an accountant that could reconcile cash accounts on a monthly basis. Further, under prior City management, reconciliations were not completed on a regular basis, resulting in the accumulation of several years worth of errors affecting cash balances, making it difficult for current City management to reconcile cash.

Effect of Condition:

By not regularly performing cash reconciliations, errors or discrepancies are allowed to accumulate and create difficulty in reconciling accounts. Additionally, items which should be removed from the outstanding check list may remain on the listing as they are not reviewed or reconciled. Regular reconciliations would address discrepancies as they arise and aid in preparing year-end reconciliations.

Recommendation:

We recommend that the City perform cash reconciliations for all accounts on a monthly basis. Due to un-reconciled balances carrying over from the prior year, we recommend that the City spend additional time to reconcile the differences. If the source of these differences cannot be determined we recommend the client post the necessary journal entries to correct the un-reconciled difference.

Management's Response:

We have finally been able to reconcile our cash differences and all bank accounts are now balanced through May 31, 2013.

Current Year Status:

See current year finding at 2013-08.

2012-11: Land Held for Resale

Criteria:

In accordance with *Government Auditing Standards* and accounting principles generally accepted in the United States of America, internal controls should be designed to provide reasonable assurance of achieving effective and efficient operations, reliable financial performance reporting, or compliance with applicable laws and regulations.

Condition:

During our analysis of land held for redevelopment, we noted that in prior fiscal years that the City's former Redevelopment Agency (the Agency), now the Successor Agency, engaged in three land purchases from the City without any appropriate land appraisals. The total of the land transactions were $3,690,000, for which the Agency incurred debt to fund. Furthermore, for one land purchase totaling $1,700,000, the transaction was never completed between the two parties as staff failed to transfer the title of land to the Agency despite the payment being made to the City. Currently, according to the County of Tulare Assessor, the City still holds title to the land.

Cause of Condition:

The City lacks adequate controls and procedures for the performance of transactions involving the purchase of land held for redevelopment. The City also fails to track all land held for resale transactions that occur throughout the year. Furthermore, the City also fails to periodically perform an inventory count on land held for redevelopment to appropriate valuations.

Effect of Condition:

As a result of the lack of appraisals, the City's current land held for redevelopment balances appear to be materially overstated. Since the City has failed to have these properties appraised since the purchase, the potential impairment has not been assessed. Also, the Agency was reporting land held for redevelopment for which they were not named as the owner on the title of land.

Recommendation:

We recommend that the City implement new procedures for all land for redevelopment transactions. These procedures should include obtaining appropriate appraisals prior to the purchase of any land to ensure that all land purchases are completed at fair value. We also recommend that the City establish new procedures to periodically perform an inventory count and assessment of these land parcels to ensure that the City still holds the title and is reporting these land parcels at an appropriate value.

Management's Response:

The City Planner has updated the real property inventory list for all City-held property and that of the former Agency. At this time, very few have had, or will have, updated appraisals due to the $400 fee per appraisal that is a cost we cannot afford at this time. The City does not anticipate the purchase of any new property and the former redevelopment agency is prohibited from such activity. We acknowledge the importance of this recommendation and will certainly implement strict procedures in the future regarding the purchase of any real property as well as continue to maintain and update the real property inventory schedule.

Current Year Status:

Resolved.

2012-12: 2005, 2007, 2008 and 2009 Bond Covenant Non-Compliance

Criteria:

In accordance with debt covenant number six in the debt agreements for the 2005, 2007, 2008, and 2009 Tax Allocation Refunding Bonds, the City's former Agency "covenants and agrees that it will at all times keep, or cause to be kept, proper and current books and accounts (separate from all other records and accounts) in which complete and accurate entries will be made of all transactions related to the Project Area and the Redevelopment Project, Pledged Tax Revenues and other funds relating to the Project Area and will prepare within one hundred eight days after the close of its fiscal years a complete financial statement or statements for such year in reasonable detail covering such Pledged Tax Revenues and other funds, certified by a certified public accountant or firm of certified public accountants selected by the Agency, and will furnish a copy of such statement or statements to the Trustee, the Bonds Insurer, any rating agency which maintains a rating on the Bonds and to any Bond owner upon written request."

Condition:

Pursuant to California Legislature adopted Assembly Bill (AB) x1 26, the State dissolved all redevelopment agencies. As a result, effective February 1, 2012, all redevelopment agencies including the City's Agency ceased to exist. In January 31, 2012, the City became the Successor Agency for the former City of Lindsay Redevelopment Agency.

While performing our audit of debt, we noted that the Agency (now the Successor Agency) was out of compliance with debt covenant number six described above. Per debt covenant number six, financial statements are required to be issued within 180 days after the close of the respective fiscal year. As of June 1, 2013, the City had not issued financial statements for the year ended June 30, 2012. As the City serves as the Successor Agency for the Agency and may be held financially responsible debt noncompliance, lack of compliance with debt covenant number six could have an effect on the City's ability to maintain its going concern status.

Cause of Condition:

The City has been unable to issue financial statements within the 180 days of year-end due to multiple accounting issues requiring additional audit procedures. The City was unable to issue financial statements for the year ended June 30, 2011, within 180 days of the 2011 fiscal year-end, placing the Agency further behind timely issuance for the June 30, 2012, year-end financial statements.

Effect of Condition:

Noncompliance with debt covenants puts the City's Successor Agency, and as a result, the City at risk for an event of default. Per the 2005, 2007, 2008, and 2009 Tax Allocation Refunding Bond agreements, upon the occurrence of an event of default the Trustee (US Bank) may, with the consent of the Bond Insurer, and shall at the direction of the Bond Insurer or the Owners of not less than a majority of the aggregate principal amount of the Bonds at the time outstanding with the consent of the Bond Insurer, declare the principal of all the Bonds then outstanding and the interest accrued thereon, to be due and payable immediately.

If the Trustee (US Bank) declares the City's Redevelopment Successor Agency at default for the 2005, 2007, 2008, and 2009 Tax Allocation Bonds, the total amount of principal and interest accrued outstanding that would be due as of June 30, 2012, is $22,160,597.

Recommendation:

We recommend that the City take the necessary steps to comply with debt covenants in relation to the 2005, 2007, 2008 and 2009 Tax Allocations Bonds.

Management Response:

The City shall take the necessary steps to comply with all debt covenants.

Current Year Status:

Resolved.

2012-13: Related Party Land Transactions between the City of Lindsay (the City) and the Agency

Criteria:

In accordance with *Government Auditing Standards* and accounting principles generally accepted in the United States of America, internal controls should be designed to provide reasonable assurance of achieving effective and efficient operations, reliable financial and performance reporting, or compliance with applicable laws and regulations.

Condition:

During our analysis of land held for redevelopment, we noted that in prior fiscal years that the City of Lindsay's former Redevelopment Agency (the Agency) engaged in three land purchases from the City of Lindsay without appropriate land appraisals. The total of the land transactions were $3,690,000, which is equal to the total amount of the California Housing Finance Authority (CalHFA) Loan No. RDLP-090806-03, which was to be used to land acquisition and development of three separate housing developments.

Per the City of Lindsay Board Resolution No. 08-06 dated March 27, 2007, and the Agency Board Resolution LRA0-01 dated February 12, 2008, the Boards approved the land sale between the two entities for APN 201-150-001 for $570,000 and APN 205-320-001 and APN 205-030-044 for a total of $1,410,000.

Per the City of Lindsay Board Resolution No. 08-65 dated August 26, 2008 and Agency Board Resolution LRA08-06, the boards approved the sale and purchase of land parcel APN 201-150-002 for $1,700,000. This particular transaction was never completed as City/Agency staff failed to transfer the title of the land to the Agency despite the payment being made to the City. It was also noted per the City Board Resolution No. 09-40 dated June 30, 2009, that the City of Lindsay accepted a grant deed from the Agency for this same property for no compensation.

These transactions were related party transactions between the Agency and the City; however, because of the lack of appraisals, these transactions were not completed at arm's length. In 2004, an evaluation was done on all City property to assess the value of their assets in order to comply with GASB Statement No. 34; the estimated cost to the City for these three properties was a combined, $232,818. It appears that the prior management of the City and the Agency performed this transaction as a way to extract funds from the Agency to supplement the City's cash flow needs.

Pursuant to California Legislature adopted Assembly Bill ABx1 26, the State dissolved all redevelopment agencies. As a result, effective February 1, 2012, all redevelopment agencies, including the City of Lindsay's Agency, ceased to exist. In January 31, 2012, the City became the Successor Agency for the former City of Lindsay Redevelopment Agency. Noted during the 7 month period that the Agency still existed, that there were no steps taken to amend the inflated land values outlined above. The inflated land values were transferred to the Successor Agency as of February 1, 2012. During the 5 month period the City served as the Successor Agency to the former Redevelopment Agency, there again were no steps take to amend the inflated land values outlined above.

Cause of Condition:

The City, as the Successor Agency for the former Redevelopment Agency, lacks adequate controls and procedures for the performance of transactions involving the purchase of land held for redevelopment. The City also fails to track all land held for resale transactions that occur throughout the year. Furthermore, the City also fails to periodically perform an inventory count on land held for redevelopment or to assess any impairment to reflect appropriate values.

Effect of Condition:

As a result of the lack of appraisals, the Successor Agency's current land held for redevelopment balances appear to be materially overstated. Since the City has failed to have these properties appraised since the purchase, the potential impairment has not been assessed. Also, the former Redevelopment Agency was reporting land held for redevelopment for which they were not named as the owner on the title of the land.

Recommendation:

We recommend that the City implement new procedures for all land held for redevelopment transactions. These procedures should include obtaining appropriate appraisals prior to the purchase of any lands to ensure that all land purchases are completed at fair value. We also recommend that the City establish new procedures to periodically perform an inventory count and assessment of these lands to ensure that the City still holds title and is reporting these lands at an appropriate value.

Management's Response:

NOTE: The audit team does identify this condition as coming from previous fiscal years. The Lindsay Redevelopment Agency was formally dissolved August 21, 2011, with confirmation of the resolution again January 31, 2012, when the California legislature upheld ABx126. All conditions described herein were under the previous management. The current management has been left with the challenge of dissolving the former Agency and reconciling the conditions that were in effect prior to November 2010, including the irregular conditions as described above. Regarding the appraisal issue: This issue is complicated by the fact there are loans involved for which the former Agency, and now City as Successor Agent, is responsible as well as the fact that a portion of the property identified above has been transferred to the Tulare County Housing Authority (TCHA) per ABx126 and will be removed from the financial statements in FY13; there was no compensation received for the transfer of the property under ABx126, therefore, the value is irrelevant. We are moving cautiously and with legal counsel, regarding the devaluing on the property when the amount of the corresponding debt obligation will not be reduced. Due to the Agency dissolution restrictions, all activity involving the former Agency must be cleared through the Department of Finance (DOF) – one cannot just devalue an asset, even with an appraisal, and adjust their financials without DOF permission. Further, considering the fact that the Agency no longer exists, there is no potential for future impairment – per the dissolution act, the Successor Agent may only *retire* debt, not incur more (here is where use of an overinflated financial statement would be an issue). The only revenue coming into the fund is specifically for debt service and dissolution management and must be identified and requested two times per year via the Recognized Obligation Payment Schedule. Once the City and Successor Agent are authorized by the Department of Finance to proceed with the disposal of former Agency property, proper certified appraisals will be obtained; the City (Successor Agent) cannot afford to pay for appraisals now and again six months from now. And, lastly, as identified above, the formal title transfer never occurred, but a resolution was passed returning title to the City, so between that and the transfer to the TCHA, there is no land to be valued.

Current Year Status:

Resolved.

2012-14: Noncompliance with California Housing Financing Agency (CalHFA) Loan No. RDLP-090806-03

Criteria:

In August 2007, the City's former Redevelopment Agency (the Agency) entered into an agreement with the State of California and the California Housing Finance Agency, wherein the Agency would borrow $3,690,000 to assist with site acquisition to develop 123 housing units of a 128-unit homeownership project within three infill developments in three separate locations within the City of Lindsay. In accordance with the agreement dated August 7, 2007, the Agency would default on the loan and the outstanding balance, including interest, would become immediately due if the Agency failed to perform or observe any provision of the agreement. Furthermore, if a project was sold or transferred, the outstanding balance and accrued interest would become due on the fourth anniversary of the loan agreement date.

Also noted in the agreement was the "Timely Progress" provision of the agreement which states that, failure of the borrower to timely commence or proceed with the implementation of the projects shall entitle the California Housing Finance Agency to demand payment in full of previously disbursed funds that have been applied to the project.

Condition:

Pursuant to California Legislature adopted ABx1 26, the State dissolved all redevelopment agencies. As a result, effective February 1, 2012, all redevelopment agencies including the City of Lindsay's Agency ceased to exist. In January 31, 2012, the City became the Successor Agency for the former City of Lindsay Redevelopment Agency.

During our analysis of compliance with debt agreements of the Agency (now the Successor Redevelopment Agency), we noted that of the three projects that were to be completed with the borrowed funds, the former Redevelopment Agency had only begun working on the completion of one infill project and did not have adequate resources to begin the other two projects before dissolution occurred on February 1, 2012. According to the agreement's project timeline, all three projects were to begin in 2007 and be completed in 2009.

Furthermore, as noted in Finding 2012-13, the City sold these properties to the Agency in the exact amount of the loan without proper appraisals being completed. Furthermore, the Agency did not own the land for which one of the projects was to be completed on. The land was never transferred over to the Agency and according to the County of Tulare Assessor map, the City of Lindsay still holds title to the land.

Cause of Condition:

The City, as the Successor Agency for the former Redevelopment Agency, lacks adequate controls to ensure that the former Redevelopment Agency (now the Successor Agency) stays in compliance with debt agreements.

Effect of Condition;

As a result of the noncompliance with the debt agreement, the City, as the Successor Agency to the former Redevelopment Agency, is subject to having the total loan balance and accrued interest being called by the California Housing Finance Agency. At this point, the City lacks sufficient funds to pay the outstanding balance should the balance be called. This in large part has raised substantial doubt about the City's ability to continue as a going concern as they may be held financially responsible for the debt called. See the associated note disclosure in the financial statements.

Recommendation:

We recommend that the City work with counsel and contact the California Housing Finance Agency to communicate the noncompliance with the debt agreement, ultimately with the hopes that the loan will not be called.

Management Response:

NOTE: This is not a new condition, but one that occurred in FY08. The City has been in contact with CalHFA and has submitted a loan extension and repayment proposal to them which is currently being reviewed by their legal department. Our understanding is that the loan will not be called, we will be granted an extension, and the only issues remaining are the annual payment amounts and terms regarding allocation of the payment.

Current Year Status:

Resolved.

2012-15 Due To/From

Criteria:

In accordance with Government Accounting Standards, transfer of funds using due to/from are intended to be short-term in nature. A due to/from remaining outstanding over an entity's operating cycle is essentially a loan and should be classified as such.

Condition:

While performing our audit of due to/from we noted that the total $5.5 million due to/from balance was composed of transactions outstanding for more than one year. Further, we noted that $4.8 million of the outstanding balance was attributable to amounts owed to other funds from the City's General Fund. Due to the City not being a going concern as of June 30, 2012, and City funding shortages we believe that there is a low probability this $4.8 million will be paid back to the corresponding funds.

Cause:

Due to the City's cash flow issues, prior management would transfer funds from one fund to another in order to avoid showing negative cash balances. However, this was usually done without the intention of the funds being paid back. Due to a current shortage of funds, the City has been unable to fix these improper transfers made by prior management.

Effect:

Allowing due to/due from transactions to last more than one year creates misleading fund balances. Due to/due from transactions are indented to be short-term in nature, and therefore, transfers which exceed one year are long-term.

Recommendation:

We recommend that the City transfer funds using due to/due from only if the funds are expected to be paid back within one year. We also recommend that the City take the necessary steps to reclassify, reverse, or pay-down the outstanding $5.5 million balance due to/from balance composed of transactions outstanding for more than one year.

Management Response:

There were no Due To/Due From transactions made in FY11 (other than correcting entries), FY12, or FY13 that exceeded 24 hours from the temporary loan at the end of one fiscal year to the immediate reversal at the beginning of the new fiscal year. The City has been taking steps to reclassify, reverse, or pay-down the outstanding balance(s), however this is a slow process as no adjustments are made without due diligence and fully supportable transactions; this condition did not occur in the space of one or two years, but over many, many years, and will take some time and forensic research to properly reclassify and correct.

Current Year Status:

See current year finding at 2013-09.

2012-SA-01: Federal Clearinghouse Data Collection Form Submission

Federal Grantor: U.S. Department of Agriculture
Title and CFDA: Community Facilities Loans (Library and Wellness Center); 10.766
Award Number: 97-12, 97-13
Pass-Through Entity: N/A

Federal Grantor: U.S. Department of Housing and Urban Development
Title and CFDA: Community Development Block Grants; 14.228
Award Numbers: 05-EDBG-2181, 09-EDEF-6362, 08-EDEF-5786, 09-PTAE-6560
Pass-Through Entity: California Department of Housing and Urban Development

Questioned Costs: None
Compliance Requirement: Internal Controls/Reporting
Reporting Requirement: Material Weakness

Criteria:

U.S. Office of Management and Budget (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 of Lindsay (the City) did not timely file the Data Collection Form with the federal clearinghouse. 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 which did not allow an accurate reporting of the Data Collection Form.

Recommendation:

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:

The report for fiscal year 2012 is 3-4 months earlier than it has been in the past five years; staff has been working diligently to implement strict internal controls, to correct all fund balances not properly reconciled in past years, and to make improvements to our financial management system that will ensure accuracy and that all future reports will be filed timely beginning with the fiscal year 2013 audit report.

Current Year Status:

Resolved.

2012-SA-02: Subrecipient Monitoring

Federal Grantor: U.S. Department of Housing and Urban Development
Title and CFDA: Community Development Block Grants; 14.228
Award Numbers: 05-EDBG-2181, 09-EDEF-6362, 08-EDEF-5786, 09-PTAE-6560
Pass-Through Entity: California Department of Housing and Urban Development

Questioned Costs: None
Compliance Requirement: Internal Controls/Reporting
Reporting Requirement: Material Weakness

Criteria:

OMB Circular A-133 requires that a pass-through entity be responsible for *During-the-Award Monitoring*, whereby the County is required to monitor the subrecipient's use of federal awards through reporting, site visits, regular contact, or other means to provide reasonable assurance that the subrecipient administers federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreement and that the performance goals are achieved.

Condition:

The City did not have a monitoring policy in place as of June 30, 2012. In addition, the City did not perform required monitoring procedures on subrecipient awards for Community Development Block Grants (CDBG).

Effect:

The City is out of compliance with the subrecipient monitoring requirements as set forth in the OMB Circular A-133, *Compliance Supplement*.

Cause:

The City does not monitor the CDBG subrecipients nor does the City maintain a documented plan for monitoring subrecipients in accordance with federal requirements.

Recommendation:

We recommend that the City implement formal procedures to monitor all subrecipients to ensure required subrecipient monitoring requirements are being met with federal requirements as outlined in OMB Circular A-133.

Response and Corrective Action Plan:

The City has implemented a written subrecipient monitoring policy that has been reviewed and approved by U.S. Department of Housing and Urban Development. The City will monitor all subrecipients in accordance with OMB Circular A-133.

Current Year Status:

Resolved.

2012-SA-03: Equipment and Real Property Management

Federal Grantor: U.S. Department of Agriculture
Title and CFDA: Community Facilities Loans (Library and Wellness Center); 10.766
Award Numbers: 97-12, 97-13
Pass-Through Entity: N/A

Questioned Costs: None
Compliance Requirement: Internal Controls
Reporting Requirement: Material Weakness

Criteria:

In accordance with OMB Circular No. A-110, recipients of federal awards must maintain accurate equipment and real property records that contain, among other things, the funding source of the equipment and real property, including the award number. Also, when disposing of equipment and real property with a fair market value of greater than $5,000, the recipient shall request disposition instructions from the federal awarding agency or pass-through entity, which may include returning the proceeds of disposition back to the administering agency.

Condition:

While reviewing the City's equipment and real property, we noted that the City does not track the equipment that has been purchased with federal funds. As such, we could not verify that all the appropriate information as required by OMB Circular No. A-110 was maintained. Furthermore, it could not be determined whether the City is accurately disposing of all the equipment purchased with federal funds as required by OMB Circular No. A-110.

Effect:

As a result of the inadequate records to track equipment and real property purchased with federal funds, we could not determine that those items were still in use by the City or that those items were disposed of in the proper way and all proceeds were returned to the awarding agency. The City is out of compliance with OMB Circular No. A-110 and the grant agreements.

Cause:

The City lacks adequate internal controls over the capital assets process to ensure that the accounting records maintain accurate records that would allow City staff to appropriately track all equipment and real property that has been purchased with federal funds.

Recommendation:

We recommend that the City implement new controls over all capital assets that are purchased with federal funds to ensure that the required information is available through their accounting records. We also recommend that the City perform annual or bi-annual inventory counts of all equipment to ensure that their records correctly reflect all capital assets that are still in use by the City.

Response and Corrective Action Plan:

The City did set up an accounting code within its capital assets system that is unique to equipment purchased with federal funds – this was done in FY11; no new purchases were made to this category in FY12. The City has budgeted in FY13 to engage a specialist to assist in updating the capital assets, including inventory counts, to correctly reflect all capital assets that are still in use by the City and account for those that have been disposed of, or are impaired to the point of having served their useful lives.

Current Year Status:

Resolved.