

CITY OF BANNING, CALIFORNIA

SINGLE AUDIT REPORT

JUNE 30, 2009

CITY OF BANNING

JUNE 30, 2009

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CERTIFIED PUBLIC ACCOUNTANTS

- Brandon W. Burrows, CPA
- Donald L. Parker, CPA
- Michael K. Chu, CPA
- David E. Hale, CPA, CFP

A Professional Corporation

- Donald G. Slater, CPA
- Richard K. Kikuchi, CPA
- Susan F. Matz, CPA
- Shelly K. Jackley, CPA

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

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Banning, California, as of and for the year ended June 30, 2009, which collectively comprise the City of Banning, California's basic financial statements and have issued our report thereon dated February 10, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the City of Banning, California's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Banning, California's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Banning, California's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Banning, California's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City of Banning, California's financial statements that is more than inconsequential will not be prevented or detected by the City of Banning, California's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as finding 09-1 and 09-2 to be significant deficiencies in internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City of Banning, California's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.



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

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. Such provisions included those provisions of laws and regulations identified in the Guidelines for Compliance Audits of California Redevelopment Agencies, issued by the State Controller and as interpreted in the Suggested Auditing Procedures for Accomplishing Compliance Audits of California Redevelopment Agencies, issued by the Governmental Accounting and Auditing Committee of the California Society of Certified Public Accountants. 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 instances of noncompliance that is required to be reported under *Government Auditing Standards* issued by the Comptroller General of the United States and under the Guidelines for Compliance Audits of California Redevelopment Agencies, issued by the State Controller as follows:

In accordance with the California Health and Safety Code Section 33080.1, the Redevelopment Agency is required to produce and present the following Annual Report (due six months following the end of the Agency's fiscal year-end date), to the State Controller's office and its legislative body:

- a. Independent auditor's report on financial statements.
- b. Independent auditor's report on legal compliance.
- c. Annual Report of Financial Transactions of Community Redevelopment Agencies.
- d. Housing activities report.
- e. Blight progress report specifying actions and expenditures made in the previous fiscal year to alleviate blight.
- f. Loan report identifying loans (receivable) which equal or exceed \$50,000 and that were found by the agency during the previous fiscal year to have either defaulted or not complied with the terms of the agreements approved by the agency.
- g. Property report which describes the properties owned by the agency and those acquired in the previous fiscal year.

The Agency prepared the required information for items (a) through (g) above and included them in its annual report submitted to the State Controller's office, however the Agency did not present them to its legislative body within six months following the end of the Agency's fiscal year-end, as required by the Code. We recommend that the Agency accomplish procedural steps necessary to comply with this section of the Code.

This report is intended solely for the information and use of management, the audit committee, City Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Lance, Soll & Loughard, LLP*

February 10, 2010



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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH  
MAJOR PROGRAM, ON INTERNAL CONTROL OVER COMPLIANCE, AND  
ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
IN ACCORDANCE WITH OMB CIRCULAR A-133

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

**Compliance**

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

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 09-03.

**Internal Control Over Compliance**

The management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our audit procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.



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

A *control deficiency* in a City's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the City's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiency in the internal control over compliance that we consider material weakness as defined above.

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

#### **Schedule of Expenditures of Federal Awards**

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of and for the year ended June 30, 2009, and have issued our report thereon dated February 10, 2010. Our audit was performed for the purpose of forming an opinion of the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information of the City Council, management, federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

*Lance, Soll & Loughard, LLP*

February 10, 2010

## CITY OF BANNING

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
<u>U.S. Department of Housing and Urban Development</u>			
Passed through the County of Riverside:			
Community Development Block Grant	14.218	5.BN214	\$ 67,422
		5.BN216	31,989
		5.BN221	14,013
		5.BN222	14,678
		5.BN.06-08	12,312
<b>Total U.S. Department of Housing and Urban Development</b>			<b>140,414</b>
<u>U.S. Department of Justice</u>			
Direct Programs:			
Edward Byrne Memorial Justice Assistance Grant	16.592	2007-DJ-BX-0323	19,640
Gang Resistance Education and Training	16.737	2008-JV-FX-0045	109,484
<b>Total U.S. Department of Justice</b>			<b>129,124</b>
<u>U.S. Department of Transportation</u>			
Direct Program:			
Airport Improvement Program	20.106	3-06-0018-007-2008	93,850
Passed through U.C. Berkley:			
State and Community Highway Safety	20.600	SC08029	12,219
		SC09029	1,868
		CT09029	12,139
			26,226
<b>Total U.S. Department of Transportation</b>			<b>120,076</b>
<u>U.S. Environmental Protection Agency</u>			
Direct Program:			
Congressionally Mandated Projects*	66.202	XP-96990401	1,388,600
<b>Total U.S. Department of Transportation</b>			<b>1,388,600</b>
<u>U.S. Department of Homeland Security</u>			
Passed through the County of Riverside:			
Homeland Security Grant Program	97.067	2007-008	6,580
<b>Total U.S. Department of Homeland Security</b>			<b>6,580</b>
<b>Total Federal Expenditures</b>			<b>\$ 1,784,794</b>

\* Major Program

Note a: Refer to Note 1 to the schedule of expenditures of federal awards for a description of significant accounting policies used in preparing this schedule.

Note b: There was no federal awards expended in the form of noncash assistance and insurance in effect during the year.

Note c: Total amount provided to subrecipients during the year was \$0.

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

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**Note 1: Summary of Significant Accounting Policies Applicable to the Schedule of Expenditures of Federal Awards**

**a. Scope of Presentation**

The accompanying schedule presents only the expenditures incurred by the City of Banning, California, that are reimbursable under federal programs of federal financial assistance. For the purposes of this schedule, federal awards include both federal financial assistance received directly from a federal agency, as well as federal funds received indirectly by the City from a non-federal agency or other organization. Only the portion of program expenditures reimbursable with such federal funds is reported in the accompanying schedule. Program expenditures in excess of the maximum federal reimbursement authorized or the portion of the program expenditures that were funded with state, local or other non-federal funds are excluded from the accompanying schedule.

**b. Basis of Accounting**

The expenditures included in the accompanying schedule were reported on the modified accrual basis of accounting. Under the modified accrual basis of accounting, expenditures are incurred when the City becomes obligated for payment as a result of the receipt of the related goods and services. Expenditures reported included any property or equipment acquisitions incurred under the federal program.

CITY OF BANNING

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

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SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unqualified Opinion

Internal control over financial reporting:

- Significant deficiencies identified? ☒ yes ☐ no
- Significant deficiencies identified that are considered to be material weaknesses? ☐ yes ☒ none reported

Noncompliance material to financial statements noted?

☐ yes ☒ no

Federal Awards

Internal control over major programs:

- Significant deficiencies identified? ☒ yes ☐ no
- Significant deficiencies identified that are considered to be material weaknesses? ☐ yes ☒ none reported

Type of auditors' report issued on compliance for major programs: Unqualified Opinion

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?

☒ yes ☐ no

Identification of major programs:

CFDA Number(s)

Name of Federal Program or Cluster

66.202

Congressionally Mandated Projects

Dollar threshold used to distinguish between type A and type B program

\$300,000

Auditee qualified as low-risk auditee?

☐ yes ☒ no

## **CITY OF BANNING**

### **SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

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#### **SECTION II - FINANCIAL STATEMENT FINDINGS**

##### **Finding Number: 09-1**

During our audit, we reviewed unprocessed and unpaid invoices in the Public Works Department and identified a certain vendor invoice which was to be accrued as a liability for the fiscal year June 30, 2009. This invoice was received by the department in November 2009, and not been given to the Finance Department immediately after receiving it. The invoice was for services that took place from September through December 2008, and needs to be recorded as a liability for fiscal year 2008-09.

##### **Finding Number: 09-2**

As a result of our audit procedures, we noted three items that required fund balance restatements. In the General Fund, a fund balance restatement was made to adjust the prior period expenditures for field services for animal control and to record an advance that was incorrectly recorded as long term debt in the prior year. A restatement was made to the Redevelopment Agency Capital Projects Fund to properly record the land held for resale that was previously recorded in capital assets.

#### **SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

##### **Finding Number: 09-3**

- Federal Program:  
CFDA number: 66.202  
Title: Congressionally Mandated Projects  
Federal Agency: U.S. Environmental Protection Agency

- Criteria or specific requirement

The U.S. Environmental Protection Agency grant agreement requires that semi-annual reports (SFS272 and SF272A) are submitted to the Las Vegas Finance Center within 15 working days following the end of the semi-annual periods ending June 30 and December 31. The agreement also states that form MTS-7, a MBE/WBE Utilization Report (EPA Form 5700-52A), be submitted within 30 days after the end of the Federal fiscal year.

- Condition

The City has not filed the reports outlined in the grant agreement.

- Questioned costs

None.

- Effect

The lack of filing these reports on a timely basis as required at 2 CFR 180.335 may result in the delay or negation of this assistance agreement, or pursuance of legal remedies, including suspension and debarment.

**CITY OF BANNING**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

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**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)**

**Finding Number: 09-3 (Continued)**

- Recommendation

We recommend that management establish personnel who will be responsible for the timely submission of these reports.

- Management's response

Management has been made aware of the requirements and is actively pursuing the proper remediation of the required documentation. Management has appointed officials responsible for the maintenance and oversight of these communications.

**CITY OF BANNING**

**SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

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**SECTION I - FINANCIAL STATEMENT FINDINGS**

**Finding Number: 07-1**

During our audit, we identified certain vendor invoices which were accrued as a liability for the fiscal year ended June 30, 2007, however they pertained to the fiscal year ending June 30, 2008. The items were placed in the incorrect fiscal year as a result of a financial system issue. We recommend that invoice postings be reviewed at year end to verify that they are recorded in the proper period.

Status: The City is still working on strengthening the controls over accounts payable accruals. The City received a repeat finding relating to this area which can be found in the Schedule of Findings and Questioned Costs, finding number 09-1.

**Finding Number: 07-2**

The City does not have formal documentation as to the internal control processes over the various functions of finance i.e. disbursements, payroll, revenue, account reconciliations, journal entries, grants, etc. We recommend that the City document its internal control policies and procedures over the various functions.

Status: The City has improved its documentation of internal controls.

**SECTION II - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

No matters were reported.

\* A single audit was not required for the fiscal year ending June 30, 2008; therefore the findings from the single audit for the fiscal year ending June 30, 2007 have been included.