

**CITY OF SAN JACINTO,
CALIFORNIA**

**SINGLE AUDIT REPORT
(OMB CIRCULAR A-133)
FOR THE YEAR ENDED JUNE 30, 2010**

CITY OF SAN JACINTO, CALIFORNIA

**SINGLE AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2010**

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INDEPENDENT AUDITORS' 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 City Council
City of San Jacinto, 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 San Jacinto, California (the City), as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements and have issued our report thereon dated March 29, 2011. Our report included an emphasis of matter paragraph noting four City Council Members were suspended from participating in federally funded programs, and as discussed further each of these Council Members were recalled in a special election on November 2, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, 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. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs as findings 2010-1, 2010-2 and 2010-3 that we consider to be significant deficiencies in internal control over financial reporting. *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.

Compliance and Other Matters

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

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

We noted certain matters that we reported to management of the City in a separate letter dated March 29, 2011.

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

Vermorel, Tami, Day, Co., LLP

Rancho Cucamonga, California
March 29, 2011



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM, INTERNAL CONTROL OVER COMPLIANCE AND THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS IN ACCORDANCE WITH OMB CIRCULAR A-133

The Honorable City Council
City of San Jacinto, California

Compliance

We have audited the compliance of the City of San Jacinto, California (the City) 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, 2010. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

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

In our opinion, the City complied, in all material respects, with the 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, 2010.

Internal Control Over Compliance

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 to determine the auditing procedures for the purpose of expressing our opinion on compliance 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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the basic 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, 2010, and have issued our report thereon dated March 29, 2011. Our report included an emphasis of matter paragraph noting that four City Council Members have been suspended from participating in federally funded programs and that the City's ability to receive federal funds in the future may be at risk. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

Vaurio, Tami, Day, Co., LLP

Rancho Cucamonga, California
March 29, 2011

CITY OF SAN JACINTO, CALIFORNIA

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2010**

<u>Name of Agency, Grant or Program</u>	<u>Pass-through Identification Number</u>	<u>Federal Catalog Number</u>	<u>Program Expenditures</u>
<u>U.S. Dept. of Housing and Urban Development</u>			
<u>Office of Community Planning and Development</u>			
<u>Passed Through the County of Riverside</u>			
<u>Economic Development Agency</u>			
Community Development Block Grants			
Downtown Street Improvement Project	3.SJ.01-08	14.218	\$ 500,000
<u>U.S. Department of the Interior</u>			
<u>National Park Service</u>			
Save America's Treasure Grant Program		15.929	1,281
<u>U.S. Department of Transportation</u>			
<u>Passed through the California Department of Transportation:</u>			
Highway Planning and Construction			
Ramona Expressway Pavement Rehab Project (1)	STPL-5075(013)	20.205	1,662,725
Downtown Sidewalk Project (1)	STPL-5075(014)	20.205	169,353
Total U.S. Department of Transportation			<u>1,832,078</u>
<u>U.S. Department of Justice</u>			
<u>Bureau of Justice Assistance</u>			
Edward Byrne Memorial Justice Assistance Grant Program			
ARRA - 2009 Grant		16.804	50,666
2009 Local		16.738	9,117
2007 Local		16.738	930
Total U.S. Department of Justice			<u>60,713</u>
<u>Office of Community Oriented Policing</u>			
Public Safety Partnership and Community Policing Grants		16.710	<u>26,315</u>
Total Federal Awards			<u>\$2,420,387</u>

(1) Indicates major program.

See accompanying note to the Schedule of Expenditures of Federal Awards.

CITY OF SAN JACINTO, CALIFORNIA

**NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2010**

NOTE #1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Scope of Presentation

The accompanying schedule presents only the expenditures incurred by the City of San Jacinto that are reimbursable under programs of federal agencies providing financial assistance. For the purpose of this schedule, financial assistance includes both federal financial assistance received directly from a federal agency as well as federal funds received from pass-through entities by the City of San Jacinto. Only the portion of program expenditures reimbursable with such federal funds is reported in the accompanying schedule.

B. Basis of Accounting

The expenditures included in the accompanying schedule were reported on the modified accrual basis of accounting. Expenditures reported include any property or equipment acquisitions incurred under the Federal program as well as loans made to eligible program participants.

C. General

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal awards programs of the City of San Jacinto, California (the City). The City's reporting entity is defined in Note #1 of the City's financial statements. All federal awards received directly from federal agencies, as well as federal awards passed through other governmental agencies to the City are included in the accompanying schedule.

D. Relationship to Basic Financial Statements

Federal award revenues are generally reported within the City's financial statements under the financial statement caption "Intergovernmental" for the General and Special Revenue Funds.

E. Relationship to Federal Financial Reports

Amounts reported in the accompanying Schedule of Expenditures of Federal Awards agree with the amounts reported in the related federal financial reports. However, certain federal financial reports are filed based on cash expenditures. As such, certain timing differences may exist in the recognition of revenues and expenditures between the Schedule of Expenditures of Federal Awards and the federal financial reports.

CITY OF SAN JACINTO, CALIFORNIA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010**

I. SUMMARY OF AUDITORS' RESULTS

FINANCIAL STATEMENTS

Type of auditors' report issued:	<u>Unqualified</u>
Internal control over financial reporting:	
Material weaknesses identified?	<u>No</u>
Significant deficiencies identified?	<u>Yes</u>
Noncompliance material to financial statements noted?	<u>No</u>

FEDERAL AWARDS

Internal control over major programs:	
Material weaknesses identified?	<u>No</u>
Significant deficiencies identified?	<u>None reported</u>
Type of auditors' report issued on compliance for major programs:	<u>Unqualified</u>

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

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
<u>20.205</u>	<u>Highway Planning & Construction Cluster</u>
<u> </u>	<u> </u>
<u> </u>	<u> </u>
<u> </u>	<u> </u>

Dollar threshold used to distinguish between Type A and Type B programs: \$ 300,000
 Auditee qualified as low-risk auditee? Yes

CITY OF SAN JACINTO, CALIFORNIA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010**

II. FINANCIAL STATEMENT FINDINGS AND RECOMMENDATIONS

Finding 2010-1

LAND HELD FOR RESALE

Criteria or Specific Requirement

The Agency should ensure that their Land Held for Resale is valued in accordance with GAAP, at the lower of cost or net realizable value.

Condition Found

As part of the year-end closing process, the Agency did not perform an analysis of Land Held for Resale to ensure that the asset is valued at the lower of cost or net realizable value. Once discovered, the Agency obtained an analysis and posted adjustments to write down the applicable properties to the estimated net realizable value at June 30, 2010.

In addition, as part of this process, the Agency discovered a parcel that had been transferred to it from the City, but the Agency was unable to locate supporting documentation for this parcel.

Context

The condition noted above was identified during our final fieldwork of the land held for resale.

Cause

The Agency's year-end closing procedures did not include the analysis of land held for resale comparing the carrying value to the estimated net realizable value at year-end. In addition, the documentation for the property transferred from the City could not be located.

Effect

As a result of the above, the Agency had not adjusted the land held for resale to the estimated net realizable value as of June 30, 2010 as part of the year-end closing process. Once notified, the Agency did obtain an estimated valuation and posted the appropriate entries.

Recommendation

The Agency should update the year-end closing process to ensure that an analysis of the appropriate valuation of Land Held for Resale is performed on an annual basis. Also, the Agency should obtain the documentation for the land transferred from the City.

CITY OF SAN JACINTO, CALIFORNIA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010**

II. FINANCIAL STATEMENT FINDINGS AND RECOMMENDATIONS

View of Responsible Officials and Planned Corrective Action

Management agrees with this finding, although it has not been mentioned in previous audits. Management will include this process in its year-end procedures. As for the transferred property, some documents have been found regarding the transfer in 2002. However, documents related to the original purchase (estimated around 1982) may prove to be harder to find.

Finding 2010-2

INTEREST PAYABLE

Criteria or Specific Requirement

The Agency should ensure that interest payable on loans to the Agency, from the City's General Fund, are properly recognized in the financial statements.

Condition Found

The Agency did not book interest payable on a long-term loan from the City's General Fund, resulting in an adjustment to the financial statements.

Context

The condition noted above was identified during our final fieldwork.

Cause

The Agency lacked procedures to ensure that interest payable on the long-term loan had been accrued.

Effect

As a result of the above, the Agency did not record the interest payable.

Recommendation

The Agency should implement procedures to ensure that interest payable is properly recognized in the financial statements.

View of Responsible Officials and Planned Corrective Action

This loan was not intended to be long-term, as it was only to be outstanding until the merger of the two RDA project areas was completed. However, management agrees with this finding, and will include this process in its year-end procedures.

CITY OF SAN JACINTO, CALIFORNIA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010**

II. FINANCIAL STATEMENT FINDINGS AND RECOMMENDATIONS

Finding 2010-3

CAPITAL ASSETS

Criteria or Specific Requirement

The City should ensure that capital assets designated as construction in progress are recognized in the proper fund in accordance with GAAP.

Condition Found

The City does not currently recognize construction in progress in its enterprise fund type.

Context

The condition noted above was identified during our final fieldwork.

Cause

The City lacked procedures to ensure the proper recognition of construction in progress in the appropriate fund type.

Effect

As a result of the above, the City did not properly recognize their enterprise fund construction in progress leading to an adjustment of the financial statements.

Recommendation

The City should update the current procedures to ensure that construction in progress belonging to the enterprise fund types are properly recognized in the financial statements.

View of Responsible Officials and Planned Corrective Action

At the beginning of 2006/07, the City implemented a new process to account for capital projects and construction in progress. This process includes a specific fund that records all project activity performed by the City's government and enterprise funds, until those projects are completed and recorded as capital assets. Although this has not been mentioned in previous audits and all construction in progress has been correctly accounted for, management agrees with the finding that the enterprise construction in progress activity needs to be separated during year-end procedures.

CITY OF SAN JACINTO, CALIFORNIA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010**

III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None noted.

CITY OF SAN JACINTO, CALIFORNIA

**SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2010**

Summarized below is the current status of all findings reported in the prior year's schedule of audit findings and questioned costs.

Prior Year Findings	Status
2009-1 Year-End Closing	Implemented
2009-2 Schedule of Expenditures of Federal Awards	Partially Implemented, see Current Year Finding in Management Letter.
2009-3 Reporting	Implemented
2009-4 Reporting	Implemented
2009-5 Procurement and Suspension and Debarment	Implemented
2009-6 Procurement and Suspension and Debarment	Implemented
2009-7 Special Tests & Provisions	Implemented