

**CITY OF TAFT**  
**MANAGEMENT REPORT**  
**AND**  
**AUDITOR'S COMMUNICATION LETTER**  
**JUNE 30, 2010**

**CITY OF TAFT**  
**JUNE 30, 2010**

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To the Honorable Mayor and Members of City Council  
of the City of Taft  
Taft, California

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Taft (City) as of and for the fiscal year ended June 30, 2010, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of 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 significant deficiencies or material weakness and therefore, there can be no assurance that all such deficiencies have been identified. However, as discussed below, we identified one deficiency in internal control that we consider to be a significant deficiency.

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 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 did not identify any deficiencies in internal control that we consider to be material weaknesses.

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 one deficiency in internal control that we consider to be a significant deficiency described in the current year recommendations section as Finding 2010-1.

During our audit, we noted a certain other matter involving internal controls and their operations, and are submitting, for your consideration, related recommendations designed to help the City make improvements and achieve operational efficiencies. This recommendation described in the current year recommendations section as Finding 2010-02. Our comment reflects our desire to be of continuing assistance to the City.

The City's written responses to the findings identified in our audit are described in the current year recommendations section. We did not audit the City's responses and, accordingly, we express no opinion on them. In addition, we would be pleased to discuss the recommendations in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing these recommendations.

We have included in this letter a summary of the communication with the members of the City Council as required by professional auditing standards. We have also provided a status of prior year recommendations made. We would like to thank the City's management and staff for the courtesy and cooperation extended to us during the course of our engagement. The accompanying communications and recommendations are intended solely for the information and use of management, the members of the City Council, and others within the City, and is not intended to be and should not be used by anyone other these specified parties.

*Moss, Levy & Hartzheim*

MOSS, LEVY & HARTZHEIM, LLP  
Beverly Hills, CA  
March 23, 2011



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MOSS, LEVY & HARTZHEIM LLP

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To the Honorable Mayor and Members of City Council  
of the City of Taft  
Taft, California

We have audited the financial statements of the City of Taft (City) for the fiscal year ended June 30, 2010, and have issued our report thereon dated March 21, 2011. Professional standards require that we provide you with the information about our responsibilities under auditing standards generally accepted in the United States of America, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated June 21, 2010. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

*Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City are described in Note 1 to the financial statements. As discussed in Note 1 of the notes to the basic financial statements effective July 1, 2009, the City adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No.45 – *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*, GASB Statement No. 51, *Accounting and Financial Reporting by Intangible Assets*, GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and GASB Statement No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*. We noted no transactions entered into by the City during the fiscal year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Management's estimate of the historical cost of capital assets and the estimated useful life of the capital assets are based on historical data, industry guidelines and outside consultants which were hired by the City. Management's estimate of the funding progress for PERS is based on PERS estimates.

*Difficulties Encountered in Performing the Audit*

We encountered no difficulties in dealing with management in performing and completing our audit.

*Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. These misstatements included adjustments to accounts receivable and accounts payable. Management has corrected all such misstatements.

*Disagreements with Management*

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

*Management Representations*

We have requested certain representations from management that are included in the management representation letter dated March 21, 2011.

*Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

*Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

*Other Information in Documents Containing Audited Financial Statements*

This information is intended solely for the use of the City Council and management of the City and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

*Moss, Levy & Hartzheim*

MOSS, LEVY & HARTZHEIM, LLP  
Beverly Hills, CA  
March 23, 2011

## CURRENT YEAR RECOMMENDATIONS

### Significant Deficiencies

#### 2010-1 Risk Assessment and Monitoring Over Financial Reporting

U.S. generally accepted auditing standards and Government Auditing Standards require auditors to assess an organization's design of internal controls and determine whether the controls have been placed in operation for all elements of internal control over financial reporting. If controls did not exist, were poorly designed or did not operate effectively, the auditor must evaluate the control deficiency and report the deficiency to management, including whether the control deficiency is a significant deficiency or material weakness. As a result of the 2010 audit, the following is recommended:

- Management should review the existing documentation of its internal controls over significant accounting areas (e.g. cash receipts, cash disbursements) to ensure that all current internal controls are documented.
- Management should review and expand its existing internal control assessment process and internal comprehensive risk assessment, which would include monitoring the adequacy and effectiveness of internal control that the risk environment should be evaluated at least annually to consider any changes to the City's operating environments.
- Management should also develop written contingency plan relating to the City's information technology processes to ensure that IT functions are not significantly disrupted in the event of a loss of City staff or a disaster.

#### Effect:

Without regular internal control risk assessment by management, errors and irregularities may occur and go undetected.

#### Recommendation:

We recommend the City ensures that a management level employee reviews and assessment risks in controls over financial reporting.

#### Management's Response:

The City does not have the budget to dedicate employees to documenting risk assessment over financial reporting, along with IT functions. The finance director will continue to oversee the overall financial reporting process with the help of the independent auditors.

### Other Matters

#### 2010-2 Finding – Business license applications are not verified:

During our examination of the cash receipts system, we noted that applications did not contain gross receipts information, and as such, we are unable to determine if the fees collected are correct.

#### Effect:

Omission of gross receipts information can lead to the wrong fees being collected.

#### Recommendation:

We recommend the City implement procedures to ensure that gross receipts information are filled out on business license applications.

#### Response:

The City will create well highlighted instructions that will be included with the business license renewal form; plainly explaining that they must fill out the annual gross receipts. If for some reason they still do not comply we will make every effort to contact them to obtain this information. Unfortunately it is not feasible at this time to return all renewal forms, if we cannot obtain the required information, but we can compare it to prior years and then if the information does not seem reasonable at that point we can choose to return the renewal form and request the missing information.

## **STATUS OF PRIOR YEAR RECOMMENDATIONS**

No findings, observations, recommendations, or suggestions were noted in the prior year.