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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***

City Council of the City of Arroyo Grande
Arroyo Grande, California

We have audited, in accordance with the 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, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Arroyo Grande (the City), as of and for the fiscal year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated November 13, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a deficiency in internal control, described in the accompanying schedule of findings and questions costs that we consider to be a significant deficiency, see Finding 2014-1.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from 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*.

City of Arroyo Grande's Response to Findings

City of Arroyo Grande's response to the findings identified in our audit described in the accompanying schedule of findings and questioned costs. City of Arroyo Grande's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Moss, Remy & Hartgen LLP

Santa Maria, California
November 13, 2014

FINDING 2014-1
CASH RECEIPTS
30000

Criteria:

Adequate internal control procedures for cash receipt transactions require the collection and retention of sufficient documentation to allow for recalculation of any receipt. In addition, to ensure the correct accounting for cash received, the City should retain the ability to trace a receipt from the time it is billed and/or collected to the time it is deposited into the City's bank account and vice-versa.

Condition:

Receipts tested in the Recreation Department's Children in Motion program did not have adequate documentation to trace receipts received to the daily deposit.

Effect:

The lack of supporting documentation for cash receipts prohibited verification that all cash received was deposited into the local bank account and accounted for appropriately in the general ledger.

Cause:

In some circumstances, when the City receives payments for the Children in Motion program, the Recreation Department "batches" multiple payments received as one receipt into the cash register system. This batching process creates the inability to trace one individual payment to the bank deposit.

Recommendation:

Obtain and retain supporting documentation that provides what payments are included in each bank deposit for programs in order to reconcile cash receipts to cash deposited in the bank to protect against a misappropriation of cash that may go undetected.

Corrective Action Plan:

The City will update its internal control procedures to include and produce an additional report(s) so that the Children in Motion program receipt collection can continue to utilize batch processing. This additional report will itemize the payments received (i.e. payee, amount, etc.).