

CITY OF NORCO

Single Audit Report

For the Year Ended June 30, 2005

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For the Year Ended June 30, 2005

Table of Contents

	<u>Page</u>
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	1
Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133	3
Schedule of Expenditures of Federal Awards	5
Notes to the Schedule of Expenditures of Federal Awards	7
Schedule of Findings and Questioned Costs	8
Summary Schedule of Prior Audit Findings	11



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City Council
City of Norco, California

**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**

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 Norco, California (the City) as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements and have issued our report thereon dated October 19, 2005. 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 in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected in a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting, which we have reported to management of the City in a separate letter dated October 19, 2005.

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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. 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 that are required to be reported under *Government Auditing Standards*.

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

Rogers, Anderson, Malody & Scott, LLP

October 19, 2005



ROGERS, ANDERSON, MALODY & SCOTT, LLP

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City Council
City of Norco, California

**Report on Compliance With Requirements Applicable
to Each Major Program and Internal Control Over
Compliance in Accordance With OMB Circular A-133**

Compliance

We have audited the compliance of the City of Norco (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 its major federal program for the year ended June 30, 2005. The City's major federal program is 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 its major federal program 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 its major federal program for the year ended June 30, 2005. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2005-1 and 2005-2.

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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 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 and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we considered to be material weaknesses.

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 of Norco as of and for the year ended June 30, 2005 and have issued our report thereon dated October 19, 2005. Our audit was performed for the purpose of forming opinions on the financial statements, which 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 management, City Council and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Rogers, Anderson, Malody & Scott, LLP

October 19, 2005

City of Norco
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2005

<u>Federal Grantor/Pass-through Grantor/Program</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Federal Expenditures</u>
Major Program:			
U.S. Department of Transportation:			
Passed through from the California			
Department of Transportation			
Highway Planning and Construction	20.205	STPL-5394(011)	<u>\$ 369,666</u>
Nonmajor Programs:			
U.S. Department of Homeland Security:			
Federal Emergency Management Agency			
Passed through from the California Office			
Emergency Services			
Public Assistance Grants	97.036	FEMA-1577-DR	106,378
Assistance to Firefighters Grant	97.044	ST-DR-1498	7,667
Homeland Security Grant Program	97.067		<u>62,143</u>
Total U.S. Department of Homeland Security			<u>176,188</u>
U.S. Department of Housing and Urban Development:			
Passed through the Riverside County			
Economic Development Agency			
Community Development Block Grant	14.218	2.NR060	2,255
		2.NR067	3,785
		2.NR068	12,000
		2.NR069	3,000
		2.NR070	3,760
		2.NR071	<u>3,208</u>
Total U.S. Department of Housing and Urban Development			<u>28,008</u>

The accompanying notes are an integral part of this schedule.

City of Norco
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2005

<u>Federal Grantor/Pass-through Grantor/Program</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Federal Expenditures</u>
National Highway Traffic Safety Administration: Passed through from the California Office of Traffic Safety State and Community Highway Safety California Seat Belt Compliance Campaign	20.600	IN53305-1	\$ 12,633
Sobriety Checkpoint Program for Local Law Enforcement Agencies	20.600	AMO5073-1	<u>16,626</u>
Total National Highway Traffic Safety Administration			<u>29,259</u>
Total Expenditures of Federal Awards			<u>\$ 603,121</u>

The accompanying notes are an integral part of this schedule.

City of Norco
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2005

1) Summary of Significant Accounting Policies Applicable to the Schedule of Federal Awards

a) Scope of Presentation

The accompanying schedule presents only the expenditures incurred by the City of Norco 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 Norco. Only the portion of program expenditures reimbursable with such federal funds is reported in the accompanying schedule. Program expenditures of 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. Expenditures reported include any property or equipment acquisitions incurred under the Federal program as well as loans made to eligible program participants.

City of Norco
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2005

Section I - Summary of Auditor's Results

Financial Statements

Type of Auditor's Report Issued: Unqualified

Internal Control Over Financial Reporting:

- Material Weakness(es) identified? Yes No
- Reportable Condition(s) Identified not Considered to be Material Weaknesses? Yes None Reported

Noncompliance Material to Financial Statements Noted? Yes No

Federal Awards

Internal Control Over Major Programs:

- Material Weakness(es) identified? Yes No
- Reportable Condition(s) Identified not Considered to be Material Weaknesses? Yes None Reported

Type of Auditors' Report Issued on Compliance for Major Programs: Unqualified

Any Audit Findings Disclosed that are Required to be Reported in Accordance with OMB Circular A-133, Section .510(a)? Yes No

Identification of Major Programs:

CFDA Numbers	Name of Federal Program
20.205	Highway Planning and Construction

Dollar Threshold used to Distinguish Between Type A and Type B Programs: \$ 300,000

Auditee Qualified as Low-Risk Auditee? No

City of Norco
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2005

Section II - Financial Statement Findings

There were no auditor's findings required to be reported in accordance with GAS.

Section III - Federal Award Findings and Questioned Costs

U.S. DEPARTMENT OF TRANSPORTATION
Passed through the California Department of Transportation

Highway Planning and Construction – CFDA No. 20.205; State Grant Number STPL-5394(011)

Finding 2005-1

Criteria: OMB Circular A-133 requires that all non-Federal entities receiving Federal funds for construction contracts obtain and review copies of certified payrolls and verify that all laborers and mechanics employed by contractors or subcontractors are paid wages not less than those established for the locality of the project by the Department of Labor.

Condition: After reviewing the project file and consulting with City staff, it was determined there was no evidence the City obtained copies of certified payrolls and verified all laborers and mechanics employed by contractors or subcontractors were paid wages not less than those established for the locality of the project by the Department of Labor.

Questioned Costs: This finding did not result in any questioned costs.

Perspective Information: The incident appears to be an isolated one. This has not been a problem in previous construction related single audits.

Cause and Effect: As a result of this condition, laborers and mechanics may not be receiving paid wages not less than those established for the locality of the project by the Department of Labor.

Recommendation: Program employees should obtain copies of certified payrolls for all federally funded construction contracts in excess of \$2,000 and verify that all laborers and mechanics are receiving paid wages not less than those established for the locality of the project by the Department of Labor.

Response:

Certified payroll was supplied for phase III. Staff is contacting contractor for phase I, and requesting copies of certified payrolls.

Phase II was never constructed.

City of Norco
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2005

Section III - Federal Award Findings and Questioned Costs (continued)

U.S. DEPARTMENT OF TRANSPORTATION
Passed through the California Department of Transportation

Highway Planning and Construction – CFDA No. 20.205; State Grant Number STPL-5394(011)

Finding 2005-2

Criteria: The OMB Circular A-133 Compliance Supplement requires that all non-Federal entities receiving Federal funds for construction contracts have a sampling and testing program for construction projects to ensure that materials and workmanship generally conform to approved plans and specifications.

Condition: After reviewing the project file and consulting with City staff, it was determined there was no evidence that the City tested materials and workmanship to ensure that both conform to approved plans and specifications.

Questioned Costs: This finding did not result in any questioned costs.

Perspective Information: The incident appears to be an isolated one. This has not been a problem in previous construction related single audits.

Cause and Effect: As a result of this condition, the City may not be receiving quality workmanship and inferior materials may be being used for its construction projects.

Recommendation: Program employees perform sampling testing of project materials and project workmanship to ensure materials and workmanship conform to approved plans and specifications.

Response:

This was a pavement rehabilitation project of which most of the construction cost was for asphalt overlay and replacing of pavement section. Mix design was submitted for phase III.

Public Works Inspectors were on-site for all phases of construction to ensure that project was constructed to standard specifications.

City of Norco
Summary Schedule of Prior Audit Findings
For the Year Ended June 30, 2005

There were no prior year audit findings.