

CITY OF SEBASTOPOL, CALIFORNIA
Reports on Internal Control, Compliance, and
Federal Awards Programs
For the Fiscal Year Ended June 30, 2008

**CITY OF SEBASTOPOL, CALIFORNIA
Reports on Federal Awards Programs
June 30, 2008**

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Terry E. Krieg, CPA

Certified Public Accountant

Honorable Mayor and Members
of the City Council
City of Sebastopol
Sebastopol, California

I 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 Sebastopol, California as of and for the year ended June 30, 2008, which collectively comprise the City of Sebastopol, California's basic financial statements and have issued my report thereon dated January 5, 2009. I conducted my 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 my audit, I considered the City of Sebastopol, California's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Sebastopol, California's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the City of Sebastopol, California's internal control over financial reporting.

My consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, I identified certain deficiencies in internal control over financial reporting that I consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. I consider the deficiency listed as findings 2008-1 described in the accompanying schedule of findings and questioned costs to be a significant deficiency in internal control over financial reporting.

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's internal control.

My consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, I consider the significant deficiency, described as item number 2008-1 above, to be a material weakness.

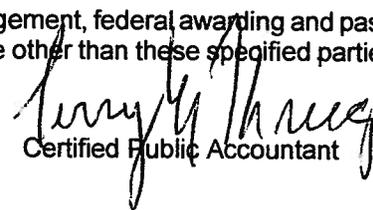
The City of Sebastopol's response to the findings identified in my audit are described in the accompanying schedule of findings and questioned costs. I did not audit the City of Sebastopol's response and, accordingly, I express no opinion on it.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Sebastopol, California's financial statements are free of material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

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

January 5, 2009


Certified Public Accountant



Terry E. Krieg, CPA

Certified Public Accountant

Honorable Mayor and Members
of the City Council
City of Sebastopol, California

Compliance

I have audited the compliance of the City of Sebastopol, California, with the types of compliance requirements described in the *U.S. 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, 2008. The City of Sebastopol, California'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 of Sebastopol California's management. My responsibility is to express an opinion on the City of Sebastopol, California's compliance based on my audit.

I conducted my 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 I 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 of Sebastopol, California's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination of the City of Sebastopol, California's compliance with those requirements.

In my opinion, the City of Sebastopol 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, 2008.

Internal Control Over Compliance

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

My 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 City's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, I identified certain deficiencies in internal control over compliance that I consider to be significant deficiencies.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affect's 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. I consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2008-2 to be a significant deficiency.

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 City's internal control. I do not consider the deficiency number 2008-2 described in the accompanying schedule of findings and questioned costs to be a material weakness.

The City of Sebastopol's response to the findings identified in my audit are described in the accompanying schedule of findings and questioned costs. I did not audit the City of Sebastopol's response and, accordingly, I express no opinion on it.

Schedule of Expenditures of Federal Awards

I 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 Sebastopol, California, as of and for the year ended June 30, 2008, and have issued my report thereon dated January 5, 2009. My audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Sebastopol, California'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 my 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 Council, management and federal awarding and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

January 5, 2009


Certified Public Accountant

CITY OF SEBASTOPOL, CALIFORNIA
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2008

<u>Federal Agency</u>	<u>Federal CFDA Number</u>	<u>Grantor Number</u>	<u>Federal Expenditures</u>
U.S. Department of Transportation:			
Pass-through Programs From:			
<i>California State Department of Transportation:</i>			
Highway Planning and Construction			
Federal-Aid Highway Program:			
Street Smart Sebastopol Phase 2	20.205	CML-5123 (013)	\$ 5,615
Local Street Rehabilitation	20.205	STPL-5123 (010)	149,000
Huntley Street Safe Routes to Scholl	20.205	SRTSL-5123 (012)	1,624
Sebastopol Union School District Safe Routes to School	20.205	SRTSL-5123 (011)	<u>1,020</u>
			157,259
U.S. Department of Transportation:			
Pass-through Programs From:			
<i>State of California - Office of Traffic Safety:</i>			
State and Community Highway Safety Program:			
Western Sonoma County Regional Vehicle Collision Response Grant	20.600	EM-0802	<u>252,266</u>
Total U.S. Department of Transportation Pass through Programs			<u>409,525</u>
U.S. Department of Justice:			
Pass-through Program From:			
San Diego State University Juvenile Accountability Block Grant	16.523	54186A	<u>5,908</u>
Total U.S. Department of Justice Pass through Program			<u>5,908</u>
U.S. Department of Homeland Security:			
Direct Program:			
Staffing for Adequate Fire and Emergency Response(SAFER)	97.083	EMW-2005	33,951
Assistance to Firefighters Grant	97.044	EMW-2006	<u>81,216</u>
Total U.S. Department Homeland Security Direct Programs			<u>115,167</u>
Total Expenditures of Federal Awards			<u>\$ 530,600</u>

See notes to schedule of expenditures of federal awards

CITY OF SEBASTOPOL, CALIFORNIA
Notes to Schedule of Expenditures
of Federal Awards
June 30, 2008

Note 1. Summary of Significant Accounting Policies

Basis of Accounting. The schedule of expenditures of federal awards is presented on the modified accrual basis of accounting. Under this basis, revenues are recognized when grant eligible reimbursement requirements have been satisfied by the City, and expenditures are recognized when the related fund liability is incurred.

Note 2. Direct and Pass-through Programs

Direct programs represent programs where the grantor federal agency remits federal funds direct to the City. Pass-through programs represent programs where the grantor federal agency remits funds to another government agency and that agency enters into a sub-recipient agreement with the City of Sebastopol and then reimburses the City with federal grant funds.

CITY OF SEBASTOPOL, CALIFORNIA
Schedule of Findings and Questioned Costs
For The Fiscal Year Ended June 30, 2008

SECTION I - SUMMARY OF AUDITOR'S RESULTS

A. Financial Statements:

1. Type of Auditor's report issued:	Unqualified		
2. Internal control over financial reporting:			
Material weakness identified?	<u> X </u>	Yes	<u> </u> No
Significant deficiencies identified that are not considered to be material weaknesses?	<u> </u>	Yes	<u> X </u> None reported
Noncompliance material to the financial statements noted?	<u> </u>	Yes	<u> X </u> No

B. Federal Awards:

1. Internal Control Over Major Programs:			
Material weakness identified?	<u> </u>	Yes	<u> X </u> No
Significant deficiencies identified that are not considered to be material weaknesses?	<u> X </u>	Yes	<u> </u> None reported
2. Type of auditor's report issued on compliance for major programs:	Unqualified		
3. Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133	<u> X </u>	Yes	<u> </u> No
4. Identification of major programs:	20.600	State and Community Highway Safety program	
	20.205	Highway Planning and Construction	
5. Dollar threshold used to distinguish between type A and type B programs			\$300,000
6. Auditee qualifies as low-risk auditee	<u> </u>	Yes	<u> X </u> No

**CITY OF SEBASTOPOL,
CALIFORNIA
Schedule of Findings and Questioned Costs
For The Fiscal Year Ended June 30, 2008**

Section II Financial Statement Findings

Finding 2008-1 Reporting of Grant Revenues and Grants Receivable in the Correct Accounting Period

Condition:

There were several grants where the City had earned the grants and allocations in fiscal year 2008, but the grant revenue had either not been requested for reimbursement or had not been accrued as a receivable in the City's financial management system.

Criteria:

All revenue and grant programs should be reviewed on an on going basis and at least on an annual basis to determine if grant revenues should be accrued and recorded as receivable in the City's accounting records in the accounting period in which the grant conditions had been satisfied.

Effect:

The effect of this condition was that there was \$400,000 in State Proposition 1B allocations available for street purposes which had not been requested, there was \$149,000 in federal street grant revenues not recorded in the general ledger in the 2008 fiscal year even though earned, there was \$800,000 in open space local grant revenues not accrued in the 2008 fiscal year although the conditions for earning the grant had been satisfied, there was \$23,000 in public safety grants earned but not recorded in the general ledger, and there was \$290,000 in park grant revenues earned but not accrued in the general ledger

All of the above grant revenues and allocations, except for the \$400,000 in Proposition 1B allocations deemed by the City to not be available to satisfy current obligations, were corrected by the City and reported in its June 30, 2008 financial statements.

Cause:

The exact cause is unknown, but it appears that departments actually administering these grant and allocation programs had either not submitted timely reimbursement or draw down requests for the grant funds or allocations, and had not coordinated the accrual of these revenues with the City's Finance Department.

Recommendation:

I recommend that the City establish procedures with its department heads responsible for administering grant and allocation programs that will provide for the timely submission of grant reimbursement requests to be reported and recorded in the fiscal year in which the grant conditions have been satisfied and the City is otherwise entitled to the grant revenues and allocations.

**CITY OF SEBASTOPOL,
CALIFORNIA
Schedule of Findings and Questioned Costs
For The Fiscal Year Ended June 30, 2008**

Views of Responsible Officials

The City of Sebastopol's staff requires additional training in regard to the requirements for the timely submission of grant reimbursement requests and coordination of that process with the City's Finance Department in connection with the year-end financial reporting process. The Finance Department's communications to other departments regarding these matters was ineffective in fiscal 2008. The City will conduct additional training with department heads regarding the requirement to account for grant revenues and receivables in the correct accounting periods.

Section III Federal Award Findings and Questioned Costs

Finding 2008-2 Grant Financial Reporting

Federal Program : U.S Department of Transportation Pass Through Program from the State of California, Office of Traffic Safety, State and Community Highway Safety Program, Project Title Western Sonoma County Regional Vehicle Collision Response Grant, CFDA 20.600.

Condition

The reimbursement claim for the period ending June 30, 2008 reported \$12,037 more in expenditures for the fiscal year than was reported in the City's June 30, 2008 fiscal year general ledger.

Of the \$12,037 in expenditures, there was \$3,757 in 2008-2009 expenditures that were reported as 2007-2008 fiscal year expenditures in the City's reimbursement request. The remaining \$8,280 was not supported as expended in the city's accounting records either in fiscal year 2007-2008 or 2008-2009.

The City had an invoice from the vendor dated in June 2008 for the \$8,280 in ordered items, but that invoice had not been paid and had not been reported as an accrued expenditure because the items in the invoice had not been in fact ever received by the City.

The City reported the correct amount of actual expenditures in its schedule of federal awards expended for the June 30, 2008 fiscal year. The City was subsequently reimbursed by the pass through grantor for the entire \$12,037.

Criteria:

Amounts reported to grantors as expenditures in reimbursement claims should be in agreement with the City's accounting records and should be supported by actual expenditures recorded in accordance with U.S. generally accepted accounting principles

Questioned Costs

\$12,037 in costs in the June 30, 2008 reimbursement claim are being questioned because they were not in agreement with the City's general ledger. The Final Reimbursement Claim, claim number 3 for the period October 1, 2007 through June 30, 2008 reported \$264,303 in costs to date and the general ledger reported \$252,266

**CITY OF SEBASTOPOL,
CALIFORNIA
Schedule of Findings and Questioned Costs
For The Fiscal Year Ended June 30, 2008**

Effect:

The effect of this particular situation was that the reimbursement claim for the June 30, 2008 period was \$12,037 more than what was recorded in the City's general ledger as a fiscal year 2008 expenditure for this grant.

Cause:

The exact cause is unknown but it appears that there were two reasons. One was that \$3,757 in expenditures were incurred by the City in fiscal year 2008-2009 but were reported in the reimbursement claim as fiscal year 2007-2008 costs. The other explanation was that the \$8,280 was reported as a grant expenditure because the vendor had put the goods on back order and they had not been delivered and therefore there was no expenditure for this amount in the general ledger.

This situation appears to be a one time error in reporting costs between accounting periods and the handling of reporting one invoice as an expenditure for grant reimbursement purposes when the goods ordered had not been shipped to or received by the City as a result of an apparent back order.

The \$8,280 backorder had not been delivered as of December 1, 2008.

Recommendation:

I recommend that the City install policies and procedures providing for a reconciliation of expenditures reported in grant reimbursement claims to the expenditures in the general ledger accounting records prior to the submission of the reimbursement claims being submitted to grantors.

Views of Responsible Officials

The administration of this grant was assumed by the Sebastopol Fire Department as the lead Agency in conjunction with four other fire departments in the immediate vicinity. The City's Fire Department is still reconciling the actions of the other four Fire Departments. The City will implement procedures which will require the City's Fire Department in the future to submit grant reimbursement claims to the City's Finance Department for review, reconciliation with the City's general ledger, and approval before such reimbursement claims are submitted for payment to grantor organizations.