CITY OF SAN JACINTO, CALIFORNIA

SINGLE AUDIT REPORT

JUNE 30, 2008

CITY OF SAN JACINTO, CALIFORNIA

SINGLE AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2008

TABLE OF CONTENTS

	PAGE
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*	1
Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with *OMB Circular A-133*	3
Schedule of Expenditures of Federal Awards	5
Note to Schedule of Expenditures of Federal Awards	6
Schedule of Findings and Questioned Costs	
I. Summary of Auditors' Results	7
II. Financial Statement Findings and Recommendations	8
III. Federal Award Findings and Questioned Costs	10
IV. Schedule of Prior Year Audit Findings	12

Vavrinek, Trine, Day & Co., LLP
Certified Public Accountants

VALUE THE DIFFERENCE

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*

To the 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 City of San Jacinto, California (the City) as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements and have issued our report thereon dated March 2, 2009. 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.

Our 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, we identified certain deficiencies in internal control over financial reporting that we 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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting. The findings are listed as 2008-1 through 2008-2.

8270 Aspen Street Rancho Cucamonga, CA 91730 Tel: 909.466.4410 Fax: 909.466.4431 www.vtdcpa.com
FRESNO • LAGUNA HILLS • PALO ALTO • PLEASANTON • RANCHO CUCAMONGA

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.

Our consideration of the 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 the 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, we believe that none of the significant deficiencies described above is a material weakness.

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 response to the findings identified in our audit is described 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.

We noted certain matters that we reported to management of the City in a separate letter dated March 2, 2009.

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.

Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California
March 2, 2009

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH *OMB CIRCULAR A-133*

The Honorable Mayor and
Members of the 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 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'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, 2008.

Internal Control Over Compliance

The management of the City of San Jacinto 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 our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing 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.

8270 Aspen Street Rancho Cucamonga, CA 91730 Tel: 909.466.4410 Fax: 909.466.4431 www.vtdcpa.com

FRESNO • LAGUNA HILLS • PALO ALTO • PLEASANTON • RANCHO CUCAMONGA

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 internal control that might be 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 below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we 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 a combination of control deficiencies, that adversely affects the entity'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 entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned cost as item 2008-3 to be a significant deficiency.

A material weakness is a significant deficiency, or a 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. We did not consider any of the deficiencies described in the accompanying schedule of findings and questioned costs to be a material weakness.

The City's response to the finding identified in our audit is described 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 basic financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City as of and for the year ended June 30, 2008, and have issued our report thereon, dated March 2, 2009. Our audit was performed for the purpose of forming an opinion 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 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.

Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California
March 2, 2009

CITY OF SAN JACINTO, CALIFORNIA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2008

Name of Agency, Grant or Program	Federal Catalog Number	Pass-through Entity Identifying Number	Program Expenditures
U.S. Dept. of Housing and Urban Development			
Passed Through the County of Riverside			
Economic Development Agency			
Community Development Block Grants (1)			
Downtown Street Improvement Project	14.218		$ 531,705
U.S. Department of Justice			
Office of Justice Programs			
Edward Bryne Memorial Justice Assistance Grant Program	16.738		5,880
Total Federal Awards			$ 537,585

(1) Indicates major program.

CITY OF SAN JACINTO, CALIFORNIA

NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2008

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 expenditure 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 awards 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

SCHEDULES OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2008

I. SUMMARY OF AUDITORS' RESULTS

FINANCIAL STATEMENTS

Type of auditors' report issued:	Unqualified
Internal control over financial reporting:	
Material weaknesses identified?	No
Significant deficiencies identified not considered to be material weaknesses?	Yes
Noncompliance material to financial statements noted?	No

FEDERAL AWARDS

Internal control over major programs:	
Material weaknesses identified?	No
Significant deficiencies identified not considered to be material weaknesses?	Yes
Type of auditors' report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with 510(a) of OMB Circular A-133?	Yes

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
14.218	Community Development Block Grant

Dollar threshold used to distinguish between Type A and Type B programs:	$ 300,000
Auditee qualified as low-risk auditee?	No

II. FINANCIAL STATEMENT FINDINGS AND RECOMMENDATIONS, Continued

FINDING 2008-1 STALE-DATED DEPOSIT

Criteria:
In accordance with the check issuer's policies, checks received by the City should be deposited timely and prior to the expiration of the check date.

Condition:

It was noted that a reimbursement request payment received by the City became stale-dated as a result of it not being received by the Finance Department directly. The check subsequently found months later by the department that received it directly; however, after the check expiration date.

Questioned Costs:

None

Context:

The condition noted above was identified during our field work and testing of amounts received subsequent to year-end.

Effect:

The City's ability to collect federal program reimbursements are placed at risk.

Cause:

The City did not consistently follow its procedures to receive and deposit federal program reimbursements.

Recommendation:

We recommend the City enhance policies and procedures to ensure that all federal program reimbursement payments are received and deposited timely.

Management Response:

The City has initiated new procedures to ensure that all incoming mail is now processed by Finance staff, and that all payments are received directly by the Finance department.

II. FINANCIAL STATEMENT FINDINGS AND RECOMMENDATIONS, Continued

FINDING 2008-2 CASH MANAGEMENT

Please refer to Finding 2008-3 at page 10 for a detailed description of the finding.

III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING 2008-3 CASH MANAGEMENT

Program: Community Development Block Grant
CFDA No.: 14.218
Federal Agency: Department of Housing and Urban Development
Passed-Through: County of Riverside Economic Development Agency
Compliance Requirement: Cash Management
Questioned Costs: None

Criteria:

Per the City's agreement with the pass-through agency, reimbursement requests should be supported by allowable costs.

Condition:

It was noted that one reimbursement request was supported by invoices that had been previously reimbursed on a different request and thus, billed twice. In addition, it was noted that a reimbursement was requested and supported by invoices for project costs to a non-federal project.

Questioned Cost:

None

Context:

The condition noted above was identified during our field work and testing of allowable cost provisions.

Effect:

The City's federal programs are placed at risk of non-compliance and potential liability for repayment of disallowed costs. Upon discovery of the above condition, the City posted adjustments to reverse amounts recorded as federal expenditures, for non-federal projects, to correctly reflect only federal expenditures. The City also posted an adjustment to defer revenue already received through reimbursements but not yet expended.

Cause:

The City did not consistently follow its procedures to review federal program reimbursement requests.

Recommendation:

We recommend the City enhance policies and procedures to ensure that all federal program reimbursement requests are properly supported by allowable costs.

III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Management Response:

The City has initiated new procedures to ensure that all reimbursement requests are now prepared by Finance staff, and that only allowable costs are claimed.

CITY OF SAN JACINTO, CALIFORNIA

SCHEDULES OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2008

IV. SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

Prior Year Findings	Status:
2007-1 Year Ended Closing	Implemented
2007-2 Deposits	Implemented