



CITY OF COMPTON
SINGLE AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2017



CITY OF COMPTON
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JUNE 30, 2017

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**INDEPENDENT AUDITOR'S 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 Compton, California

We were engaged to audit, 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 the City of Compton, California (City), for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City of Compton's basic financial statements (the financial statements). We were unable to issue a report because we were unable to obtain financial statements from the City. In addition, we were unable to obtain sufficient appropriate audit evidence and written management representations.

Internal Control over Financial Reporting

In connection with our engagement to audit the financial statements of the City of Compton, 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 opinion 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.



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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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs marked MW to be material weaknesses.

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. We consider the deficiencies described in the accompany schedule of findings and questioned costs marked SD to be significant deficiencies.

Compliance and Other Matters

In connection with our engagement to audit the financial statements of the City, 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, which are described in the accompanying schedule of findings and questioned costs (marked NC). Additionally, if the scope of our work had been sufficient to enable us to express an opinion on the financial statements, other instances of noncompliance or other matters may have been identified and reported herein.

During our audit, we also became aware of matters that are opportunities for strengthening internal controls, operating efficiency, and best practices. The accompanying schedule of findings and questioned costs includes our comments and recommendations regarding those matters (marked BP).

The following schedule summarizes our findings:

FISCAL YEAR	REFERENCE NUMBER	MATERIAL WEAKNESS (MW)	SIGNIFICANT DEFICIENCY (SD)	NON-COMPLIANCE (NC)	BEST PRACTICES (BP)	TOTAL
2016/17	2017-001 to 2017-014	3	-	11	-	14
2015/16	2016-001 to 2016-009	3	1	5	-	9
2014/15	2015-001 to 2015-039	16	12	8	3	39
2013/14	2014-001 to 2014-146C	65	50	19	12	146
2012/13	2013-001 to 2013-018	41	2	7	-	50
2011/12	2012-014 to 2012-018	1	2	2	-	5
		126	67	41	15	263

City of Compton's Response to Findings

City of Compton's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the engagement to 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 entity's internal control or on compliance. This report is an integral part of an engagement to perform an audit in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Eddie and Payne HP

March 15, 2019
Riverside, California

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY THE UNIFORM GUIDANCE**

The Honorable City Council
City of Compton, California

Report on Compliance for Each Major Federal Program

We have audited City of Compton's compliance with the types of compliance requirements described in the *OMB 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, 2017. 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.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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.



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We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

Basis for Adverse Opinion on CFDA 14.218 Community Development Block Grants- Entitlement Grants and CFDA 14.871 Section 8 Housing Choice Vouchers

As described in the accompanying schedule of findings and questioned costs, the City did not comply with requirements regarding the following:

Finding No.	CFDA No.	Name of Federal Program or Cluster	Compliance Requirement
2017-001	14.218	Community Development Block Grants/ Entitlement Grants	Reporting
2017-002			Program Income
2017-003			Program Income
2017-004			Subrecipient Monitoring
2017-005			Special Tests and Provisions – Citizen Participation
2017-006			Special Tests and Provisions – Rehabilitation
2017-007	14.871	Section 8 Housing Choice Vouchers	Reporting
2017-008			Special Tests and Provisions – Housing Quality Standards Inspections & HQS Enforcement
2017-009			Special Tests and Provisions – Rolling Forward Equity Balances
2017-010			Special Tests and Provisions – Operating Transfers and Administrative Fees
2017-011	14.218 & 14.871		General – Filing of Single Audit Report
2017-012	14.218 & 14.871		General – SEFA Preparation

Compliance with such requirements is necessary, in our opinion, for the City to comply with the requirements applicable to those programs.

Adverse Opinion on Community Development Block Grants- Entitlement Grants and Section 8 Housing Choice Vouchers

In our opinion, because of the significance of the matters discussed in the Basis for Adverse Opinion paragraph, the City did not comply, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Community Development Block Grants – Entitlement Grants and Section 8 Housing Choice Vouchers for the year ended June 30, 2017.

Other Matters

The City's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2017-001 through 2017-003, 2017-007, and 2017-009 through 2017-012, to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2017-004 through 2017-006, and 2017-008 to be a significant deficiencies.

City's Response to Findings

City of Compton's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Eddie and Payne HP

March 15, 2019
Riverside, California

INDEPENDENT AUDITOR'S REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The Honorable City Council
City of Compton, California

We were engaged to audit the accompanying schedule of expenditures of federal awards of the City of Compton for the year ended June 30, 2017, and the related notes (the SEFA).

Management's Responsibility

Management is responsible for the preparation and fair presentation of the SEFA in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a SEFA that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the SEFA based on our audit. We conducted our audit in accordance with auditing standard 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 Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether the SEFA is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the SEFA. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the SEFA, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the SEFA in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the SEFA.

Because of the matter described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an opinion.



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Basis for Disclaimer of Opinion

Due to the passage of time, the employee turnover in all key positions, and the numerous internal control findings described in the accompanying schedule of findings and questioned costs, we have not been able to obtain sufficient appropriate audit evidence to express an opinion on the SEFA. Furthermore, we were unable to obtain written representation from management of the City concerning activities prior to February 4, 2018, which took place under substantially different management.

Disclaimer of Opinion

Because of the significance of the matters described in the Basis of Disclaimer of Opinion paragraph, we have not been able to obtain sufficient, appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the SEFA referred to in the first paragraph.

Eddie and Payne HP

March 15, 2019
Riverside, California

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

CITY OF COMPTON
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED JUNE 30, 2017

Federal Grantor / Program or Cluster Title	Federal CFDA Number	Program Identification Number	Total Program Expenditures	Total Amount Provided to Subrecipients
Department of Housing and Urban Development				
Direct Programs:				
Community Development Block Grants/Entitlement Grants	14.218	B-16-MC-06-0515	\$ 905,075	\$ 132,158
Neighborhood Stabilization Program 1 (NSP1) – Community Development Block Grants/State's Program	14.228	B-08-MN-06-0505	191,360	-
Neighborhood Stabilization Program 3 (NSP3) – Community Development Block Grants/State's Program	14.228	B-11-MN-06-0505	134,344	-
Subtotal			325,704	-
Emergency Shelter Grants Program	14.231	E-11-MC-06-0515	87,594	70,547
HOME Investment Partnership Program	14.239	M-11-MC-06-0506	700,273	-
Section 8 Housing Choice Vouchers	14.871	CA-071	8,836,945	-
Total Department of Housing and Urban Development			<u>10,855,591</u>	<u>202,705</u>
Department of Justice				
Direct Programs:				
Edward Byrne Memorial Justice Assistance Grant	16.738	2014-DJ-BX-0540	56,836	-
Edward Byrne Memorial Justice Assistance Grant	16.738	2015-DJ-BX-0941	39,816	-
Edward Byrne Memorial Justice Assistance Grant	16.738	2016-DJ-BX-0845	4,527	-
Total Department of Justice			<u>101,179</u>	<u>-</u>
Department of Transportation				
Passed through the California Department of				
Highway Planning and Construction	20.205	HP2IL-5078(012)	7,869	-
Total Department of Transportation			<u>7,869</u>	<u>-</u>
Total Expenditures of Federal Awards			<u>\$ 10,964,639</u>	<u>\$ 202,705</u>

See accompanying notes to the Schedule of Expenditures of Federal Awards and Independent Auditor's Report.

CITY OF COMPTON
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2017

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (Schedule) presents the activity of all federal award programs of the City of Compton (City) for the year ended June 30, 2017. The Schedule includes federal awards received directly from federal agencies as well as federal awards passed through other agencies.

2. BASIS OF ACCOUNTING

The accompanying schedule of expenditures of federal awards is presented using the modified accrual basis of accounting. Under the modified accrual basis of accounting expenditures are recorded in the accounting period in which the related fund liability is incurred, except for unmatured principal and interest on long-term debt, which is recognized when due.

3. LOAN PROGRAMS WITH CONTINUING COMPLIANCE REQUIREMENTS

The City participates in the Community Development Block Grants Section 108 Loan Guarantees (CFDA No. 14248) of the U.S. Department of Housing and Urban Development, which is subject to continuing compliance requirements for outstanding loans. The program's outstanding balance on loans with continuing compliance requirements as of June 30, 2017 was \$714,810.

4. INDIRECT COST RATE

The City has not elected to use the 10% de minimis cost rate.

CITY OF COMPTON
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 FOR THE YEAR ENDED JUNE 30, 2017

SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: No report issued

Internal control over financial reporting:
 – Material weakness identified? x yes no
 – Significant deficiency identified? yes x none reported

Noncompliance material to financial statements noted: x yes no

Federal Awards

Internal control over compliance:
 – Material weakness identified? x yes no
 – Significant deficiency identified? x yes none reported

Type of auditor report issued on compliance for major programs: Adverse

Any audit findings disclosed that are required by the Uniform Guidance? x yes no

Identification of major program:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
14.218	Community Development Block Grants/Entitlement Grants
14.871	Section 8 Housing Choice Vouchers

Dollar threshold used to distinguish between type A and type B programs: \$ 750,000

Auditee qualified as low-risk auditee? yes x no

See accompanying notes to the Schedule of Expenditures of Federal Awards and Independent Auditor's Report.

CITY OF COMPTON
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 FOR THE YEAR ENDED JUNE 30, 2017

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CURRENT YEAR

MAJOR FEDERAL AWARD PROGRAMS

Department of Housing and Urban Development – Community Development Block Grant

Reporting	2017-001
Program Income	2017-002 to 2017-003
Subrecipient Monitoring	2017-004
Special Tests and Provisions	2017-005 to 2017-006

Department of Housing and Urban Development – Section 8 Housing Choice Vouchers

Reporting	2017-007
Special Tests and Provisions	2017-008 to 2017-010

General

Filing of Single Audit Report	2017-011
Schedule of Expenditures of Federal Awards Preparation	2017-012

FINANCIAL STATEMENTS

Bank Reconciliations	2017-013
IT Controls	2017-014

PRIOR YEAR

MAJOR FEDERAL AWARD PROGRAMS

2016-001 to 2016-008
2015-001 to 2015-011
2014-001 to 2014-010
2013-005 to 2013-018
2012-014 to 2012-018

FINANCIAL STATEMENTS

2016-009
2015-012 to 2015-039
2014-011 to 2014-146C
2013-001 to 2013-004

CITY OF COMPTON
SCHEDULE OF SINGLE AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2017

2017-001 - Reporting (MW, NC)

Federal Program Title:	Community Development Block Grants/Entitlement Grants
Federal Catalog Number:	14.218
Federal Agency:	U.S. Department of Housing and Urban Development
Pass-Through Entity:	Not applicable
Federal Award Number and Year:	B-16-MC-06-0515 – 2016
Category of Finding:	Reporting

Criteria: The Office of Management and Budget (OMB) 2 CFR Part 200, Appendix XI sections 3.2-L-1 and 4-14.218-10 states:

"Recipients must use the standard financial reporting forms or such other forms as may be authorized by OMB (approval is indicated by an OMB paperwork control number on the form) when reporting to the Federal awarding agency. Each recipient must report program outlays and program income on a cash or accrual basis, as prescribed by the Federal awarding agency."

For CDBG, the City is required to submit the following reports.

- * SF-425 - Federal Financial Report
- * C04PR03 - Activity Summary Report
- * C04PR26 - CDBG Financial Summary
- * HUD 60002, Section 3 Summary Report, Economic Opportunities for Low- and Very Low-Income Persons, (OMB No. 2529-0043)

U.S. Department of Housing and Urban Development (HUD) guidance titled, "Using IDIS to Prepare the Consolidated Plan, Annual Action Plan, and CAPER/PER," states:

"Within 90 days after the end of its program year, a grantee must submit a Consolidated Annual Performance and Evaluation Report (CAPER). The primary purpose of the CAPER is to report on accomplishments of funded activities within the program year and to evaluate the grantee's progress in meeting one-year goals described in the Annual Action Plan and long-term goals described in the Consolidated Plan."

Condition: The City was unable to provide the required SF-425 Federal Financial Report. We were therefore unable to perform testing on report information accuracy.

The City provided us a draft of the CAPER that was not complete, nor does it appear that it was submitted to HUD.

Cause: Lack of internal control over the preparation, review, and submission of the financial reports.

Effect or Potential Effect: The City's failure to comply with stated rules and regulations over the required reports increases the risk that inaccurate or incomplete information will be reported.

Questioned Cost: No costs identified

Context: The SF-425 Federal Financial Report was not available for review. Auditor therefore cannot perform reporting testing on the SF-425 report. The City was able to provide the C04PR03 and C04PR26 reports.

Upon search made in hudexchange.info, the online platform for HUD program information, no CAPER appears to have been submitted for the 2016 program year, i.e. FY 2016-2017. It is also to note that the CAPER provided by the City for review appears to be draft status, as IDIS reports and citizenship participation supporting documentation do not appear to be included in the provided CAPER.

Repeat of a Prior-Year Finding: Yes, 2016-002, 2015-003, 2014-005

Recommendation: The City should strengthen its process over the preparation of its reports to ensure the reports are based on the applicable accounting and performance records. They should ensure that these reports are not only prepared, but also reviewed for accuracy and completeness prior to submission. The City should have a process to ensure that all required reports are prepared, reviewed, and submitted on a timely basis.

This addresses COSO's Control Activities, Principle 10: selects & develops control activities and Information & Communication, Principle 15: communicates externally.

Management Response and Corrective Action Plan

City's Response: The City concurs with recommendation.

Corrective Action Plan: Finance staff will be assigned to work with the Grants department in regards to submission of all financial reporting and reimbursement requests. Also, procedures will be established to ensure these are revisited and given attention to on a monthly basis. This will include training of a grant coordinator and training of various grant program personnel to establish policies and procedures for compliance with terms of the grant. These procedures will also include review of reports and maintaining required documentation show proof of performance reporting. In the meantime, the Grants and City Controller department will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2020

Responsible Person: Aubrey Relf, City Grants Manager and Rafaela King, Controller

2017-002 - Program Income – Identification, Determination, Assessment, and Recording (MW, NC)

Federal Program Title:	Community Development Block Grants – Entitlement Grants
Federal Catalog Number:	14.218
Federal Agency:	U.S. Department of Housing and Urban Development
Pass-Through Entity:	Not applicable
Federal Award Number and Year:	B-16-MC-06-0515 – 2016
Category of Finding:	Program Income – Identification, Determination, Assessment, and Recording

Criteria: The Office of Management and Budget (OMB) 2 CFR Part 200, Appendix XI section 4-14.218-9 states:

"The grantee must accurately account for any program income generated from the use of CDBG funds and must treat such income as additional CDBG funds which are subject to all program rules.

"Making loans and collecting the payments on those loans can be a significant source of program income for grantees. The use of program income derived from loan payments is subject to program requirements. This carries with it the responsibility for grantees to have a loan origination and servicing system in effect which assures that loans are properly authorized, receivables are properly established, earned income is properly recorded and used, and write-offs of uncollectible amounts are properly authorized (24 CFR sections 570.500 and 570.504)."

Condition: The city does not have adequate internal controls to identify and record CDBG program income on a regular and timely basis.

- A prior-year loan repayment receipt of \$33,480.76 in March 2016 was recorded as program income in the current year instead of the prior year.
- A current year housing loan payoff receipt for \$39,012.84 in October 2016 was not reported as current year program income.
- A loan issued in 2011 that met the CDBG low- and moderate-income benefit objective had related receipts totaling \$104,779.94 for loan repayments received in FY 2012 through 2016 were recorded as program income in the current year instead of when each loan repayment was received from 2011 through 2016.
- A loan issued in 2013 that met the CDBG low- and moderate-income benefit objective had related receipts totaling \$126,223.80 for loan repayments received in FY 2014 through 2016 were recorded as program income in the current year instead of when each loan repayment was received from 2013 through 2016.
- HUD Treasury receipt of \$1,199 in December 2014 was reported as program income in the current year instead of in FY 2015.
- Known program income received in the current year related to the 2011 loan above for monthly loan repayments of \$1,976.98, totaling \$21,746.78 was not reported as current year program income.
- Known program income received in the current year related to the 2013 loan above for monthly loan repayments of \$4,207.46, totaling \$46,282.06 was not reported as current year program income.
- The April 2017 monthly payments for the 2011 and 2013 loans could not be located.

Cause: Lack of internal controls and adequate staff training on program income identification, determination, assessment, and recording.

Effect or Potential Effect: The Grants Division is not in compliance with grant requirements, where drawdowns are being applied against the grant award instead of the required reported program income first. The lack of internal controls may also result in misstatements due to errors or fraud, which could ultimately result in misuse of federal funds.

Questioned Cost: None

Context: There has been no accurate and timely process for the city to record program income. Per the IDIS PR09 report, program income was reported on an annual basis for program years 1997 through 2005. No program income was reported for program years 2008 through 2015. During program year 2016, the grant consultant identified and reported program income received in program years 2011 through 2015. However, not all program year 2016 program income was reported.

Repeat of a Prior-Year Finding: No

Recommendation: We recommend that the City strengthen their procedures in relation to identifying, determining, assessing, and recording program income. The City should have procedures in place to accurately identify program income as they are received and are appropriately recorded in the CDBG fund as such and into IDIS.

This addresses COSO's Control Activities, Principle 10: selects & develops control activities and Information & Communication, Principle 15: communicates externally.

Management Response and Corrective Action Plan

City's Response: The City concurs with recommendation.

Corrective Action Plan:

The Controller's office will work directly with the Grants office to implement tracking procedures to clearly identify program income and loan repayments. This system will be communicated to all Grants, Controller's and Treasury staff to ensure all parties that will have access or will come in contact with the payments are aware of the policies and procedures in how to properly code each payment in order to monitor the payment type and record the payment in the correct fiscal year. The City will establish and document policies and procedures designed to serve as the system of internal controls required by OMB's Uniform Guidance (2 CFR 200). In the meantime, the Grants and City Controller's departments will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2021

Responsible Person: Aubrey Relf, City Grants Manager and Rafaela King, Controller

2017-003 - Program Income – CDBG Loan Listing (MW, NC)

Federal Program Title: Community Development Block Grants – Entitlement Grants
Federal Catalog Number: 14.218
Federal Agency: U.S. Department of Housing and Urban Development
Pass-Through Entity: Not applicable
Federal Award Number and Year: B-16-MC-06-0515 – 2016
Category of Finding: Program Income – Loan Listing

Criteria: The Office of Management and Budget (OMB) 2 CFR Part 200, Appendix XI section 4-14.218-9 states:

"The grantee must accurately account for any program income generated from the use of CDBG funds and must treat such income as additional CDBG funds which are subject to all program rules.

"Making loans and collecting the payments on those loans can be a significant source of program income for grantees. The use of program income derived from loan payments is subject to program requirements. This carries with it the responsibility for grantees to have a loan origination and servicing system in effect which assures that loans are properly authorized, receivables are properly established, earned income is properly recorded and used, and write-offs of uncollectible amounts are properly authorized (24 CFR sections 570.500 and 570.504)."

Condition: The City does not have a complete listing of loans and loan balances subject to repayment. The City therefore does not have a working schedule that captures a complete listing of expected receipts that will prompt the recording of program income. In addition, the loan receivable listing does not agree with the general ledger balance.

Cause: Lack of internal controls, implementation, and adequate staff training on the maintenance of a complete listing and schedule of issued loans and running loan balances related to CDBG.

Effect or Potential Effect: The Grants Division is not in compliance with grant requirements and grant income has not been properly reported. In addition, there's a possibility that loan payments received may not be credited to the correct debtor's account or that write-offs are made without proper approval.

Questioned Cost: None

Context: The City appears to have a partial listing of outstanding loans and loan repayment schedules, however, the repayment schedules have not been updated on a regular and timely basis, loan balances are not reconciled to the general ledger, and loan repayments are not being reconciled to reported program income. The completeness of program income cannot be assured as long as the city does not have a complete tracking of CDBG Section 108 loans and HOME loans outstanding.

The loans receivable general ledger balance does not appear to be updated when payments are received. The recorded balance at June 30, 2017 is the same as June 30, 2016.

Our review indicated that no CDBG program income was reported from FY 2009 through FY 2016. In FY 2017, program income for FY 2012 through FY 2016 was reported as program income along with some, but not all of the FY 2017 program income.

Repeat of a Prior-Year Finding: No

Recommendation: We recommend the City maintain a complete listing of outstanding loans and prepare and regularly use a master CDBG-related loan repayment schedule detailing all loans issued to monitor and capture loan repayments that would prompt the recording of program income as repayments are received.

In addition, loans receivable should be reconciled to the general ledger on a regular periodic basis.

This addresses COSO's Control Activities, Principle 10: selects & develops control activities and Principle 12: deploys control activities through policies and procedures.

Management Response and Corrective Action Plan

City's Response: The City concurs with recommendation.

Corrective Action Plan:

The Controller's office's internal auditor will work directly with the Grants department to develop a complete list of all outstanding loans and loan repayment schedules. This schedule will be maintained and updated on a monthly basis. The Controller's office and Grants Manager will work together to create policies and procedures on how and in which department the records will be held and maintained. The City will establish and document policies and procedures designed to serve as the system of internal controls required by OMB's Uniform Guidance (2 CFR 200). In the meantime, the Grants and City Controller's departments will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2021

Responsible Person: Aubrey Relf, City Grants Manager and Rafaela King, Controller

2017-004 - Subrecipient Monitoring (SD, NC)

Federal Program Title:	Community Development Block Grants – Entitlement Grants
Federal Catalog Number:	14.218
Federal Agency:	U.S. Department of Housing and Urban Development
Pass-Through Entity:	Not applicable
Federal Award Number and Year:	B-16-MC-06-0515 – 2016
Category of Finding:	Subrecipient Monitoring

Criteria: The Office of Management and Budget (OMB) 2 CFR Part 200, Appendix XI section 3.2-M-1 states:

"A pass-through entity (PTE) must:

Evaluate Risk – Evaluate each subrecipient’s risk of noncompliance for purposes of determining the appropriate subrecipient monitoring related to the subaward (2 CFR section 200.331(b)). This evaluation of risk may include consideration of such factors as the following:

1. The subrecipient’s prior experience with the same or similar subawards;
2. The results of previous audits including whether or not the subrecipient receives single audit in accordance with 2 CFR part 200, subpart F, and the extent to which the same or similar subaward has been audited as a major program;
3. Whether the subrecipient has new personnel or new or substantially changed systems; and
4. The extent and results of Federal awarding agency monitoring (e.g., if the subrecipient also receives Federal awards directly from a Federal awarding agency)."

Condition: We were unable to find evidence that the City had evaluated risk for the 4 subrecipients selected for compliance testing through on site visits or any other method. In addition, none of the subrecipients tested had a current FY 2016 audited financial statement in their file (or an income tax return for either 2015 or 2016 that would indicate that they were not required to have an audit). The City is not performing adequate evaluation of their subrecipients’ financial statements.

Cause: Lack of internal controls and adequate staff training on program-specific requirements.

Effect or Potential Effect: The Grants Division is not in compliance with grant requirements.

Questioned Cost: None

Context: We selected a sample of 4 subrecipients for testing out of a total 8 subrecipients provided funding during the year and were unable to ascertain that city fulfilled risk evaluation.

Repeat of a Prior-Year Finding: No

Recommendation: We recommend that the City establish policies and procedures regarding the performance and documentation of subrecipient risk evaluation.

This addresses COSO’s Risk Assessment, Principle 7: identifies and analyzes risks and Control Activities, Principle 12: deploys through policies & procedures.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation.

Corrective Action Plan: The Grants department will work with the Controller's office to develop internal controls required by OMB's Uniform Guidance (2 CFR 200) to address subrecipient monitoring. Further, the City's internal auditor will assist in the subrecipient monitoring to ensure compliance with program specific requirements. In the meantime, the Grants and City Controller's departments will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2021

Responsible Person: Aubrey Relf, City Grants Manager and Rafaela King, Controller

2017-005 - Special Tests and Provisions – Citizen Participation (SD, NC)

Federal Program Title:	Community Development Block Grants – Entitlement Grants
Federal Catalog Number:	14.218
Federal Agency:	U.S. Department of Housing and Urban Development
Pass-Through Entity:	Not applicable
Federal Award Number and Year:	B-16-MC-06-0515 – 2016
Category of Finding:	Special Tests and Provisions – Citizen Participation

Criteria: The Office of Management and Budget (OMB) 2 CFR Part 200, Appendix XI section 4-14.218-12 states:

"Prior to the submission to HUD for its annual grant, the grantee must certify to HUD that it has met the citizen participation requirements in 24 CFR section 91.105."

Condition: The City did not conduct at least two public hearings during the current period to obtain citizens' views and comments, which was a stated procedure in their Citizen Participation Plan. We were unable to obtain supporting documentation that evidences that public hearings were conducted during the current period. We noted, however, that two public notices were published at a local bulletin to notify the public of the availability of the CAPER for a 15-day public review and comment period in September 2017. We were unable to review the summary of citizen comments received during the 15-day public review period, referenced as documented in Appendix B of the CAPER, because this section does not exist in the CAPER provided for review.

Cause: Lack of internal controls and adequate staff training on program-specific requirements.

Effect or Potential Effect: The Grants Division is not in compliance with grant requirements. Citizens are not provided an opportunity to voice out their views and comments in relation to the program's performance and future initiatives.

Questioned Cost: None

Context: There was no indication in the CAPER that public hearings were conducted in the current period. There were also no records available to ascertain that public hearings as part of the program's required citizen participation were conducted during the current period for citizen views, comments, and feedback.

Repeat of a Prior-Year Finding: No

Recommendation: We recommend the City to strengthen their procedures in relation to citizen participation and ensuring that basic annual procedures such as the conducting of public hearings occur.

This addresses COSO's Control Activities, Principle 12: deploys through policies & procedures and Information & Communication, Principle 15: communicates externally.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation.

Corrective Action Plan: The Controller's office will work with the Grants office to develop policies and procedures of internal controls as required by OMB's Uniform Guidance (2 CFR 200) to ensure compliance with all grant requirements, including conducting public hearings, completing, maintaining, and properly agendizing notices of completion, and proper preparation and submission of the CAPER report. In the meantime, the Grants and City Controller's departments will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2021

Responsible Person: Aubrey Relf, City Grants Manager and Rafaela King, Controller

2017-006 - Special Tests and Provisions – Rehabilitation (SD, NC)

Federal Program Title:	Community Development Block Grants – Entitlement Grants
Federal Catalog Number:	14.218
Federal Agency:	U.S. Department of Housing and Urban Development
Pass-Through Entity:	Not applicable
Federal Award Number and Year:	B-16-MC-06-0515 – 2016
Category of Finding:	Special Tests and Provisions – Rehabilitation

Criteria: The Office of Management and Budget (OMB) 2 CFR Part 200, Appendix XI section 4-14.218-13 states:

"When CDBG funds are used for rehabilitation, the grantee must ensure that the work is properly completed (24 CFR section 570.506)."

Condition: The City does not have documentation indicating that the work performed on the single applicable rehabilitation project was properly completed. According to the draft CAPER the annual goal of 4 households was accomplished in relation to the Compton affordable solar program project. We were unable to confirm that the project was complete, as no form of notice of completion of project was noted in the subrecipient file.

Cause: Lack of internal controls and adequate staff training on program-specific requirements.

Effect or Potential Effect: The Grants Division is not in compliance with grant requirements.

Questioned Cost: None

Context: We were unable to locate and review any supporting documentation such as a notice of completion or the related contractor-related documentation that indicates that the rehabilitation work was properly completed during the current audit period despite the draft CAPER noting that the goal for the project was accomplished.

Repeat of a Prior-Year Finding: No

Recommendation: We recommend the City strengthen their procedures in relation to program-specific requirements at the conclusion of CDBG rehabilitation projects which requires documentation on work completion verification.

This addresses COSO's Control Activities, Principle 12: deploys through policies & procedures.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation.

Corrective Action Plan: The Controller's office will work with the Grants office to develop policies and procedures of internal controls as required by OMB's Uniform Guidance (2 CFR 200) to ensure compliance with all grant requirements, including conducting public hearings, completing, maintaining, and properly agendaing notices of completion, and proper preparation and submission of the CAPER report. In the meantime, the Grants and City Controller's departments will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2021

Responsible Person: Aubrey Relf, City Grants Manager and Rafaela King, Controller

2017-007 - Reporting (MW, NC)

Federal Program Title: Section 8 Housing Choice Vouchers
Federal Catalog Number: 14.871
Federal Agency: U.S. Department of Housing and Urban Development
Pass-Through Entity: Not applicable
Federal Award Number and Year: CA-071 – 2017
Category of Finding: Reporting

Criteria: TITLE 24- HOUSING AND URBAN DEVELOPMENT, PART 5- GENERAL HUD PROGRAM REQUIREMENTS; WAIVERS, Subpart H- Uniform Financial Reporting Standards, Section 5.801- Uniform Financial Reporting Standards states:

"(b) Entities (or individuals) to which this subpart is applicable must provide to HUD, on an annual basis, such financial information as required by HUD."

TITLE 24- HOUSING AND URBAN DEVELOPMENT, PART 982- SECTION 8 TENANT-BASED ASSISTANCE: HOUSING CHOICE VOUCHER PROGRAM, Subpart D - Annual Contributions Contract and PHA Administration of Program, Section 982.158- Program Accounts and Records states:

"(a) The PHA must maintain complete and accurate accounts and other records for the program in accordance with HUD requirements, in a manner that permits a speedy and effective audit. The records must be in the form required by HUD, including requirements governing computerized or electronic forms of record-keeping. The PHA must comply with the financial reporting requirements in 24 CFR part 5, subpart H."

Based on the above compliance requirements and review of the grant requirements, public housing agencies (PHAs) are required to submit the following reports:

1. HUD-52681-B, Voucher for Payment of Annual Contributions and Operating Statement
2. Financial Reports- Financial Assessment Sub-system, FASS-PH
3. HUD-52648, SEMAP Certification -Addendum for Reporting Data for De-concentration Bonus Indicator
4. HUD 60002, Section 3 Summary Report, Economic Opportunities for Low- and Very Low-Income Persons
5. HUD-50058, Family Report

Condition: The Housing Authority did not submit the required annual FASS-PH and 60002 Section 3 Summary reports for FY 2016-2017 to HUD.

Cause: Lack of internal control over the preparation and submission of the FASS-PH and 60002 Section 3 reports

Effect or Potential Effect: Failure to comply with the reporting requirements may result in grantor sanctions, including potential loss of funding.

Questioned Cost: None

Context: The Housing Authority did not submit the required annual FASS-PH and 60002 Section 3 reports to HUD. It is to note that the City has not filed the FASS-PH report since June 30, 2012.

Repeat of a Prior-Year Finding: Yes, 2016-004, 2015-006, 2014-001, 2013-011

Recommendation: We recommend the City establish policies and procedures that will ensure accurate and timely submission of all required reports.

This addresses COSO's Control Activities, Principle 12: deploys through policies & procedures and Information & Communication, Principle 15: communicates externally.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation.

Corrective Action Plan: Finance staff will be assigned to work with the Housing department in regards to submission of all financial reporting and reimbursement requests. Also, procedures will be established to ensure these are revisited and given attention to on a monthly basis. This will include training of a grant coordinator and training of various grant program personnel to establish policies and procedures for compliance with terms of the grant. The City will also establish and document policies and procedures designed to serve as a system of internal controls required by OMB's Uniform Guidance (2 CFR 200). In the meantime, the City will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2020

Responsible Person: Delmonsha Green, Housing Director and Rafaela King, Controller

2017-008 - Special Tests and Provisions – Housing Quality Standards Inspections & HQS Enforcement (SD, NC)

Federal Program Title: Section 8 Housing Choice Vouchers
Federal Catalog Number: 14.871
Federal Agency: U.S. Department of Housing and Urban Development
Pass-Through Entity: Not applicable
Federal Award Number and Year: CA-071 – 2017
Category of Finding: Special Tests and Provisions – Housing Quality Standards Inspections & HQS Enforcement

Criteria: The Office of Management and Budget (OMB) 2 CFR Part 200, Appendix XI sections 4-14.871-16 and 4-14.871-17 states:

"The PHA must inspect the unit leased to a family at least annually to determine if the unit meets Housing Quality Standards (HQS) and the PHA must conduct quality control re-inspections. The PHA must prepare a unit inspection report (24 CFR sections 982.158(d) and 982.405(b)).

"For units under HAP contract that fail to meet HQS, the PHA must require the owner to correct any life threatening HQS deficiencies within 24 hours after the inspections and all other HQS deficiencies within 30 calendar days or within a specified PHA-approved extension. If the owner does not correct the cited HQS deficiencies within the specified correction period, the PHA must stop (abate) HAPs beginning no later than the first of the month following the specified correction period or must terminate the HAP contract. The owner is not responsible for a breach of HQS as a result of the family's failure to pay for utilities for which the family is responsible under the lease or for tenant damage. For family-caused defects, if the family does not correct the cited HQS deficiencies within the specified correction period, the PHA must take prompt and vigorous action to enforce the family obligations (24 CFR sections 982.158(d) and 982.404)."

Condition: Our review identified nine (9) re-inspections out of the total twenty-five (25) that were performed, were completed after the required 30-day time period. Our review also identified six (6) of those re-inspections were either rescheduled or had significant repairs to be made that needed to be addressed, per units' owners, causing the delay of the inspections.

Cause: The HQS re-inspections were not performed in a timely manner due to the high volume of requested inspections and the shortage of staff during the audit examination period.

Effect or Potential Effect: Failure to perform reinspections for HQS deficiencies that were recorded during the annual inspection may result in grantor sanctions, potentially leading to a loss grant funding.

Questioned Cost: None

Context: Of the sixty (60) participant files reviewed, twenty-five (25) required re-inspection. Of those 25 the City failed to perform re-inspections for nine (9) participants within the 30-day time period.

Repeat of a Prior-Year Finding: Yes, 2016-005, 2015-007, 2014-002, 2013-012

Recommendation: We recommend that the Housing Authority enforce its policies and procedures pertaining to inspection and re-inspection of leased units to ensure that such activities are performed in a timely manner. This can be done by the Housing Authority taking an assertive approach in the education of the leased units' owners and tenants on the program's requirements on such timely re-inspections and the ramifications on possible loss of subsidies due to loss of grant funding if such procedures have not been performed.

This addresses COSO's Control Activities, Principle 12: deploys through policies & procedures and Information & Communication, Principle 15: communicates externally.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation.

Corrective Action Plan: The Controller's Office will work with the Housing Director to ensure that the 30-day time period is met for re-inspections. While staff shortages in the Housing department contribute to the untimely re-inspections, the City will also establish and document policies and procedures to track rescheduled and/or subsequently cancelled inspections to ensure they are performed in a timely manner. In the meantime, the City will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2020

Responsible Person: Delmonsha Green, Housing Director and Rafaela King, Controller

2017-009 - Special Tests and Provisions – Rolling Forward Equity Balances (MW, NC)

Federal Program Title: Section 8 Housing Choice Vouchers
Federal Catalog Number: 14.871
Federal Agency: U.S. Department of Housing and Urban Development
Pass-Through Entity: Not applicable
Federal Award Number and Year: CA-071 – 2017
Category of Finding: Special Tests and Provisions – Rolling Forward Equity Balances

Criteria: Title 24- Housing and Urban Development, Part 982- Section 8 Tenant-Based Assistance: Housing Choice Voucher Program, Subpart D - Annual Contributions Contract and PHA Administration of Program, Section 982.158- Program Accounts and Records states:

"(a) The PHA must maintain complete and accurate accounts and other records for the program in accordance with HUD requirements, in a manner that permits a speedy and effective audit. The records must be in the form required by HUD, including requirements governing computerized or electronic forms of record-keeping. The PHA must comply with the financial reporting requirements in 24 CFR part 5, subpart H."

Condition: The Housing Authority is required to properly account for program activity. We were unable to obtain the housing assistance payments (HAP) equity account roll-forward for the year ended June 30, 2017.

Cause: Lack of internal control over the monitoring HAP equity account.

Effect or Potential Effect: The Housing Authority is not in compliance with grant requirements.

Questioned Cost: Unknown. The questioned costs cannot be calculated, because the total additional funding received by the Housing Authority is unknown.

Context: We were unable to obtain the HAP equity account balance at June 30, 2017.

Repeat of a Prior-Year Finding: Yes, 2016-006, 2015-008, 2014-003, 2013-013

Recommendation: We recommend the Housing Authority establish and implement policies and procedures over calculation of the HAP equity account.

This addresses COSO's Control Activities, Principle 12: deploys through policies & procedures and Information & Communication, Principle 15: communicates externally.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation.

Corrective Action Plan: The Controller will work with the Housing Director to ensure that the HAP equity balance is rolled forward on an annual basis. The City will also establish and document policies and procedures designed to serve as a system of internal controls required by OMB's Uniform Guidance (2 CFR 200). In the meantime, the Housing and City Controller department will take steps to address the specific finding noted above to ensure accurate computation of the HAP equity account.

Planned Implementation Date: June 30, 2020

Responsible Person: Delmonsha Green, Housing Director and Rafaela King, Controller

2017-010 - Special Tests and Provisions – Operating Transfers and Administrative Fees (MW, NC)

Federal Program Title:	Section 8 Housing Choice Vouchers
Federal Catalog Number:	14.871
Federal Agency:	U.S. Department of Housing and Urban Development
Pass-Through Entity:	Not applicable
Federal Award Number and Year:	CA-071 – 2017
Category of Finding:	Special Tests and Provisions – Operating Transfers and Administrative Fees

Criteria: The Office of Management and Budget (OMB) 2 CFR Part 200, Appendix XI section 4-14.871-18 states:

"The annual contributions contract (ACC) establishes the amounts HUD will provide a public housing agency (PHA) for housing assistance payments (HAP) and administrative fees. HAP may not be used to cover administrative expenses nor may HAP (including restricted net position [RNP]) be loaned, advanced, or transferred to other component units or other programs such as Public and Indian Housing (CFDA 14.850) (24 CFR sections 982.151 and 982.152)."

Condition: We were unable to perform compliance testing due to unavailability of the requested FASS-PH report. We therefore were unable to determine whether transfers and advances of HCVP funds were properly conducted and whether the Housing Choice Voucher Program's HAP and administrative fee funding were used appropriately.

Cause: Lack of internal control over the preparation and submission of the FASS-PH report.

Effect or Potential Effect: The Housing Authority is not in compliance with grant requirements.

Questioned Cost: Unknown. The questioned costs cannot be calculated, because the City was unable to provide the requested report.

Context: The Housing Authority did not submit the required annual FASS-PH report to HUD, and we therefore were unable to perform the required procedures for the operating transfers and administrative fees compliance component of special tests and provisions of the program.

Repeat of a Prior-Year Finding: No

Recommendation: We recommend the City establish policies and procedures that will ensure accurate and timely submission of the FASS-PH report.

This addresses COSO's Control Activities, Principle 12: deploys through policies & procedures and Information & Communication, Principle 15: communicates externally.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation.

Corrective Action Plan: The Controller's office will work with the Housing department to develop policies and procedures of internal controls as required by OMB's Uniform Guidance (2 CFR 200) to ensure compliance with all grant requirements, including conducting public hearings, completing, maintaining, and properly agendaing notices of completion, and proper preparation and submission of the FASS-PH report. In the meantime, the Grants and City Controller's departments will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2021

Responsible Person: Delmonsha Green, Housing Director and Rafaela King, Controller

2017-011 - Filing of Single Audit Report (MW, NC)

Criteria: Pursuant to the Office of Management and Budget (OMB) 2 CFR Part 200, Appendix XI, Section 8-7-3, IV. Due Date for Audit Reports, the copy of the data collection from should be filed 'with the Federal Audit Clearinghouse (FAC) as the date 9 months after the end of the audit period”.

Condition: The City did not complete the audit and submit the Single Audit Reporting Package (the City's audited financial statements and single audit reports) for the fiscal years ended June 30, 2012, 2013, 2014, 2015, 2016, and 2017 within nine months after the end of audit period or March 31, 2013, 2014, 2015, 2016, 2017, and 2018, respectively.

Cause: The City has been severely behind on its recording and reconciliations for financial transactions. The City's Single Audit for 2013 was not completed until February of 2016 which is significantly after the required due date for the 2014 Single Audit Reporting Package. The City's predecessor auditor withdrew from the audit after issuance of the 2014 financial statements in November 2016 and did not issue a Single Audit report. Due to substantial employee turnover within the City at all levels, and incomplete records, the 2015, 2016, and 2017 audits have not been completed.

Effect or Potential Effect: Failure to submit the required Single Audit Reporting Package timely automatically results in the City not qualifying for low risk auditee status for the following year's single audit. In addition, failure to file the required Single Audit Reporting Package timely could result in the loss of federal funding.

Questioned Cost: None

Context: Single audits have not been completed and the reporting package has not been submitted within nine months for the past six years. The 2017 Single Audit Reporting Package is past due.

Repeat finding: Yes, 2016-007, 2015-010, 2014-009, 2013-005, 2012-005

Recommendation: We recommend that the City bring its accounting records up to date and have financial statement and Single Audits prepared timely. We also recommend the City develop, document, and implement policies and procedures for timely submission of the Single Audit Reporting Package.

This addresses COSO's Control Activities, Principle 12: deploys through policies & procedures and Information & Communication, Principle 15: communicates externally.

Management Response and Corrective Action Plan

City's Response: The City is on target to catch up on all outstanding Single Audit packet submissions and expects to be on time for FY 2019 and going forward.

Corrective Action Plan: City Management and Controller to continuously work with auditors to ensure delinquent reports are submitted as soon as possible and that FY 2019 can be submitted in a timely manner.

Planned Implementation Date: June 30, 2020

Responsible Person: Cecil W. Rhambo, Jr., City Manager and Rafaela King, Controller

2017-012 - Schedule of Expenditures of Federal Awards (Schedule) Preparation (MW)

Criteria: Pursuant to the Office of Management and Budget (OMB) 2 CFR Part 200, Appendix XI, the City has responsibility to:

- Identify, in its accounts, all Federal awards received and expended and the Federal programs under which they were received. Federal program and award identification shall include, as applicable, the CFDA title and number, award number and year, name of the Federal agency, and name of the pass-through entity.
- Prepare appropriate financial statements, including the schedule of expenditures of Federal awards.

Condition: The City prepared SEFA reported both an incorrect and incomplete breakdown of its CDBG program expenditures for the current fiscal year. A portion of the expenditures appear to be from 2014, 2015, and 2016 grants. However, the City is unable to provide the breakdown by grant year. We attempted to get a breakdown based on the drawdowns during the year, however the totals did not agree. The City also did not provide the amounts provided to subrecipients for the CDBG program, where there are eight identified subrecipients according to provided general ledger detail information.

Cause: Lack of internal controls and adequate staff training and competence on the integration of financial statement records to single audit reporting requirements on the SEFA.

Effect or Potential Effect: Failure to report expenditures by grant ID exposes the City to be flagged by the awarding Federal agency, i.e. HUD, for grant sanctions and the rectification of its reported records to the Federal Clearing House.

Questioned Cost: None

Context: The client-prepared SEFA reports the single line item program ID for CDBG as B-17-MC-06-0515, which relates to the grant awarded for the 2017 program year. This grant ID pertains to the grant awarded to be expended in the next period, i.e. starting in fiscal year 2017-2018. Expenditures should be further broken down to the related grant ID, where we have noted in testing drawdowns were made from the 2014, 2015, and 2016 program year grants.

Repeat finding: Yes, 2016-008, 2015-011, 2014-010, 2013-006

Recommendation

We recommend the City include the amounts provided to subrecipients information in the SEFA. We also recommend that the City implement grant award tracking procedures, which provide information on which expenditures were drawn down from which grant award ID for an accurate reporting of the breakdown of expenditures.

This addresses COSO's Control Activities, Principle 12: deploys through policies & procedures.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation.

Corrective Action Plan: The City will update the SEFAs in the future to ensure the breakdown of specific programs is correct. The report will be reviewed by supervisors prior to submission to auditors. The City will also establish and document policies and procedures to implement this process and will include assignment of authority and responsibility, reconciliation, and review of the SEFA. In the meantime, the City Controller department will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2019

Responsible Person: Rafaela King, Controller

**SCHEDULE OF FINANCIAL STATEMENT AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2017**

2017-013 - Bank Reconciliations (MW)

Criteria: Bank reconciliations should be prepared and review in a timely manner.

Condition: Bank reconciliations are not prepared and reviewed in a timely manner. As of the date of this report, the last bank reconciliation prepared was for August 2014.

Cause: Due to the vacancies in key positions in the City Controller's office, staff fell behind on the monthly reconciliations of the over 30 bank accounts.

Effect or Potential Effect: An embezzlement remained undetected for years. Also, cash could be materially misstated.

Repeat of a Prior-Year Finding: Yes, 2016-009, 2015-012, 2014-045

Recommendation: The City should have City employees trained to perform monthly bank reconciliations for all City bank accounts. Subsequently, a documented review and approval of the bank reconciliations should be performed in a timely manner to ensure that any discrepancies are discovered and addressed appropriately.

This addresses COSO's Control Environment, Principle 4: demonstrates commitment to competency, Principle 5: enforces accountability, and Control Activities, Principle 10: selects and develops control activities.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation.

Corrective Action Plan: The Controller's Office has hired additional staff and senior level accountants and assigned them to bring current all bank reconciliations and other accounting functions. This higher level of experience is expected to help in assuring the day to day operations of the department occur timely and are more accurate. As the process moves along, new policies & procedures are being implemented. The City will document these policies and procedures which will be designed to serve as a system of internal controls required by OMB's Uniform Guidance (2 CFR 200). In the meantime, the City will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2020

Responsible Person: Rafaela King, Controller

2017-014 - Information Technology (IT) Controls (MW)

Criteria: IT controls are a critical mechanism for ensuring the integrity of information systems and the reporting of the City's financial information.

Condition, Cause and Effect: During our review of IT controls, we noted the following deficiencies:

1. Risk: The City does not have any written policies and procedures related to security controls for logical access for the City IT infrastructure and systems.

Ranking: High
Status: Not started

Recommendation: The City should create written policies and procedures that establish security requirements related to logical access control. Logical access control protects IT systems and data by verifying and validating authorized users, authorizing user access to IT systems and data, and restricting transactions (read, write, execute, delete) according to the user's authorization level. The policies and procedures should list logical access controls such as account management, password management, remote access, and also include review of responsibilities for logical access.

2. Risk: The City does not have any written policies and procedures related to controls over the physical security of the City's IT infrastructure and its systems.

Ranking: High
Status: Not started

Recommendation: The City should create written policies and procedures related to the physical security of City's IT infrastructure and define objectives for managing operations and controlling activities related to the physical procedures. Examples are procedure related to physical access/removal requests of IT sensitive areas throughout the City, acceptable use of key card, and biometric systems, review of authorized personnel access; procedures related to logging key cards, biometric activities, and review of such logs; policy and procedures related to camera surveillance systems.

3. Risk: The City does not have any documented policy or workflow related to verifying that access controls for the termination or transfer of employees are completed in a timely manner.

Ranking: High
Status: Not started

Recommendation: We recommend that Human Resources and IT Staff work together to establish a workflow system to set up notifications for any employee transfers or termination to ensure user access and application permissions are adjusted appropriately. We also recommend the creation of an "outgoing" user form be utilized when such user changes are made. The request forms should be signed off with manager's approval from HR and/or Finance Department. City IT Staff should also conduct periodic "self-audits" for Active Directory user accounts, and permissions related to the financial applications for the City and ensure they remain appropriate based on job function.

2017-014 – Information Technology (IT) Controls (MW) (Continued)

4. Risk: Although a change management policy and procedure was written, it was discovered in interviews that it was not officially adopted, nor enforced.

Ranking: High
Status: Not started

Recommendation: City Management should review the existing change management policy, update, and enforce policy and procedure for change management procedure.

5. Risk: There is no formal information security training provided to City staff.

Ranking: High
Status: Not started

Recommendation: We recommend that security-training seminars be provided for City staff. Such seminars should highlight cyber security risks, good cyber security practices, overview of acceptable usage of City owned computers and devices.

6. Risk: The City exposes multiple internal network devices, and servers to the outside internet for TCP port 22 (SSH), and via TCP port 80 using a blanket “Any” allow rule. That exposes any internal server or service to attacks from outside individuals.

Ranking: High
Status: Not started

Recommendation: We recommend the review of access policies and restricted access for exposed server/network resources.

7. Risk: Surveillance cameras are available to monitor Server and IT room, however the cameras are not enabled to monitor or record activity.

Ranking: High
Status: Not started

Recommendation: We recommend that the City enable the functionality for the available cameras to monitor and record. We also recommend that these recordings to be reviewed regularly.

8. Risk: Physical access controls are in place for the server room via biometric reader. However, log information from the reader is unavailable. Additionally, the server room access logs are not reviewed to verify that only individuals with access to the server room are permitted.

Ranking: High
Status: Not started

Recommendation: We recommend that the City ensure software for biometric reader is configured to log access. Regular review of access logs would ensure that only approved individuals are accessing the server room.

2017-014 – Information Technology (IT) Controls (MW) (Continued)

9. Risk: The organization currently does not manage system and application updates for patching and maintenance. The city utilizes local security policy for OS and Microsoft system patches for each of the workstations and servers. Patches for workstations are automatically downloaded from Microsoft every Friday of the week without patch testing for any potential impacts. Servers are manually completed with no patch schedule or testing. In addition, there is no report of machines that have failed updates, and/or vulnerable machines that still require OS, or application updates. This can expose a workstation/server to a vulnerability if it is not appropriately patched.

Ranking: High
Status: Not started

Recommendation: The City should utilize a Windows Server Update Services Server, or available third party alternative for patch management of OS Updates, and application updates. Additionally, utilizing a patch management tool will also allow the control to approve or disapprove updates to minimize any potential impacts brought by a patch. Coordinate a variety of servers, and workstations within the organization as a test group for patch testing.

10. Risk: The City of Compton does not have an adequate password security policy in place. Specifically, the minimum password length is set to six characters. Best practices recommends a minimum of eight characters.

Ranking: High
Status: Not started

Recommendation: The City should review the current password policy enforced for the organization. National Institute of Standards and Technology recommends a minimum password length of eight characters.

11. Risk: There is no testing of disaster recovery and business continuity capabilities to help ensure the organization is well prepared in the event of a significant business disruption.

Ranking: Medium
Status: A detailed plan has been drafted; however, there has been no testing of disaster recovery plan.

Recommendation: The City should perform a testing of its disaster recovery plan and proceed with any remediation required based on tests performed. The City should update its disaster recovery plan and provide additional training to City staff, if deemed necessary.

2017-014 – Information Technology (IT) Controls (MW) (Continued)

12. Risk: Roles of personnel in finance are not clearly segregated or defined, which makes it difficult to provide the appropriate access permissions.

Ranking: Medium
Status: Not started

Recommendation: We recommend that Human Resources, Finance, and IT define the roles and permissions of personnel within finance. The City should also review current permissions and apply defined roles and permissions for specified users within financial application. We also recommend the creation of a user request form with available financial permissions. The request forms should be signed off with managers' approval from HR and/or Finance Department.

13. Risk: Physical access controls are in place for sensitive IT areas (IT Room, Off-Site locations) via Key Card access system. However, log information is unavailable for keycard access.

Ranking: Medium
Status: Not started

Recommendation: The City should ensure that key card software is configured for logging access. The City should also regularly review access logs to ensure only approved individuals have access for sensitive IT areas of the City.

14. Risk: The City does not have a policy or document that identifies critical systems or data that require backup.

Ranking: High
Status: Not started

Recommendation: The City should create a written policy and document that identifies critical data and systems to backup and their primary function. Confirm required data and servers are backing up successfully.

15. Risk: The City does not currently have a policy in place to ensure backup methods are recoverable. Currently the IT staff only review backup logs, and correct any issues as they arise. Without periodic review of restore methods, backup data integrity cannot be verified. Without appropriate backup and restore methods in use, the City risks not being able to restore data in the event of an outage, hardware failure, data corruption, or accidental deletion.

Ranking: Medium
Status: Not started

Recommendation: We recommend the following:

- a. Regularly verify that backups and restore methods are recoverable.
- b. Implement a documented process for recovering virtual server and data, communicate this backup and restore process to other City IT Staff.

2017-014 – Information Technology (IT) Controls (MW) (Continued)

16. Risk: The City of Compton does not currently have documentation on policy of storage location, tape rotation methods, and schedule.

Ranking: Medium
Status: Not started

Recommendation: The City should create a written policy that documents policy of storage location both onsite and off-site of tapes, tape rotation methods, and schedule.

17. Risk: The City is utilizing network hardware and switches that have depreciated system versions, which are no longer within their support or update lifecycle by the hardware vendor. Having depreciated hardware systems for the WAN and LAN pose a security threat, as the software versions that are applied to the hardware are no longer being updated by the vendor, which makes the hardware vulnerable to known exploits.

Ranking: Medium
Status: Not started

Recommendation: We recommend that the City purchase and implement newer generation firewalls and switches with applicable security software.

18. Risk: The City's firewall does not contain any additional packet inspection methods such as Geo-IP Filtering, Gateway Antivirus enforcement, Application inspection and filtering, deep packet inspection of HTTP or HTTPS traffic, and persistent threat (malware) detection methods. The current Cisco ASA firewall does contain support for these inspection methods.

Ranking: Medium
Status: Not started

Recommendation: We recommend purchasing and implementing a "Next Gen" firewall solution that includes both high-availability cluster of devices and modules that support these scans.

19. Risk: The City does not have any methods in place for securing the physical LAN against unauthorized Ethernet connections. Network drops/patches are not reviewed or audited to ensure that only the necessary connections are patched, or that switch ports are bound to a single individual MAC address that is on an approved list of devices. Unprotected network drops or ports may allow for easy access to the City's local network.

Ranking: Medium
Status: Not started

Recommendation: We recommend enabling MAC security on all network switches, and periodically reviewing patch drop locations to determine if they are necessary.

2017-014 – Information Technology (IT) Controls (MW) (Continued)

20. Risk: The City currently utilizes a Malware Bytes Anti-Virus Standalone product for workstations and server. Not running a centralized antivirus management can leave workstations and servers susceptible to a virus infection due to not having the latest antivirus updates.

Ranking: Medium
Status: Not started

Recommendation: We recommend upgrading to an Anti-Virus product with centralized antivirus management, or upgrade Malwarebytes to their Endpoint Security for Business for Centralized management of devices.

21. Risk: The City was unable to provide documentation in regards to the monitoring of their server and network resources. Not monitoring server health and network can put resources that house financial data at risk.

Ranking: Medium
Status: Not started

Recommendation: We recommend that the City utilize monitoring tools as a proactive measure for server and network health.

22. Risk: There is no standard operating policy or procedure for properly disposing or wiping of hard drive from City computer workstations. Currently, hard drives are removed from workstations and stored in the IT Room without any destruction, or wiping of data.

Ranking: Medium
Status: Not started

Recommendation: Hard drives can contain sensitive/confidential data. It is recommended to have policies and procedures in place to properly destroy/wipe data. Additionally, a log should be kept that details the following: the serial number of each drive, the computer from which it was removed, and the date it was removed, a record of destruction date, and method of destruction or wiping.

2017-014 – Information Technology (IT) Controls (MW) (Continued)

23. Risk: Currently, the City utilizes ArcServe for tape backups of systems. Tape backups have been declining as a backup media due to a variety of reasons, including required resources, slow restore process, reliability and security concerns. It also exposes the City to potential attackers or malicious employees who could easily walk off with tapes containing sensitive information.

Ranking: Low
Status: Not started

Recommendation: We recommend that the City utilize an image-based backup software, which will allow for quicker restore of servers and files. Additionally, it will allow for full system restores, rather than just file level restores and for backups to be stored off site. Overall, it would make the backup process for City servers and critical systems quicker, more frequent, and more efficient.

Repeat of a Prior-Year Finding: Yes, 2013-004

The IT recommendations address COSO's Risk Assessment, Principle 7: identifies risks and analyzes risks; Control Activities, Principle 10: selects and develops control activities, Principle 11: selects and develops general control activities over technology, and Principle 12: deploys through policies & procedures.

Management Response and Corrective Action Plan (2017-014 Comments 1-23)

City's Response: The City concurs with the recommendation.

Corrective Action Plan: The City will establish and document policies and procedures to implement fundamental elements of the Internal Control Integrated Framework (ICIF) and to create policies for major transaction systems and for business processes to establish control standards. These policies and procedures will be designed to serve as the system of internal controls required by OMB's Uniform Guidance (2 CFR 200). The policies and procedures will include expectations for segregation of duties, assignment of authority and responsibility, reconciliation, information and communication, and monitoring for persons with responsibility for systems and processes. In the meantime, the City Manager's department will take steps to address the specific findings (1-23) noted above.

Planned Implementation Date: June 30, 2021

Responsible Persons: Miley Huntley, Assistant City Manager and Cecil Rhambo, City Manager

CITY OF COMPTON
SCHEDULE OF PRIOR AUDIT FINDINGS
FEDERAL AWARDS

2016-001 - Allowable Costs, Cost Principles (SD)

Federal Program Title:	Community Development Block Grants/Entitlement Grants
Federal Catalog Number:	14.218
Federal Agency:	U.S. Department of Housing and Urban Development
Pass-Through Entity:	Not applicable
Federal Award Number and Year:	B-15-MC-06-0515 – 2015
Category of Finding:	Allowable Costs, Cost Principles

Criteria: The Office of Management and Budget (OMB) 2 CFR Part 200, Appendix XI, more commonly referred to as the Compliance Supplement, has allowable costs/cost principles compliance requirements with governing requirements contained in Section 3.1-B-13, Cost Principles for State, Local, and Indian Tribe Governments, State/Local-Wide Central Service Costs, and states:

“The methods of allocating the costs are in accordance with the applicable cost principles, and produce an equitable and consistent distribution of costs, which benefit from the central service costs being allocated.”

With regards to internal controls, Section 6-1 states:

“The A-102 Common Rule, OMB Circular A-110 and 2 CFR section 200.303 require that non-Federal entities receiving Federal awards (i.e., auditee management) establish and maintain internal control designed to reasonably ensure compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.”

Condition: The City’s payroll records did not accurately reflect the actual hours worked by employees whose salaries and wages are charged to CDBG or the budgeted labor cost allocation.

Cause: We were unable to determine how the allocation of payroll posted to the general ledger was determined. No explanation and support obtained whether payroll expenditures are allocated by actual or budgeted hours. City staff was unable to provide clarification.

Effect or Potential Effect: The City could be charging an inaccurate amount of payroll expenditures against its federal grants programs, which could both result in either in a cost being disallowed or the loss of funds that may have been a reimbursable cost.

Questioned Cost: Not reportable

Context: We were unable to test payroll records for the current audit period, as the City has not changed its procedures from prior year. We were also unable to obtain support for the allocation of salaries of personnel to CDBG. It is unclear how the allocations of payroll were determined.

Repeat of a Prior-Year Finding: Yes, 2015-001, 2014-008

Recommendation: We recommend that the City establish policies and procedures to ensure that only the allocable share of allowable costs are allocated to grants. In addition, the City should retain documentation evidencing the allocation of payroll posted to the general ledger.

This addresses COSO's Control Activities, Principle 12: deploys through policies & procedures and Information & Communication, Principle 15: communicates externally.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation.

Corrective Action Plan: The City has hired a licensed CPA as Deputy Controller with extensive payroll experience. The Deputy Controller is currently cleaning up payroll areas and training staff in all payroll-related matters. In addition, the City is also in the process of replacing the Payroll Supervisor position with another skilled accountant to ensure the general ledger entries and year-end entries are done accurately. The City will also establish and document policies and procedures designed to serve as the system of internal controls required by OMB's Uniform Guidance (2 CFR 200).

Planned Implementation Date: June 30, 2021

Responsible Person: Rafaela King, Controller

2016-002 - Reporting (SD, NC)

Federal Program Title:	Community Development Block Grants – Entitlement Grants
Federal Catalog Number:	14.218
Federal Agency:	U.S. Department of Housing and Urban Development
Pass-Through Entity:	Not applicable
Federal Award Number and Year:	B-15-MC-06-0515 – 2015
Category of Finding:	Reporting

Criteria: The Office of Management and Budget (OMB) 2 CFR Part 200, Appendix XI, more commonly referred to as the Compliance Supplement, has reporting compliance requirements with governing requirements contained in 2 CFR section 200.327 for financial reporting and 2 CFR section 200.328 for monitoring and program performance reporting and states:

"Recipients must use the standard financial reporting forms or such other forms as may be authorized by OMB (approval is indicated by an OMB paperwork control number on the form) when reporting to the Federal awarding agency. Each recipient must report program outlays and program income on a cash or accrual basis, as prescribed by the Federal awarding agency."

For CDBG, the City is required to submit the following reports.

- * SF-425 - Federal Financial Report
- * C04PR03 - Activity Summary Report
- * C04PR26 - CDBG Financial Summary
- * HUD 60002, Section 3 Summary Report, Economic Opportunities for Low- and Very Low-Income Persons, (OMB No. 2529-0043)

Condition: The City was unable to provide the required SF-425 Federal Financial Report. Therefore, we were not able to perform testing on report information accuracy. There were also classification errors noted on certain line items in the reviewed C04PR26 CDBG Financial Summary Report.

Cause: Lack of internal control over the preparation, review, and submission of the financial reports.

Effect or Potential Effect: The City's failure to comply with stated rules and regulations over the required reports increases the risk that inaccurate or incomplete information will be reported.

Questioned Cost: No specific questioned costs were identified.

Context: The SF-425 Federal Financial Report was not available for review. The City submitted C04PR03, C04PR26, and quarterly performance reports as required. However, our review identified that reported amounts in the performance reports did not reconcile to financial records.

Repeat of a Prior-Year Finding: Yes, 2015-003, 2014-005, 2013-008

Recommendation: The City should strengthen its process over the preparation of its reports to ensure the reports are based on the applicable accounting and performance records. They should ensure that these reports are not only prepared, but also reviewed for accuracy and completeness prior to submission. The City should have a process to ensure that all required reports are filed on a timely basis.

This addresses COSO's Control Activities, Principle 10: selects & develops control activities and Information & Communication, Principle 15: communicates externally.

Management Response and Corrective Action Plan

City's Response: The City concurs with recommendation.

Corrective Action Plan: Finance staff will be assigned to work with the Housing department in regards to submission of all financial reporting and reimbursement requests. Also, procedures will be established to ensure these are revisited and given attention to on a monthly basis. This will include training of a grant coordinator and training of various grant program personnel to establish policies and procedures for compliance with terms of the grant. These procedures will also include review of reports and maintaining required documentation show proof of performance reporting. In the meantime, the Grants and City Controller department will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2020

Responsible Person: Aubrey Relf, City Grants Manager and Rafaela King, Controller

2016-003 - Record Retention and Reporting (MW, NC)

Federal Program Title: HOME Investment Partnership Program
Federal Catalog Number: 14.239
Federal Agency: U.S. Department of Housing and Urban Development
Pass-Through Entity: Not applicable
Federal Award Number and Year: M-15-MC-06-0506
-Category of Finding: Financial & Program Management; Cost Principles; Reporting

Criteria: CFR section 200.333 Retention requirements for records. Financial records, supporting documents, statistical records, and all other non-Federal entity records pertinent to a Federal award must be retained for a period of three years from the date of submission of the final expenditure report or, for Federal awards that are renewed quarterly or annually, from the date of the submission of the quarterly or annual financial report, respectively, as reported to the Federal awarding agency or pass-through entity in the case of a subrecipient.

Condition: City was unable to provide any of the documentation for requested sample items or the HUD 60002, Section 3 Summary Report, Economic Opportunities for Low- and Very Low-Income persons, (OMB No. 2529-0043).

Cause: The grants department suffered high staff turnover in the past years and responsibilities have not been clearly re-assigned to qualified personnel. That resulted in current staff not being able to provide auditors with requested information.

Effect or Potential Effect: Adverse opinion on compliance related to the Home Investment Partnerships Program for the current audit period.

Questioned Cost: \$750,035.

Context: We first provided a listing of requested items in October 2018. No supporting documentation was provided by the client after multiple attempts spanning from October 2018 through January 2019. Auditor therefore could not perform any testing of compliance or internal controls over compliance for this major program.

Repeat of a Prior-Year Finding: No

Recommendation: We recommend that policies and procedures be established to ensure that documents supporting federal expenditures be retained in a secure location and that they be available for inspection during an audit regardless of whether or not the personnel responsible at the time are still with the City.

This addresses COSO's Control Activities, Principle 10: selects & develops control activities and Information & Communication, Principle 15: communicates externally.

Management Response and Corrective Action Plan

City's Response: The City concurs with recommendation.

Corrective Action Plan: During FY 2017-18, the City hired an individual with extensive, 30 years of experience, as Grants Director to oversee the management, programs and staff in the Grants Department. Subsequently, the City appointed an Interim Grants manager and hired a Sr. Administrative Analyst to manage the day to day functions and management of all federal grant programs to adhere to federal grant. With the new personnel assigned to the department, it is expected new policies and procedures will be written and implemented to ensure grant compliance and maintenance of a filing system to ensure all documents supporting federal expenditures will be retained in a secure location. In the meantime, the Grants and City Controller department will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2020

Responsible Person: Annette Potts, the City's Interim Grants Manager and Rafaela King, Controller

2016-004 - Reporting (MW, NC)

Federal Program Title:	Section 8 Housing Choice Vouchers
Federal Catalog Number:	14.871
Federal Agency:	U.S. Department of Housing and Urban Development
Pass-Through Entity:	Not applicable
Federal Award Number and Year:	CA071 2016
Category of Finding:	Reporting

Criteria: TITLE 24- HOUSING AND URBAN DEVELOPMENT, PART 5- GENERAL HUD PROGRAM REQUIREMENTS; WAIVERS, Subpart H- Uniform Financial Reporting Standards, Section 5.801-Uniform Financial Reporting Standards states:

"(b) Entities (or individuals) to which this subpart is applicable must provide to HUD, on an annual basis, such financial information as required by HUD."

TITLE 24- HOUSING AND URBAN DEVELOPMENT, PART 982- SECTION 8 TENANT-BASED ASSISTANCE: HOUSING CHOICE VOUCHER PROGRAM, Subpart D - Annual Contributions Contract and PHA Administration of Program, Section 982.158- Program Accounts and Records states:

"(a) The PHA must maintain complete and accurate accounts and other records for the program in accordance with HUD requirements, in a manner that permits a speedy and effective audit. The records must be in the form required by HUD, including requirements governing computerized or electronic forms of record-keeping. The PHA must comply with the financial reporting requirements in 24 CFR part 5, subpart H."

Based on the above compliance requirements and review of the grant requirements, public housing agencies (PHAs) are required to submit the following reports:

1. HUD-52681-B, Voucher for Payment of Annual Contributions and Operating Statement
2. Financial Reports- Financial Assessment Sub-system, FASS-PH
3. HUD-52648, SEMAP Certification -Addendum for Reporting Data for De-concentration Bonus Indicator
4. HUD-50058, Family Report

Condition: The Housing Authority did not submit the FASS-PH report for FY 2015/16.

Cause: Lack of internal control over the preparation of FASS-PH report for FY 2015/16.

Effect or Potential Effect: Failure to comply with the reporting requirements may result in grantor sanctions including potential loss of funding.

Questioned Cost: None

Context: The Housing Authority did not submit the required annual FASS-PH report to HUD. The City has not filed this report since June 30, 2012.

Repeat of a Prior-Year Finding: Yes, 2015-006, 2014-001, 2013-011

Recommendation: We recommend the City establish policies and procedures that will ensure accurate and timely submission of all required reports.

This addresses COSO's Control Activities, Principle 12: deploys through policies & procedures and Information & Communication, Principle 15: communicates externally.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation.

Corrective Action Plan: Finance staff will be assigned to work with the Housing department in regards to submission of all financial reporting and reimbursement requests. Also, procedures will be established to ensure these are revisited and given attention to on a monthly basis. This will include training of a grant coordinator and training of various grant program personnel to establish policies and procedures for compliance with terms of the grant. The City will also establish and document policies and procedures designed to serve as a system of internal controls required by OMB's Uniform Guidance (2 CFR 200). In the meantime, the City will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2020

Responsible Person: Delmonsha Green, Housing Director and Rafaela King, Controller

2016-005 - Special Tests and Provisions – Housing Quality Standards Inspections (SD, NC)

Federal Program Title: Section 8 Housing Choice Vouchers
Federal Catalog Number: 14.871
Federal Agency: U.S Department of Housing and Urban Development
Pass-Through Entity: Not applicable
Federal Award Number and Year: CA071 2016
Category of Finding: Special Tests and Provisions – Housing Quality Standards Inspections

Criteria: TITLE 24- HOUSING AND URBAN DEVELOPMENT, PART 982- SECTION 8 TENANT BASED ASSISTANCE: HOUSING CHOICE VOUCHER PROGRAM, Subpart I - Dwelling Unit: Housing Quality Standards, Inspection and Maintenance, Section 982.404 - PHA initial and periodic unit inspection states:

"(a)For units under HAP contract that fail to meet HQS, the PHA must require the owner to correct any life threatening HQS deficiencies within 24 hours after the inspections and all other HQS deficiencies within 30 calendar days or within a specified PHA-approved extension. If the owner does not correct the cited HQS deficiencies within the specified correction period, the PHA must stop (abate) HAPs beginning no later than the first of the month following the specified correction period or must terminate the HAP contract. The owner is not responsible for a breach of HQS as a result of the family's failure to pay for utilities for which the family is responsible under the lease or for tenant damage. For family-caused defects, if the family does not correct the cited HQS deficiencies within the specified correction period, the PHA must take prompt and vigorous action to enforce the family obligations. (See § 982.1585(d) and 982.404)"

Condition: Our review identified 8 re-inspections out of the total 60 that were performed after the required 30-day time period. Most inspections were either rescheduled and subsequently cancelled or delayed because significant repairs were needed to be made by owners.

Cause: The HQS re-inspections were not performed in a timely manner due to the high volume of requested inspections and the shortage of staff during the audit examination period. Additionally, inspections were previously conducted by City personnel who were no longer employed by the City during the current audit examination period. The inspection records associated with the terminated employee could not be located by the City.

Effect or Potential Effect: Failure to perform re-inspections for HQS deficiencies that were recorded during the annual inspection may result in grantor sanctions potentially leading to a loss grant funding.

Questioned Cost: None

Context: Of sixty (60) participant files reviewed, the City failed to perform re-inspection for eight (8) participants within the 30 day time period.

Repeat of a Prior-Year Finding: Yes, 2015-007, 2014-002, 2013-012

Recommendation: We recommend that the Housing Authority enforce its policies and procedures pertaining to inspection and re-inspection of leased units to ensure that such activities are performed in a timely manner. This can be done by the Housing Authority taking an assertive approach in the education of the leased units' owners and tenants on the program's requirements on such timely re-inspections and the ramifications on possible loss of subsidies due to loss of grant funding if such procedures have not been performed.

This addresses COSO's Control Activities, Principle 12: deploys through policies & procedures and Information & Communication, Principle 15: communicates externally.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation.

Corrective Action Plan: The Controller's Office will work with the Housing Director to ensure that the 30-day time period is met for re-inspections. While staff shortages in the Housing department contribute to the untimely re-inspections, the City will also establish and document policies and procedures to track rescheduled and/or subsequently cancelled inspections to ensure they are performed in a timely manner. In the meantime, the City will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2020

Responsible Person: Delmonsha Green, Housing Director and Rafaela King, Controller

2016-006 - Special Tests and Provisions – Rolling Forward Equity Balances (MW, NC)

Federal Program Title: Section 8 Housing Choice Vouchers 14.871
Federal Catalog Number: 14.871
Federal Agency: U.S. Department of Housing and Urban Development
Pass-Through Entity: Not Applicable
Federal Award Number and Year: CA071 2015
Category of Finding: Special Tests and Provisions – Rolling Forward Equity Balances

Criteria: Title 24- Housing and Urban Development, Part 982- Section 8 Tenant-Based Assistance: Housing Choice Voucher Program, Subpart D - Annual Contributions Contract and PHA Administration of Program, Section 982.158- Program Accounts and Records states:

"(a) The PHA must maintain complete and accurate accounts and other records for the program in accordance with HUD requirements, in a manner that permits a speedy and effective audit. The records must be in the form required by HUD, including requirements governing computerized or electronic forms of record-keeping. The PHA must comply with the financial reporting requirements in 24 CFR part 5, subpart H."

Condition: The Housing Authority is required to properly account for program activity. We were unable to obtain a HAP equity account roll-forward for the year ended June 30, 2016.

Cause: Lack of internal control over the monitoring the HAP equity account.

Effect or Potential Effect: The Housing Authority is not in compliance with grant requirements.

Questioned Cost: None

Context: We were unable to obtain the HAP equity account balance at June 30, 2016.

Repeat of a Prior-Year Finding: Yes, 2015-008

Recommendation: We recommend the Housing Authority establish and implement policies and procedures over calculation of HAP equity account.

This addresses COSO's Control Activities, Principle 12: deploys through policies & procedures and Information & Communication, Principle 15: communicates externally.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation.

Corrective Action Plan: The Controller will work with the Housing Director to ensure that the HAP equity balance is rolled forward on an annual basis. The City will also establish and document policies and procedures designed to serve as a system of internal controls required by OMB's Uniform Guidance (2 CFR 200). In the meantime, the Housing and City Controller department will take steps to address the specific finding noted above to ensure accurate computation of the HAP equity account.

Planned Implementation Date: June 30, 2020

Responsible Person: Delmonsha Green, Housing Director and Rafaela King, Controller

2016-007 - Filing of Single Audit Report (MW, NC)

Criteria: Pursuant to the Office of Management and Budget (OMB) 2 CFR Part 200.512 Report submission. (a) *General*. (1) The audit must be completed and the data collection form described in paragraph (b) of this section and reporting package described in paragraph (c) of this section must be submitted within the earlier of 30 calendar days after receipt of the auditor's report(s), or nine months after the end of the audit period.

Condition: The City did not complete the audit and submit the Single Audit Reporting Package (the City's audited financial statements and single audit reports) for the fiscal years ended June 30, 2012, 2013, 2014, 2015, and 2016 within nine months after the end of audit period or March 31, 2013, 2014, 2015, 2016, and 2017, respectively.

Cause: The City has been severely behind on its recording and reconciliations of financial transactions. The City's Single Audit for 2013 was not completed until February of 2016 which is significantly after the required due date for the 2014 Single Audit Reporting Package. The City's predecessor auditor withdrew from the audit after issuance of the 2014 financial statements in November 2016 and did not issue a Single Audit report. Due to substantial employee turnover within the City at all levels, and incomplete records, the 2015 and 2016 financial audits have not been completed.

Effect or Potential Effect: Failure to submit the required Single Audit Reporting Package timely automatically results in the City not qualifying for low risk auditee status for the following year's single audit. In addition, failure to file the required Single Audit Reporting Package timely could result in the loss of federal funding.

Questioned Cost: None

Context: Single audits have not been completed and the reporting package has not been submitted within nine months for the past five years. The 2016 Single Audit Reporting Package is two years past due.

Repeat Finding: Yes, 2015-010, 2014-009, 2013-005, 2012-005

Recommendation: We recommend that the City bring its accounting records up to date and have financial statement and Single Audits prepared timely. We also recommend the City develop, document, and implement policies and procedures for timely submission of the Single Audit Reporting Package.

This addresses COSO's Control Activities, Principle 12: deploys through policies & procedures and Information & Communication, Principle 15: communicates externally.

Management Response and Corrective Action Plan

City's Response: The City is on target to catch up on all outstanding Single Audit packet submissions and expects to be on time for FY 2019 and going forward.

Corrective Action Plan: City Management and Controller to continuously work with auditors to ensure delinquent reports are submitted as soon as possible and that FY 2019 can be submitted in a timely manner.

Planned Implementation Date: June 30, 2020

Responsible Person: Cecil W. Rhambo, Jr., City Manager and Rafaela King, Controller

2016-008 - Schedule of Expenditures of Federal Awards (SEFA) Preparation (MW)

Criteria: Pursuant to the Office of Management and Budget (OMB) 2 CFR Part 200, Appendix XI, the City has responsibility to:

- Identify, in its accounts, all Federal awards received and expended and the Federal programs under which they were received. Federal program and award identification shall include, as applicable, the CFDA title and number, award number and year, name of the Federal agency, and name of the pass-through entity.
- Prepare appropriate financial statements, including the schedule of expenditures of Federal awards.

Condition: The City is reporting both an incorrect and incomplete breakdown of its CDBG program expenditures for the current fiscal year under audit, as they pertain to individual grant IDs. A portion of the current year expenditures appear to be from 2014 and 2015 grants. The City is unable to provide the breakdown by grant year. We attempted to get a breakdown based on the drawdowns during the year, however the totals did not agree. The City also did not provide the total amount provided to subrecipients from the CDBG program and other programs, where there are ten identified subrecipients according to general ledger detail information provided and the FY 2014-2015 proposed CDBG activities from the Annual Actual Plan. The SEFA should report a separate column for the total grant funds expended that have been passed through to subrecipients. In addition, the City noted an incorrect program title for NSP 1.

Cause: Lack of internal controls and adequate staff training and competence on the integration of financial statement records to single audit reporting requirements on the SEFA.

Effect or Potential Effect: Incorrect and incomplete reporting of the SEFA exposes the City to discrepancy reporting at the single audit level, which would ultimately roll to incompatible comparisons to be performed on reported figures. Failure to report which expenditures related to which grant ID exposes the City to be flagged by the awarding Federal agency, i.e. HUD, for grant sanctions and the rectification of its reported records to the Federal Clearing House.

Additionally, failure to prepare an accurate and complete Schedule resulted in noncompliance with the Uniform Guidance.

Questioned Cost: None

Context: The SEFA prepared by the City reports the program ID no. for CDBG is B-11-MC-06-0515, which relates to the grant awarded for the 2011 program year. Expenditures should be further broken down to the related grant ID. For example, CDBG grant ID no. for the current fiscal year, FY 15-16, is B-15-MC-06-0515.

The Neighborhood Stabilization Program (NSP) 1 and 3 as reported in the SEFA prepared by the City should report as Community Development Block Grants/State's program with CFDA number 14.228. The CFDA number reported in the SEFA prepared by the City was 14.218, which pertains to Community Development Block Grants/Entitlement Grants.

Repeat Finding: Yes, 2015-011, 2014-010, 2013-006

Recommendation: We recommend the City develop, document, and implement policies and procedures to ensure the Schedule is prepared accurately and completely in accordance with the Uniform Guidance. We also recommend that the City to use available tools, such as the IDIS PR05 Drawdown report in the SEFA preparation.

This addresses COSO's Control Activities, Principle 12: deploys through policies & procedures.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation.

Corrective Action Plan: The City will update the SEFAs in the future to ensure the breakdown of specific programs is correct. The report will be reviewed by supervisors prior to submission to auditors. The City will also establish and document policies and procedures to implement this process and will include assignment of authority and responsibility, reconciliation, and review of the SEFA. In the meantime, the City Controller department will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2019

Responsible Person: Rafaela King, Controller

2015-001 – Allowable Costs, Cost Principles (SD)

Federal Program Title: Community Development Block Grants/Entitlement Grants
Federal Catalog Number: 14.218
Federal Agency: U.S. Department of Housing and Urban Development
Pass-Through Entity: Not applicable
Federal Award Number and Year: B-14-MC-06-0515 – 2014
Category of Finding: Allowable Costs, Cost Principles

Criteria: U.S. OFFICE OF MANAGEMENT AND BUDGET CIRCULAR A-87 Cost Principles for State, Local, and Indian Tribal Governments General Principles for Determining Allowable Costs C. Basic Guidelines 3. Allocable Costs 1 states:

“A cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received.”

U.S. OFFICE OF MANAGEMENT AND BUDGET CIRCULAR A-133-AUDITS OF STATES, LOCAL GOVERNMENTS, AND NON-PROFIT ORGANIZATIONS (OMB Circular A-133), Subpart C – Auditees, Section .300-Auditee Responsibilities states:

“b) Maintain internal control over federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its federal programs.”

Condition: The City’s payroll records did not accurately reflect the actual hours worked by employees whose salaries and wages are charged to CDBG or the budgeted labor cost allocation.

Cause: We were unable to determine how the allocation of payroll posted to the general ledger was determined. No explanation and support obtained whether payroll expenditures are allocated by actual or budgeted hours. City staff was unable to provide clarification.

Effect or Potential Effect: The City could be charging an inaccurate amount of payroll expenditures against its federal grants programs, which could both result in either in a cost being disallowed or the loss of funds that may have been a reimbursable cost.

Questioned Cost: Unknown

Context: We selected a sample of two or three employees for five pay periods for testing, which is a total of 13 sample items. We were unable to recalculate and trace payroll expenditures from timecards and amounts reported in the payroll register to the general ledger. It is unclear how the allocations of payroll were determined.

Repeat of a Prior-Year Finding: Yes, 2014-008

Recommendation: We recommend that the City establish policies and procedures to ensure that only the allocable share of allowable costs are allocated to grants. In addition, the City should retain documentation evidencing the allocation of payroll posted to the general ledger.

This addresses COSO’s Control Activities, Principle 12: deploys through policies & procedures and Information & Communication, Principle 15: communicates externally.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation.

Corrective Action Plan: The City has hired a licensed CPA as Deputy Controller with extensive payroll experience. The Deputy Controller is currently cleaning up payroll areas and training staff in all payroll-related matters. In addition, the City is also in the process of replacing the Payroll Supervisor position with another skilled accountant to ensure the general ledger entries and year-end entries are done accurately. The City will also establish and document policies and procedures designed to serve as the system of internal controls required by OMB's Uniform Guidance (2 CFR 200).

Planned Implementation Date: June 30, 2021

Responsible Person: Rafaela King, Controller

2015-002 – Equipment and Real Property Management Compliance (MW, NC)

Federal Program Title: Community Development Block Grants/Entitlement Grants
Federal Catalog Number: 14.218
Federal Agency: U.S. Department of Housing and Urban Development
Pass-Through Entity: Not applicable
Federal Award Number and Year: B-14-MC-06-0515 – 2014
Category of Finding: Equipment and Real Property Management

Criteria: TITLE 24 - HOUSING AND URBAN DEVELOPMENT, PART 85 - ADMINISTRATIVE REQUIREMENTS FOR GRANTS AND COOPERATIVE AGREEMENTS TO STATE, LOCAL AND FEDERALLY RECOGNIZED INDIAN TRIBAL GOVERNMENTS CODE OF FEDERAL REGULATIONS, Subpart C- Post-award Requirements, Section 85.32- Equipment states:

"d) Management requirements. Procedures for managing equipment (including replacement equipment), whether acquired in whole or in part with grant funds, until disposition takes place will, as a minimum, meet the following requirements:

- 1) Property records must be maintained that include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property."

U.S. OFFICE OF MANAGEMENT AND BUDGET CIRCULAR A-133-AUDITS OF STATES, LOCAL GOVERNMENTS, AND NON-PROFIT ORGANIZATIONS (OMB Circular A-133), Subpart C Auditees, Section .300-Auditee Responsibilities states:

"b) Maintain internal control over federal programs that provides reasonable assurance that the auditee is managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its federal programs."

Condition: Our review identified that the City did not maintain property records of all equipment acquired using Federal funds. As a result, we could not perform a physical inspection due to lack of adequate property records.

Cause: Lack of internal controls over recording and maintaining of capital assets.

Effect or Potential Effect: The City is exposed to possible grantor sanctions and inaccuracies in the maintenance of its capital assets.

Questioned Cost: Unknown amount for purchase of equipment

Context: Equipment was indicated to have been purchased in relation to the park enhancement project as noted in the CAPER (p. 123). The related supporting documentation was unable to be provided by the City.

Repeat of a Prior-Year Finding: Yes, 2014-007

Recommendation: We recommend that the City maintain complete property records, which include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date, cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property. This addresses COSO's Control Activities, Principle 12: deploys through policies & procedures.

Management Response and Corrective Action Plan

City's Response: The City concurs with recommendation.

Corrective Action Plan: The City Controller's department will establish procedures over the maintenance of property and equipment records. These records will include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date, cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property. The City will also establish and document policies and procedures designed to serve as the system of internal controls required by OMB's Uniform Guidance (2 CFR 200). In the meantime, the City will take steps to address the specific findings noted above.

Planned Implementation Date: June 30, 2020

Responsible Person: Rafaela King, Controller

2015-003 – Reporting (MW, NC)

Federal Program Title:	Community Development Block Grants – Entitlement Grants
Federal Catalog Number:	14.218
Federal Agency:	U.S. Department of Housing and Urban Development
Pass-Through Entity:	Not applicable
Federal Award Number and Year:	B-14-MC-06-0515 – 2014
Category of Finding:	Reporting

Criteria: TITLE 24 -COMMUNITY DEVELOPMENT GRANTS, Part 570 - COMMUNITY DEVELOPMENT BLOCK GRANTS, Subpart J- Grant Administration, Section 570.507 -Reports states:

"(a) (1) Entitlement grant recipients and HUD-administered small cities recipients in Hawaii. The annual performance and evaluation report shall be submitted in accordance with 24 CFR part 91.

(d) Other reports. Recipients may be required to submit such other reports and information as HUD determines are necessary to carry out its responsibilities under the Act or other applicable laws."

Our review of the grant requirements identified the following reports are required for submission to the U.S. Department of Housing and Urban Development:

- SF-425, Federal Financial Report
- C04PR03 -Activity Summary Report (C04PR03)
- C04PR26- CDBG Financial Summary (C04PR26)

Condition: The City was unable to provide the required SF-425 Federal Financial Report. Therefore, we were not able to perform testing on report information accuracy.

Cause: Lack of internal control over preparation and submission of the SF- 425 Federal Financial Report.

Effect or Potential Effect: The City's failure to comply with stated rules and regulations over the required reports increases the risk that inaccurate or incomplete information will be reported.

Questioned Cost: No specific questioned costs were identified.

Context: The City was unable to provide us SF-425 Federal Financial Report for review.

Repeat of a Prior-Year Finding: Yes, 2014-005, 2013-008

Recommendation: The City should have a process to ensure that all reports are filed on a timely basis.

This addresses COSO's Control Activities, Principle 10: selects & develops control activities and Information & Communication, Principle 15: communicates externally.

Management Response and Corrective Action Plan

City's Response: The City concurs with recommendation.

Corrective Action Plan: Finance staff will be assigned to work with the Housing department in regards to submission of all financial reporting and reimbursement requests. Also, procedures will be established to ensure these are revisited and given attention to on a monthly basis. This will include training of a grant coordinator and training of various grant program personnel to establish policies and procedures for compliance with terms of the grant. These procedures will also include review of reports and maintaining required documentation show proof of performance reporting. In the meantime, the Grants and City Controller department will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2020

Responsible Person: Aubrey Relf, City Grants Manager and Rafaela King, Controller

2015-004 – Cash Management (SD, NC)

Federal Program Title:	Community Development Block Grants – Entitlement Grants
Federal Catalog Number:	14.218
Federal Agency:	U.S. Department of Housing and Urban Development
Pass-Through Entity:	Not applicable
Federal Award Number and Year:	B-14-MC-06-0515 – 2014
Category of Finding:	Cash Management

Criteria: U.S. OFFICE OF MANAGEMENT AND BUDGET CIRCULAR A-133, AUDITS OF STATES, LOCAL GOVERNMENTS, AND NON-PROFIT ORGANIZATIONS (OMB CIRCULAR A-133), Subpart 3-C-1 states:

When entities are funded on a reimbursement basis, program costs must be paid for by entity funds before reimbursement is requested from the Federal Government.

Condition: One testing exception was noted where the IDIS drawdown reimbursement submission date was before the check disbursement date. In addition, three transactions' reimbursement dates cannot be located in drawdown listing prepared by the City. Since CDBG grant funds requests are on a reimbursement basis, the City must disburse funds prior to the request for reimbursement from HUD through the IDIS system.

Cause: Insufficient training of Finance staff on program requirements and inadequate internal controls over the timing of submissions of drawdown reimbursement requests from the Department of Housing and Urban Development's (HUD) online portal for grants, i.e. the Integrated Disbursement and Information System (IDIS).

Effect or Potential Effect: Amounts being requested for reimbursement may not be authorized costs.

Questioned Cost: CDBG invoices of \$5,000, \$7,239, \$7,133, and \$7,801

Context: A sample of forty transactions were traced to supporting documentation to ascertain whether the City paid for the costs for which reimbursement was requested prior to the date of the reimbursement request. One transaction out of the total forty had the reimbursement submitted before the actual disbursement of the expenditures, and three others could not be verified. Since CDBG grant fund requests are on a reimbursement basis, the City must disburse funds prior to the request for reimbursement from HUD through IDIS.

Repeat of a Prior-Year Finding: No

Recommendation: The City should be made aware of the requirements of the program in order to be cognizant of timing-dependent reimbursement processes related to the requesting of drawdowns from HUD.

This addresses COSO's Control Activities, Principle 10: selects & develops control activities and Information & Communication, Principle 15: communicates externally.

Management Response and Corrective Action Plan

City's Response: The City concurs with recommendation.

Corrective Action Plan: Finance staff is currently developing policies and procedures for all grants, including Federal, State, and County. This will include training of a grant coordinator and training of various grant program managers to establish procedures to review grant expenditures for compliance with terms of the grant, and request reimbursement on a monthly basis. These procedures will also include review of reports that are prepared by outside consultants and maintain required documentation showing proof of performance reporting. In the meantime, the Grants and City Controller department will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2020

Responsible Person: Aubrey Relf, City Grants Manager and Rafaela King, Controller

2015-005 – Internal Control over Compliance related to Control Environment and Control Activities (SD)

Federal Program Title: Community Development Block Grants – Entitlement Grants
Federal Catalog Number: 14.218
Federal Agency: U.S. Department of Housing and Urban Development
Pass-Through Entity: Not applicable
Federal Award Number and Year: B-14-MC-06-0515 – 2014
Category of Finding: Internal Control

Criteria: U.S. OFFICE OF MANAGEMENT AND BUDGET CIRCULAR A-133, AUDITS OF STATES, LOCAL GOVERNMENTS, AND NON-PROFIT ORGANIZATIONS (OMB CIRCULAR A-133), Subpart C- Federal Agencies and Pass-Through Entities, Section. 300- Auditee Responsibilities states:

"(b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

Condition: One transaction out of the total of forty reviewed during the testing of internal control over compliance attributes related to COSO Framework components (1) Control Environment and (2) Control Activities did not contain an authorizing signature for the approval of invoice payment.

Cause: Inadequate internal controls over the review and authorization of expenditure documentation prior to processing for release of payment.

Effect or Potential Effect: The oversight of the posted expenditure transaction to federal grants exposes the City to underlying implications that such transactions may get through without appropriate review and authorization. This may lead to the posting of unallowed transactions that would be noncompliant to the program requirements.

Questioned Cost: Invoice payment of \$7,104 to a subrecipient

Context: We reviewed and found a transaction that did not have an authorized approval for payment. We therefore assessed risk for the related internal control components as moderate.

Repeat of a Prior-Year Finding: No

Recommendation: We recommend that the City act in accordance with its policies and procedures to ensure that only reviewed and authorized transactions are recorded and ultimately drawn against the awarded grant.

This addresses COSO's Control Environment, Principle 5: enforces accountability and Control Activities, Principle 12: deploys through policies and procedures.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation.

Corrective Action Plan: The City will establish, document and implement policies and procedures that will include assigning specific finance staff to work with a consultant in the grants department to ensure all invoices are approved prior to processing payment of funds. The City will also establish and document policies and procedures designed to serve as a system of internal controls required by OMB's Uniform Guidance (2 CFR 200). In the meantime, the Housing and City Controller departments will take steps to address the specific finding noted above to ensure that all invoices are approved by an appropriate level of management.

Planned Implementation Date: June 30, 2020

Responsible Person: Aubrey Relf, City Grants Manager and Rafaela King, Controller

2015-006 – Reporting (MW, NC)

Federal Program Title: Section 8 Housing Choice Vouchers
Federal Catalog Number: 14.871
Federal Agency: U.S. Department of Housing and Urban Development
Pass-Through Entity: Not applicable
Federal Award Number and Year: CA071 2015
Category of Finding: Reporting

Criteria: TITLE 24- HOUSING AND URBAN DEVELOPMENT, PART 5- GENERAL HUD PROGRAM REQUIREMENTS; WAIVERS, Subpart H- Uniform Financial Reporting Standards, Section 5.801- Uniform Financial Reporting Standards states:

"(b) Entities (or individuals) to which this subpart is applicable must provide to HUD, on an annual basis, such financial information as required by HUD."

TITLE 24- HOUSING AND URBAN DEVELOPMENT, PART 982- SECTION 8 TENANT-BASED ASSISTANCE: HOUSING CHOICE VOUCHER PROGRAM, Subpart D - Annual Contributions Contract and PHA Administration of Program, Section 982.158- Program Accounts and Records states:

"(a) The PHA must maintain complete and accurate accounts and other records for the program in accordance with HUD requirements, in a manner that permits a speedy and effective audit. The records must be in the form required by HUD, including requirements governing computerized or electronic forms of record-keeping. The PHA must comply with the financial reporting requirements in 24 CFR part 5, subpart H."

U.S. OFFICE OF MANAGEMENT AND BUDGET CIRCULAR A-133, AUDITS OF STATES, LOCAL GOVERNMENTS, AND NON-PROFIT ORGANIZATIONS (OMB CIRCULAR A-133), Subpart C- Federal Agencies and Pass-Through Entities, Section. 300- Auditee Responsibilities states:

"(b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

Based on the above compliance requirements and review of the grant requirements, public housing agencies (PHAs) are required to submit the following reports:

1. HUD-52681-B, Voucher for Payment of Annual Contributions and Operating Statement
2. Financial Reports- Financial Assessment Sub-system, FASS-PH
3. HUD-52648, SEMAP Certification -Addendum for Reporting Data for De-concentration Bonus Indicator
4. HUD-50058, Family Report

Condition: The Housing Authority did not submit the FASS-PH report for FY 2014/15.

Cause: Lack of internal control over the preparation of FASS-PH report for FY 2014/15.

Effect or Potential Effect: Failure to comply with the reporting requirements may result in grantor sanctions including potential loss of funding.

Questioned Cost: None

Context: The Housing Authority did not submit the required annual FASS-PH report to HUD.

Repeat of a Prior-Year Finding: Yes, 2014-001, 2013-011

(MW) – Material Weakness (SD) – Significant Deficiency (BP) – Best Practice (NC) - Noncompliance

Recommendation: We recommend the City establish policies and procedures that will ensure accurate and timely submission of all required reports.

This addresses COSO's Control Activities, Principle 12: deploys through policies & procedures and Information & Communication, Principle 15: communicates externally.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation.

Corrective Action Plan: Finance staff will be assigned to work with the Housing department in regards to submission of all financial reporting and reimbursement requests. Also, procedures will be established to ensure these are revisited and given attention to on a monthly basis. This will include training of a grant coordinator and training of various grant program personnel to establish policies and procedures for compliance with terms of the grant. The City will also establish and document policies and procedures designed to serve as a system of internal controls required by OMB's Uniform Guidance (2 CFR 200). In the meantime, the City will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2020

Responsible Person: Delmonsha Green, Housing Director and Rafaela King, Controller

2015-007 – Special Tests and Provisions – Housing Quality Standards Inspections (SD, NC)

Federal Program Title: Section 8 Housing Choice Vouchers
Federal Catalog Number: 14.871
Federal Agency: U.S Department of Housing and Urban Development
Pass-Through Entity: Not applicable
Federal Award Number and Year: CA071 2015
Category of Finding: Special Tests and Provisions – Housing Quality Standards Inspections

Criteria: TITLE 24- HOUSING AND URBAN DEVELOPMENT, PART 982- SECTION 8 TENANT BASED ASSISTANCE: HOUSING CHOICE VOUCHER PROGRAM, Subpart I - Dwelling Unit: Housing Quality Standards, Inspection and Maintenance, Section 982.404 - PHA initial and periodic unit inspection states:

"(a)For units under HAP contract that fail to meet HQS, the PHA must require the owner to correct any life threatening HQS deficiencies within 24 hours after the inspections and all other HQS deficiencies within 30 calendar days or within a specified PHA-approved extension. If the owner does not correct the cited HQS deficiencies within the specified correction period, the PHA must stop (abate) HAPs beginning no later than the first of the month following the specified correction period or must terminate the HAP contract. The owner is not responsible for a breach of HQS as a result of the family's failure to pay for utilities for which the family is responsible under the lease or for tenant damage. For family-caused defects, if the family does not correct the cited HQS deficiencies within the specified correction period, the PHA must take prompt and vigorous action to enforce the family obligations. (See § 982.1585(d) and 982.404)"

Condition: Our review identified 12 re-inspections out of the total 60 selected for testing that were performed after the required 30-day time period. In addition, there has been no documentation to support corrective action. Most inspections were either rescheduled and subsequently cancelled or had significant repairs to be made by the units' owners that needed to be addressed, causing the delay of the inspections.

Cause: The HQS re-inspections were not performed in a timely manner due to the high volume of requested inspections and the shortage of staff during the audit examination period. Additionally, inspections were previously conducted by City personnel who were no longer employed by the City during the current audit examination period. The inspection records associated with the terminated employee could not be located by the City.

Effect or Potential Effect: Failure to perform re-inspections for HQS deficiencies that were recorded during the annual inspection may result in grantor sanctions potentially leading to a loss grant funding.

Questioned Cost: None

Context: Of sixty (60) participant files reviewed, the City failed to perform re-inspection for twelve (12) participants within the 30 day time period.

Repeat of a Prior-Year Finding: Yes, 2014-002, 2013-012

Recommendation: We recommend that the Housing Authority enforce its policies and procedures pertaining to inspection and reinspection of leased units to ensure that such activities are performed in a timely manner. This can be done by the Housing Authority taking an assertive approach in the education of the leased units' owners and tenants on the program's requirements on such timely reinspections and the ramifications on possible loss of subsidies due to loss of grant funding if such procedures have not been performed.

This addresses COSO's Control Activities, Principle 12: deploys through policies & procedures and Information & Communication, Principle 15: communicates externally.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation.

Corrective Action Plan: The Controller's Office will work with the Housing Director to ensure that the 30-day time period is met for re-inspections. While staff shortages in the Housing department contribute to the untimely re-inspections, the City will also establish and document policies and procedures to track rescheduled and/or subsequently cancelled inspections to ensure they are performed in a timely manner. In the meantime, the City will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2020

Responsible Person: Delmonsha Green, Housing Director and Rafaela King, Controller

2015-008 – Special Tests and Provisions – Rolling Forward Equity Balances (MW, NC)

Federal Program Title: Section 8 Housing Choice Vouchers 14.871
Federal Catalog Number: 14.871
Federal Agency: U.S. Department of Housing and Urban Development
Pass-Through Entity: Not Applicable
Federal Award Number and Year: CA071 2015
Category of Finding: Special Tests and Provisions – Rolling Forward Equity Balances

Criteria: Title 24- Housing and Urban Development, Part 982- Section 8 Tenant-Based Assistance: Housing Choice Voucher Program, Subpart D - Annual Contributions Contract and PHA Administration of Program, Section 982.158- Program Accounts and Records states:

"(a) The PHA must maintain complete and accurate accounts and other records for the program in accordance with HUD requirements, in a manner that permits a speedy and effective audit. The records must be in the form required by HUD, including requirements governing computerized or electronic forms of record-keeping. The PHA must comply with the financial reporting requirements in 24 CFR part 5, subpart H."

Condition: The Housing Authority is required to properly account for program activity. We were unable to obtain a HAP equity account roll-forward for the year ended June 30, 2015.

Cause: Lack of internal control over the monitoring the HAP equity account.

Effect or Potential Effect: The Housing Authority is not in compliance with grant requirements.

Questioned Cost: None

Context: We were unable to obtain the HAP equity account balance at June 30, 2015.

Repeat of a Prior-Year Finding: Yes, 2014-003, 2013-013

Recommendation: We recommend the Housing Authority establish and implement policies and procedures over calculation of HAP equity account.

This addresses COSO's Control Activities, Principle 12: deploys through policies & procedures and Information & Communication, Principle 15: communicates externally.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation.

Corrective Action Plan: The Controller will work with the Housing Director to ensure that the HAP equity balance is rolled forward on an annual basis. The City will also establish and document policies and procedures designed to serve as a system of internal controls required by OMB's Uniform Guidance (2 CFR 200). In the meantime, the Housing and City Controller department will take steps to address the specific finding noted above to ensure accurate computation of the HAP equity account.

Planned Implementation Date: June 30, 2020

Responsible Person: Delmonsha Green, Housing Director and Rafaela King, Controller

2015-009 – General Program (SD, NC)

Federal Program Title:	Section 8 Housing Choice Vouchers 14.871
Federal Catalog Number:	14.871
Federal Agency:	U.S. Department of Housing and Urban Development
Pass-Through Entity:	Not Applicable
Federal Award Number and Year:	CA071 2015
Category of Finding:	General Program Compliance: Rent subsidy exceeds maximum amount a family may receive

Criteria: U.S. OFFICE OF MANAGEMENT AND BUDGET CIRCULAR A-133, AUDITS OF STATES, LOCAL GOVERNMENTS, AND NON-PROFIT ORGANIZATIONS (OMB CIRCULAR A-133), has its Section 8 Housing Choice Vouchers-specific requirements at subpart 4-14.871-1, which states:

"The subsidy provided by the Housing Choice Voucher Program (HCVP) is considered a tenant-based subsidy because when an assisted family moves out of a unit leased under the program, the assistance contract with the owner terminates and the family may move to another unit with continued rental assistance (24 CFR section 982.1).

"The voucher subsidy is set based on the difference between the lower of the PHA's applicable payment standard for the family, the payment standard for the unit size rented, or the gross rent and the total tenant payment (generally 30 percent of the family's monthly adjusted income). This is the maximum amount of subsidy a family may receive regardless of the rent the owner charges for the unit (24 CFR part 982, subpart K). Under the HCVP, apart from the requirement that the rent must be reasonable in relation to rents charged for comparable units in the private unassisted market, there generally is no limit on the amount of rent that an owner may charge for a unit. However, at initial occupancy of any unit where the gross rent exceeds the payment standard, a family may not pay more than 40 percent of adjusted monthly income toward rent and utilities (24 CFR section 982.508)."

Condition: Our review identified one participant receiving monthly subsidies 80% of the family's monthly adjusted income. Subsidy to be provided has a maximum amount of generally 30% of the family's monthly adjusted income.

Cause: Lack of internal control on regular monitoring of current limits of subsidies provided to participants to the allowable maximum.

Effect or Potential Effect: Noncompliance due the subsidy amounts exceeding the maximum allowed granted to participant may result in grantor sanctions, potentially leading to a loss grant funding.

Questioned Cost: Subsidy amount being provided to the reviewed participant exceeds the maximum allowed by \$701 per month.

Context: Of the sixty participant files review, one participant is receiving subsidies that exceed the maximum amount.

Repeat of a Prior-Year Finding: No

Recommendation: We recommend that the Housing Authority should reevaluate the participant's file on the family's gross rent, monthly adjusted income, and other applicable standards to ascertain proper subsidy amounts to be in compliance with the program's requirements.

This addresses COSO's Control Activities, Principle 12: deploys through policies & procedures and

Monitoring Activities, Principle 16: conducts ongoing and/or separate evaluations.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation.

Corrective Action Plan: The Housing department feels that this is an isolated incident and will put review systems in place to correct it and ensure it doesn't occur again. The City will also establish and document policies and procedures to monitor the program and assign personnel with responsibility for this control. In the meantime, the Housing and City Controller departments will take steps to address the specific finding noted above to ensure accurate computation of the subsidies received by participants.

Planned Implementation Date: June 30, 2020

Responsible Person: Delmonsha Green, Housing Director and Rafaela King, Controller

2015-010 – Filing of Single Audit Report (MW, NC)

Repeat Finding: 2014-009, 2013-005, 2012-005

Criteria: Pursuant to OMB Circular A-133 Subpart C-Auditees, the City has the responsibility to:

- §_320 (a) Report submission. " ... shall be submitted within the earlier of 30 days after receipt of the auditor's report(s), or nine months after the end of the audit period ... "

Condition: The City did not complete the audit and submit the Single Audit Reporting Package (the City's audited financial statements and single audit reports) for the fiscal years ended June 30, 2012, 2013, 2014, and 2015 within nine months after the end of audit period or March 31, 2013, 2014, 2015, and 2016, respectively.

Cause: The City has been severely behind on its recording and reconciliations for financial transactions. The City's Single Audit for 2013 was not completed until February of 2016 which is significantly after the required due date for the 2014 Single Audit Reporting Package. The City's predecessor auditor withdrew from the audit after issuance of the 2014 financial statements in November 2016 and did not issue a Single Audit report. Due to substantial employee turnover within the City at all levels, and incomplete records, the 2015 audit has not been completed.

Effect or Potential Effect: Failure to submit the required Single Audit Reporting Package timely automatically results in the City not qualifying for low risk auditee status for the following year's single audit. In addition, failure to file the required Single Audit Reporting Package timely could result in the loss of federal funding.

Questioned Cost: None

Context: Single audits have not been completed and the reporting package has not been submitted within nine months for the past four years. The 2015 Single Audit Reporting Package is more than three years past due.

Recommendation: We recommend that the City bring its accounting records up to date and have financial statement and Single Audits prepared timely. We also recommend the City develop, document, and implement policies and procedures for timely submission of the Single Audit Reporting Package.

This addresses COSO's Control Activities, Principle 12: deploys through policies & procedures and Information & Communication, Principle 15: communicates externally.

Management Response and Corrective Action Plan

City's Response: The City is on target to catch up on all outstanding Single Audit packet submissions and expects to be on time for FY 2019 and going forward.

Corrective Action Plan: City Management and Controller to continuously work with auditors to ensure delinquent reports are submitted as soon as possible and that FY 2019 can be submitted in a timely manner.

Planned Implementation Date: June 30, 2020

Responsible Person: Cecil W. Rhambo, Jr., City Manager and Rafaela King, Controller

2015-011 – Schedule of Expenditures of Federal Awards (SEFA) Preparation (MW)

Repeat Finding: Yes, 2014-010, 2013-006

Criteria: Pursuant to OMB Circular No. A-133 Subpart C §_ .300 (a) and (d), the City has responsibility to:

- Identify, in its accounts, all Federal awards received and expended and the Federal programs under which they were received. Federal program and award identification shall include, as applicable, the CFDA title and number, award number and year, name of the Federal agency, and name of the pass-through entity.
- Prepare appropriate financial statements, including the schedule of expenditures of Federal awards in accordance with § 310.

Condition: The City is reporting both an incorrect and incomplete breakdown of its CDBG program expenditures for the current fiscal year under audit, as they pertain to individual grant IDs. A portion of the current year expenditures appear to be from 2011, 2012, 2013 and 2014 grants. The City is unable to provide the breakdown by grant year. We attempted to get a breakdown based on the drawdowns during the year, however the totals did not agree. The City also did not provide the total amount provided to subrecipients from the CDBG program and other programs, where there are twelve identified subrecipients according to general ledger detail information provided and the FY 2014-2015 proposed CDBG activities from the Annual Actual Plan. The SEFA should report a separate column for the total grant funds expended that have been passed through to subrecipients. In addition, the City noted an incorrect program title and CFDA number for NSP 1.

Cause: Lack of internal controls and adequate staff training and competence on the integration of financial statement records to single audit reporting requirements on the SEFA.

Effect or Potential Effect: Incorrect and incomplete reporting of the SEFA exposes the City to discrepancy reporting at the single audit level, which would ultimately roll to incompatible comparisons to be performed on reported figures. Failure to report which expenditures related to which grant ID exposes the City to be flagged by the awarding Federal agency, i.e. HUD, for grant sanctions and the rectification of its reported records to the Federal Clearing House.

Additionally, failure to prepare an accurate and complete Schedule resulted in noncompliance with OMB Circular No. A-133 Subpart C §_ .300 (a) and (d).

Questioned Cost: None

Context: The SEFA prepared by the City reports the program ID no. for CDBG is B-11-MC-06-0515, which relates to the grant awarded for the 2011 program year. Expenditures should be further broken down to the related grant ID. For example, CDBG grant ID no. for the current fiscal year, FY 14-15, is B-14-MC-06-0515.

The Neighborhood Stabilization Program (NSP) 2 as reported in the SEFA prepared by the City should report as NSP 1, as grant ID specified as B-08-MN-06-0505 relates to NSP 1 per review of the program's quarterly performance reports. In addition, the CFDA number being reported to the NSP 1 and NSP 3 should be reported as 14.228. CFDA number reported in the SEFA prepared by the City was 14.218.

Recommendation: We recommend the City develop, document, and implement policies and procedures to ensure the Schedule is prepared accurately and completely in accordance with OMB Circular No. A-133 Subpart C §_ .300 (a) and (d). We also recommend that the City to use available tools, such as the IDIS PR05 Drawdown report in the SEFA preparation.

This addresses COSO's Control Activities, Principle 12: deploys through policies & procedures.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation.

Corrective Action Plan: The City will update the SEFAs in the future to ensure the breakdown of specific programs is correct. The report will be reviewed by supervisors prior to submission to auditors. The City will also establish and document policies and procedures to implement this process and will include assignment of authority and responsibility, reconciliation, and review of the SEFA. In the meantime, the City Controller department will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2019

Responsible Person: Rafaela King, Controller

2014-001 – Reporting (MW, NC)

Federal Program Title: Section 8 Housing Choice Vouchers
Federal Catalog Number: 14.871
Federal Agency: U.S. Department of Housing and Urban Development
Pass-Through Entity: Not applicable
Federal Award Number and Year: CA071-2014
Category of Finding: Reporting

Criteria: TITLE 24- HOUSING AND URBAN DEVELOPMENT, PART 5- GENERAL HUD PROGRAM REQUIREMENTS; WAIVERS, Subpart H- Uniform Financial Reporting Standards, Section 5.801- Uniform Financial Reporting Standards states:

"(b) Entities (or individuals) to which this subpart is applicable must provide to HUD, on an annual basis, such financial information as required by HUD."

TITLE 24- HOUSING AND URBAN DEVELOPMENT, PART 982- SECTION 8 TENANT-BASED ASSISTANCE: HOUSING CHOICE VOUCHER PROGRAM, Subpart D - Annual Contributions Contract and PHA Administration of Program, Section 982.158- Program Accounts and Records states:

"(a) The PHA must maintain complete and accurate accounts and other records for the program in accordance with HUD requirements, in a manner that permits a speedy and effective audit. The records must be in the form required by HUD, including requirements governing computerized or electronic forms of record-keeping. The PHA must comply with the financial reporting requirements in 24 CFR part 5, subpart H."

U.S. OFFICE OF MANAGEMENT AND BUDGET CIRCULAR A-133, AUDITS OF STATES, LOCAL GOVERNMENTS, AND NON-PROFIT ORGANIZATIONS (OMB CIRCULAR A-133), Subpart C- Federal Agencies and Pass-Through Entities, Section. 300- Auditee Responsibilities states:

"(b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

Based on the above compliance requirements and review of the grant requirements, public housing agencies (PHAs) are required to submit the following reports:

1. HUD-52681-B, Voucher for Payment of Annual Contributions and Operating Statement
2. Financial Reports- Financial Assessment Sub-system, FASS-PH
3. HUD-52648, SEMAP Certification -Addendum for Reporting Data for De-concentration Bonus Indicator
4. HUD-50058, Family Report

Condition: The Housing Authority did not submit the FASS-PH report for fiscal year 2013-14.

Cause: Lack of internal control over the preparation of FASS-PH report for fiscal year 2013-14.

Effect or Potential Effect: Failure to comply with the reporting requirements may result in grantor sanctions including potential loss of funding.

Questioned Cost: None

Context: The Housing Authority did not submit the required annual FASS-PH report to HUD.

Repeat of a Prior-Year Finding: Yes, 2013-011

Recommendation: We recommend the City establish policies and procedures that will ensure accurate and timely submission of all required reports.

This addresses COSO's Control Activities, Principle 12: deploys through policies & procedures and Information & Communication, Principle 15: communicates externally.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation.

Corrective Action Plan: Finance staff will be assigned to work with the Housing department in regards to submission of all financial reporting and reimbursement requests. Also, procedures will be established to ensure these are revisited and given attention to on a monthly basis. This will include training of a grant coordinator and training of various grant program personnel to establish policies and procedures for compliance with terms of the grant. The City will also establish and document policies and procedures designed to serve as a system of internal controls required by OMB's Uniform Guidance (2 CFR 200). In the meantime, the City will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2020

Responsible Person: Delmonsha Green, Housing Director and Rafaela King, Controller

2014-002 – Special Tests and Provisions – Housing Quality Standards Inspections (SD, NC)

Federal Program Title: Section 8 Housing Choice Vouchers
Federal Catalog Number: 14.871
Federal Agency: U.S Department of Housing and Urban Development
Pass-Through Entity: Not applicable
Federal Award Number and Year: CA071-2014
Category of Finding: Special Tests and Provisions – Housing Quality Standards Inspections

Criteria: TITLE 24- HOUSING AND URBAN DEVELOPMENT, PART 982- SECTION 8 TENANT BASED ASSISTANCE: HOUSING CHOICE VOUCHER PROGRAM, Subpart I - Dwelling Unit: Housing Quality Standards, Inspection and Maintenance, Section 982.404 - PHA initial and periodic unit inspection states:

"(a)For units under HAP contract that fail to meet HQS, the PHA must require the owner to correct any life threatening HQS deficiencies within 24 hours after the inspections and all other HQS deficiencies within 30 calendar days or within a specified PHA-approved extension. If the owner does not correct the cited HQS deficiencies within the specified correction period, the PHA must stop (abate) HAPs beginning no later than the first of the month following the specified correction period or must terminate the HAP contract. The owner is not responsible for a breach of HQS as a result of the family's failure to pay for utilities for which the family is responsible under the lease or for tenant damage. For family-caused defects, if the family does not correct the cited HQS deficiencies within the specified correction period, the PHA must take prompt and vigorous action to enforce the family obligations. (See § 982.1585(d) and 982.404)"

Condition: The Housing Authority is required to re-inspect the leased unit within 24 hours if there is a life threatening deficiency and 30 calendar days for all other HQS deficiencies. The Housing Authority is also required to document the annual housing quality standards (HQS) inspections and quality re-inspection report. Our review identified three (3) re-inspections out of a total of sixty (60) that were performed after the required 30 day time period.

Cause: The HQS re-inspections were not performed in a timely manner due to the high volume of requested inspections and the shortage of staff during the audit examination period. Additionally, inspections were previously conducted by City personnel who were no longer employed by the City during the current audit examination period. The inspection records associated with the terminated employee could not be located by the City.

Effect or Potential Effect: Failure to perform re-inspections for HQS deficiencies that were recorded during the annual inspection may result in grantor sanctions potentially leading to a loss grant funding.

Questioned Cost: *None*

Context: Of sixty (60) participant files reviewed, the City failed to perform re-inspection for three (3) participants within the 30 day time period.

Repeat of a Prior-Year Finding: Yes, 2013-012

Recommendation: We recommend that the Housing Authority enforce its policies and procedures pertaining to inspection and re-inspection of leased units to ensure that such activities are performed in a timely manner.

This addresses COSO's Control Activities, Principle 12: deploys through policies & procedures and Information & Communication, Principle 15: communicates externally.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation.

Corrective Action Plan: The Controller's Office will work with the Housing Director to ensure that the 30-day time period is met for re-inspections. While staff shortages in the Housing department contribute to the untimely re-inspections, the City will also establish and document policies and procedures to track rescheduled and/or subsequently cancelled inspections to ensure they are performed in a timely manner. In the meantime, the City will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2020

Responsible Person: Delmonsha Green, Housing Director and Rafaela King, Controller

2014-003 – Special Tests and Provisions – Rolling Forward Equity Balances (MW, NC)

Federal Program Title: Section 8 Housing Choice Vouchers 14.871
Federal Catalog Number: 14.871
Federal Agency: U.S. Department of Housing and Urban Development
Pass-Through Entity: Not Applicable
Federal Award Number and Year: CA071-2014
Category of Finding: Special Tests and Provisions – Rolling Forward Equity Balances

Criteria: TITLE 24- HOUSING AND URBAN DEVELOPMENT, PART 982- SECTION 8 TENANT-BASED ASSISTANCE: HOUSING CHOICE VOUCHER PROGRAM, Subpart D - Annual Contributions Contract and PHA Administration of Program, Section 982.158- Program Accounts and Records states:

"(a) The PHA must maintain complete and accurate accounts and other records for the program in accordance with HUD requirements, in a manner that permits a speedy and effective audit. The records must be in the form required by HUD, including requirements governing computerized or electronic forms of record-keeping. The PHA must comply with the financial reporting requirements in 24 CFR part 5, subpart H."

Condition: The Housing Authority is required to properly account for program activity. We were unable to obtain a HAP equity account roll-forward for the year ended June 30, 2014.

Cause: Lack of internal control over the monitoring HAP equity account.

Effect or Potential Effect: The Housing Authority is not in compliance with grant requirements.

Questioned Cost: The questioned costs cannot be calculated because the total additional funding received by the Housing Authority is unknown.

Context: We were unable to obtain the HAP equity account balance at June 30, 2014.

Repeat of a Prior-Year Finding: Yes, 2013-013

Recommendation: We recommend the Housing Authority establish and implement policies and procedures over calculation of HAP equity account.

This addresses COSO's Control Activities, Principle 12: deploys through policies & procedures and Information & Communication, Principle 15: communicates externally.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation.

Corrective Action Plan: The Controller will work with the Housing Director to ensure that the HAP equity balance is rolled forward on an annual basis. The City will also establish and document policies and procedures designed to serve as a system of internal controls required by OMB's Uniform Guidance (2 CFR 200). In the meantime, the Housing and City Controller department will take steps to address the specific finding noted above to ensure accurate computation of the HAP equity account.

Planned Implementation Date: June 30, 2020

Responsible Person: Delmonsha Green, Housing Director and Rafaela King, Controller

2014-004 – Subrecipient Monitoring (MW, NC)

Federal Program Title: Community Development Block Grants – Entitlement Grants
Federal Catalog Number: 14.218
Federal Agency: U.S. Department of Housing and Urban Development
Pass-Through Entity: Not applicable
Federal Award Number and Year: B-13-MC-06-0515 – 2013
Category of Finding: Subrecipient Monitoring

Criteria: U.S. OFFICE OF MANAGEMENT AND BUDGET CIRCULAR A-133 - AUDITS OF STATES, LOCAL GOVERNMENTS, AND NON-PROFIT ORGANIZATIONS (OMB Circular A-133), Subpart D- Federal Agencies and Pass-Through Entities, Section .400- Responsibilities states:

- (d) Pass-through entity responsibilities. A pass-through entity shall perform the following:
 - (1) Monitor the subrecipient’s use of federal awards through reporting, site visits, regular contact, or other means to provide reasonable assurance that the subrecipient administers Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.
 - (2) Ensure that subrecipients expending \$500,000 in federal awards during the subrecipient's fiscal year have met the audit requirements of this part for that fiscal year.
 - (3) Issue a management decision on audit findings within six months after receipt of the subrecipient's audit report and ensure that the subrecipient takes appropriate and timely corrective action.

Condition: Our review identified the City did not perform the monitoring requirement to ensure that subrecipients expending \$500,000 or more in federal awards during the subrecipient's fiscal year have met the Single audit requirements. The City did not have a Single Audit requirement listed in their contracts with subrecipients. In addition, the City was unable to provide supporting monitoring documentation of one (1) selected subrecipient.

Cause: The City lacks formal policies and procedures over subrecipient monitoring.

Effect or Potential Effect: The City is exposed to possible grantor sanctions.

Questioned Cost: Total payments made to all subrecipients in fiscal year 2014 in the amount of \$249,635.

Context: Of the seven (7) subrecipients provided funding in fiscal year 2014, we noted that the City could not provide required documentation for monitoring the Single Audit requirement for all seven (7) subrecipients. Furthermore, of the four (4) subrecipients selected for testing, the City was unable to provide the signed agreement for one (1) subrecipient and supporting monitoring documentation for two (2) of the selected subrecipients.

Repeat of a Prior-Year Finding: Yes, 2013-009

Recommendation: We recommend that the City establish policies and procedures over the monitoring of subrecipients in accordance with OMB Circular A- 133, as well as adding a Single Audit requirement in its contracts with subrecipients.

This addresses COSO's Control Activities, Principle 12: deploys through policies & procedures and Information & Communication, Principle 15: communicates externally.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation.

Corrective Action Plan: The Controller will work with the Housing Director to update the subrecipient contract to include a single audit requirement. The City will also establish and document policies and procedures to maintain subrecipients. These policies and procedures will be designed to serve as a system of internal controls required by OMB's Uniform Guidance (2 CFR 200). In the meantime, the Housing and City Controller department will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2020

Responsible Person: Delmonsha Green, Housing Director and Rafaela King, Controller

2014-005 – Reporting (MW, NC)

Federal Program Title: Community Development Block Grants – Entitlement Grants
Federal Catalog Number: 14.218
Federal Agency: U.S. Department of Housing and Urban Development
Pass-Through Entity: Not applicable
Federal Award Number and Year: B-12-MC-06-0515 – 2012, B-11-MN-06-0505 – 2011, B-08-MN-06-0505 – 2008
Category of Finding: Reporting

Criteria: TITLE 24 -COMMUNITY DEVELOPMENT GRANTS, Part 570 - COMMUNITY DEVELOPMENT BLOCK GRANTS, Subpart J- Grant Administration, Section 570.507 -Reports states: "(a) (1) Entitlement grant recipients and HUD-administered small cities recipients in Hawaii. The annual performance and evaluation report shall be submitted in accordance with 24 CFR part 91.

(d) Other reports. Recipients may be required to submit such other reports and information as HUD determines are necessary to carry out its responsibilities under the Act or other applicable laws."

Our review of the grant requirements identified the following reports are required for submission to the U.S. Department of Housing and Urban Development:

- SF-425, Federal Financial Report
- C04PR03 -Activity Summary Report (C04PR03)
- C04PR26- CDBG Financial Summary (C04PR26)

Per Federal Register Volume 73 No. 194 issued in 2008 Notice of Allocations, Application Procedures, Regulatory Waivers Granted to and Alternative Requirements for Emergency Assistance for Redevelopment of Abandoned and Foreclosed Homes Grantees Under the Housing and Economic Recovery Act, 2008, Subpart 0- Reporting states:

"Each grantee must submit a quarterly performance report, as HUD prescribes, no later than 30 days following the end of each quarter, beginning 30 days after the completion of the first full calendar quarter after grant award and continuing until the end of the 15th month after initial receipt of grant funds".

Accordingly, the City is also required to submit a quarterly performance report for Neighborhood Stabilization Program (NSP) funds.

U.S. OFFICE OF MANAGEMENT AND BUDGET CIRCULAR A-133-AUDITS OF STATES, LOCAL GOVERNMENTS, AND NON-PROFIT ORGANIZATIONS (OMB Circular A-133), Subpart C-Auditees, Section .300-Auditee Responsibilities states:

"(b) Maintain internal control over federal programs that provides reasonable assurance that the auditee is managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its federal programs."

Condition: The City submitted C04PR03, C04PR26, and quarterly performance reports as required. However, our review identified that reported amounts on the performance reports were not reconciled to financial records as follows:

Performance Report for NSP funds:

		A	B	A - B
Program	Year Ended	Expenditure per General Ledger	Expenditure per Performance Report	Variance
NSP 1	June 30, 2014	\$ 53,608	\$ 1,113	\$ 52,495
NSP 3	June 30, 2014	951,888	944,953	6,935

		A	B	A - B
Program	Year Ended	Program Income per General Ledger	Program Income per Performance Report	Variance
NSP 1	June 30, 2014	\$ 395,160	\$ 256,589	\$ 138,571
NSP 3	June 30, 2014	222,126	360,697	(138,571)

In addition, we noted the SF-425 Federal Financial Report was not available for review.

Cause: Lack of internal control over preparation and submission of the performance reports. Various adjustments were made to the City's general ledger in preparation for financial reporting of the fiscal year. Upon the preparation and submission of the quarterly reports noted above, these adjustments were not yet reflected in the accounting records.

Effect or Potential Effect: The City's failure to comply with stated rules and regulations over the required reports increases the risk that inaccurate or incomplete information will be reported.

Questioned Cost: No specific questioned costs were identified.

Context: We reviewed four (4) quarterly performance reports for NSP1 and four (4) quarterly performance reports for NSP3 and noted that the reports were not reconciled to financial records as stated above. Additionally, the City was unable to provide us SF-425 Federal Financial Report for review.

Repeat of a Prior-Year Finding: Yes, 2013-008

Recommendation: The City should strengthen its process over preparation of reports to ensure the reports are based on applicable accounting or performance records and they are reviewed for accuracy and completeness prior to submission. In addition, the City should have a process to ensure that all reports are filed on a timely basis.

This addresses COSO's Control Activities, Principle 10: selects & develops control activities and Information & Communication, Principle 15: communicates externally.

Management Response and Corrective Action Plan

City's Response: The City concurs with recommendation.

Corrective Action Plan: Finance staff will be assigned to work with the Housing department in regards to submission of all financial reporting and reimbursement requests. Also, procedures will be established to ensure these are revisited and given attention to on a monthly basis. This will include training of a grant coordinator and training of various grant program personnel to establish policies and procedures for compliance with terms of the grant. These procedures will also include review of reports and maintaining required documentation show proof of performance reporting. The City will also establish and document policies and procedures designed to serve as a system of internal controls required by OMB's Uniform Guidance (2 CFR 200).

Planned Implementation Date: June 30, 2020

Responsible Person: Aubrey Relf, City Grants Manager and Rafaela King, Controller

2014-006 – Procurement, Suspension and Debarment (MW,NC)

Federal Program Title:	Community Development Block Grants – Entitlement Grants
Federal Catalog Number:	14.218
Federal Agency:	U.S. Department of Housing and Urban Development
Pass-Through Entity:	Not applicable
Federal Award Number and Year:	B-13-MC-06-0515-2013
Category of Finding:	Procurement, Suspension and Debarment

Criteria: Per OMB Circular A-102 Common Rule, all recipients shall establish written procurement procedures. In addition, contract files shall be examined to:

- 1) Verify that the files document the significant history of the procurement, including the rationale for the method of procurement, selection of contract type, contractor selection or rejection and the basis of the contract price.
- 2) Verify that procurements provide full and open competition.
- 3) Support the rationale to limit competition in those cases where competition was limited and that the limitation was justified.
- 4) Verify that contract files exist and that appropriate cost or price analysis was performed in connection with procurement actions, including contract modification and that the analysis supported the procurement actions.
- 5) Verify that the Federal awarding agency approved procurements exceeding \$100,000 when such approval was required.
- 6) Verify compliance with other procurement requirements specific to an award.

Condition: The City must retain all supporting documentation providing evidence that procurement procedures were performed in accordance with all provisions and standards set forth in the grant agreement. The City has not provided us with the documentation to determine its compliance with the applicable requirements for procurement.

Cause: Lack of formal policies and procedures over the retention and filing of procurement documentation to provide evidence that proper procurement procedures were followed.

Effect or Potential Effect: Failure to document and retain evidence that procurement procedures were followed could result in the need to reimburse federal funds.

Questioned Cost: Questioned costs were \$641,520, which represent total payments made to 3 selected contractors and the cost of equipment purchased with CDBG funds.

Context: The City could not provide all necessary procurement documents for payments to three selected contractors and nine disbursements for the acquisition of equipment.

Repeat of a Prior-Year Finding: Yes, 2013-010

Recommendation: We recommend that the City enforce policies and procedures over the maintenance of procurement documentation including documenting the check for suspension/debarment for contractors used in the Community Development Block Grants funded projects to ensure procurement requirements are met.

This addresses COSO’s Control Activities, Principle 12: deploys through policies & procedures.

Management Response and Corrective Action Plan

City's Response: The City concurs with recommendation.

Corrective Action Plan: The City will update the procurement policies it currently has in its Standard Operations Manual (SOM) to include procedures for filing and retention of documents. The updated policies will also include procedures to ensure compliance with Circular A-102 are met. The City will also establish and document policies and procedures designed to serve as a system of internal controls required by OMB's Uniform Guidance (2 CFR 200).

Planned Implementation Date: June 30, 2020

Responsible Person: Aubrey Relf, City Grants Manager and Rafaela King, Controller

2014-007 – Equipment and Real Property Management (MW,NC)

Federal Program Title: Community Development Block Grants/Entitlement Grants
Federal Catalog Number: 14.218
Federal Agency: U.S. Department of Housing and Urban Development
Pass-Through Entity: Not applicable
Federal Award Number and Year: B-13-MC-06-0515 - 2013
Category of Finding: Equipment and Real Property Management

Criteria: TITLE 24 - HOUSING AND URBAN DEVELOPMENT, PART 85 - ADMINISTRATIVE REQUIREMENTS FOR GRANTS AND COOPERATIVE AGREEMENTS TO STATE, LOCAL AND FEDERALLY RECOGNIZED INDIAN TRIBAL GOVERNMENTS CODE OF FEDERAL REGULATIONS, Subpart C- Post-award Requirements, Section 85.32- Equipment states:

"d) Management requirements. Procedures for managing equipment (including replacement equipment), whether acquired in whole or in part with grant funds, until disposition takes place will, as a minimum, meet the following requirements:

- 1) Property records must be maintained that include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property."

U.S. OFFICE OF MANAGEMENT AND BUDGET CIRCULAR A-133-AUDITS OF STATES, LOCAL GOVERNMENTS, AND NON-PROFIT ORGANIZATIONS (OMB Circular A-133), Subpart CAuditees, Section .300-Auditee Responsibilities states:

"b) Maintain internal control over federal programs that provides reasonable assurance that the auditee is managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its federal programs."

Condition: Our review identified that the City did not maintain property records of all equipment acquired using Federal funds. As a result, we could not perform a physical inspection due to lack of adequate property records.

Cause: Lack of internal controls over recording and maintaining of capital assets.

Effect or Potential Effect: The City is exposed to possible grantor sanctions.

Questioned Cost: Nine disbursement samples relating to equipment purchased amounted to \$207,322.

Context: We selected 9 sample items for purchase of equipment. No property records were available for review.

Repeat of a Prior-Year Finding: Yes, 2013-007

Recommendation: We recommend that the City maintain complete property records, which include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date, cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property.

This addresses COSO's Control Activities, Principle 12: deploys through policies & procedures.

Management Response and Corrective Action Plan

City's Response: The City concurs with recommendation.

Corrective Action Plan: The City Controller's department will establish procedures over the maintenance of property and equipment records. These records will include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date, cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property. The City will also establish and document policies and procedures designed to serve as the system of internal controls required by OMB's Uniform Guidance (2 CFR 200). In the meantime, the City will take steps to address the specific findings noted above.

Planned Implementation Date: June 30, 2020

Responsible Person: Rafaela King, Controller

2014-008 – Allowable Costs, Cost Principles (SD)

Federal Program Title: Community Development Block Grants/Entitlement Grants
Federal Catalog Number: 14.218
Federal Agency: U.S. Department of Housing and Urban Development
Pass-Through Entity: Not applicable
Federal Award Number and Year: B-13-MC-06-0515 - 2013
Category of Finding: Allowable Costs, Cost Principles

Criteria: U.S. OFFICE OF MANAGEMENT AND BUDGET CIRCULAR A-87 Cost Principles for State, Local, and Indian Tribal Governments General Principles for Determining Allowable Costs C. Basic Guidelines 3. Allocable costs. 1 states:

A cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received.

U.S. OFFICE OF MANAGEMENT AND BUDGET CIRCULAR A-133-AUDITS OF STATES, LOCAL GOVERNMENTS, AND NON-PROFIT ORGANIZATIONS (OMB Circular A-133), Subpart C- Auditees, Section .300-Auditee Responsibilities states:

"b) Maintain internal control over federal programs that provides reasonable assurance that the auditee is managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its federal programs."

Condition: The City's payroll records did not accurately reflect the actual hours worked by employees whose salaries and wages are charged to CDBG or the budgeted labor cost allocation. Also, in instances where only an employee's partial salaries and wages were charged to the grant fund, 100% of sick and vacation hours were charged instead of the appropriate allocation.

Cause: E+P was unable to determine how the allocation of payroll posted to the general ledger was determined. City staff was unable to provide clarification. However, the sick and vacation pay in the instance noted above were identified as being charged to the CDBG grant.

Effect or Potential Effect: City could be charging an inaccurate amount of payroll expenditures against its federal grants programs, which could both result in either in a cost being disallowed or the loss of funds that may have been a reimbursable cost.

Questioned Costs: Not reportable

Context: We selected a sample of 3 or 4 employees for 6 pay periods for testing, a total of 21 sample items. For one employee whose time during a two week pay period was regularly allocated 74 hours to CDBG and 6 hours to another area, 100 percent of the vacation and sick time used was allocated to CDBG. In addition, we were unable to trace the allocation of payroll from the payroll register to the general ledger.

Repeat of a Prior-Year Finding: No

Recommendation: The City should establish policies and procedures to ensure that only the allocable share of allowable costs are allocated to grants. In addition, the City should retain documentation evidencing the allocation of payroll posted to the general ledger.

This addresses COSO's Control Activities, Principle 12: deploys through policies & procedures and Information & Communication, Principle 15: communicates externally.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation.

Corrective Action Plan: The City has hired a licensed CPA as Deputy Controller with extensive payroll experience. The Deputy Controller is currently cleaning up payroll areas and training staff in all payroll-related matters. In addition, the City is also in the process of replacing the Payroll Supervisor position with another skilled accountant to ensure the general ledger entries and year-end entries are done accurately. The City will also establish and document policies and procedures designed to serve as the system of internal controls required by OMB's Uniform Guidance (2 CFR 200).

Planned Implementation Date: June 30, 2021

Responsible Person: Rafaela King, Controller

2014-009 – Filing of Single Audit Report (MW, NC)

Repeat Finding: 2013-005, 2012-005

Criteria: Pursuant to OMB Circular A-133 Subpart C-Auditees, the City has the responsibility to:

- §.320 (a) Report submission. " ... shall be submitted within the earlier of 30 days after receipt of the auditor's report(s), or nine months after the end of the audit period ... "

Condition: The City did not complete the audit and submit the Single Audit Reporting Package (the City's audited financial statements and single audit reports) for the fiscal years ended June 30, 2012, 2013 and 2014 within nine months after the end of audit period or March 31, 2013, 2014, and 2015, respectively.

Cause: The City has been severely behind on its recording and reconciliations for financial transactions. The City's Single Audit for 2013 was not completed until February of 2016 which is significantly after the required due date for the 2014 Single Audit Reporting Package. The City's predecessor auditor withdrew from the audit after issuance of the 2014 financial statements in November 2016 and did not issue a Single Audit report.

Effect or Potential Effect: Failure to submit the required Single Audit Reporting Package timely automatically results in the City not qualifying for low risk auditee status for the following year's single audit. In addition, failure to file the required Single Audit Reporting Package timely could result in the loss of federal funding.

Questioned Cost: None

Context: Single audits have not been completed and the reporting package has not been submitted within nine months for the past three years. The 2014 Single Audit Reporting Package is more than three years past due.

Recommendation: We recommend that the City bring its accounting records up to date and have financial statement and Single Audits prepared timely. We also recommend the City develop, document, and implement policies and procedures for timely submission of the Single Audit Reporting Package.

This addresses COSO's Control Activities, Principle 12: deploys through policies & procedures and Information & Communication, Principle 15: communicates externally.

Management Response and Corrective Action Plan

City's Response: The City is on target to catch up on all outstanding Single Audit packet submissions and expects to be on time for FY 2019 and going forward.

Corrective Action Plan: City Management and Controller to continuously work with auditors to ensure delinquent reports are submitted as soon as possible and that FY 2019 can be submitted in a timely manner.

Planned Implementation Date: June 30, 2020

Responsible Person: Cecil W. Rhambo, Jr., City Manager and Rafaela King, Controller

2014-010 – Schedule of Expenditures of Federal Awards (SEFA) Preparation (MW)

Repeat Finding: 2013-006

Criteria: Pursuant to OMB Circular No. A-133 Subpart C §_ .300 (a) and (d), the City has responsibility to:

- Identify, in its accounts, all Federal awards received and expended and the Federal programs under which they were received. Federal program and award identification shall include, as applicable, the CFDA title and number, award number and year, name of the Federal agency, and name of the pass-through entity.
- Prepare appropriate financial statements, including the Schedule of Expenditures of Federal Awards in accordance with § 310.

Condition: Upon review of the SEFA provided by the City, we noted that expenditures were included for one grant for which there were no federal expenditures during the year.

Cause: Depreciation expense was recorded in the general ledger for a federal grant program. The SEFA was not properly reviewed to identify this error.

Effect or Potential Effect: Failure to prepare an accurate and complete SEFA resulted in noncompliance with OMB Circular No. A-133 Subpart C §_ .300 (a) and (d).

Questioned Cost: None

Context: Items, such as depreciation expense, were inappropriately recorded in the federal grant funds.

Recommendation: We recommend the City develop, document, and implement policies and procedures to ensure the SEFA is prepared accurately and completely in accordance with OMB Circular No. A-133 Subpart C §_ .300 (a) and (d).

This addresses COSO's Control Activities, Principle 12: deploys through policies & procedures.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation.

Corrective Action Plan: The City will update the SEFAs in the future to ensure the breakdown of specific programs is correct. The report will be reviewed by supervisors prior to submission to auditors. The City will also establish and document policies and procedures to implement this process and will include assignment of authority and responsibility, reconciliation, and review of the SEFA. In the meantime, the City Controller department will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2019

Responsible Person: Rafaela King, Controller

2013-005 – Filing of Single Audit Report (MW)

Repeat Finding: 2012-005

Criteria: Pursuant to OMB Circular A-133 Subpart C-Auditees, the City has the responsibility to:

- §_320 (a) Report submission. " ... shall be submitted within the earlier of 30 days after receipt of the auditor's report(s), or nine months after the end of the audit period ... "

Condition, Cause and Effect: The City's predecessor auditor withdrew from the audit and disclaimed an opinion for the audit of its annual financial statements and federal award programs for the fiscal year ended June 30, 2011 because of allegations of waste, fraud, and abuse of public monies sent to the California State Controller by the former Mayor. The City subsequently hired a consultant to investigate the allegations, whose reports identified the allegations to be not founded. Due to this circumstance, the City did not complete the audit and submit the Single Audit Reporting Package (the City's audited financial statements and single audit reports) for the fiscal years ended June 30, 2012 and 2013 within nine months after the end of audit period or March 31, 2013 and 2014, respectively. Failure to submit the required Single Audit Reporting Package timely automatically results in the City not qualifying for low risk auditee status for the following year's single audit.

Recommendation: We recommend the City develop, document, and implement policies and procedures for timely submission of the Single Audit Reporting Package.

Management Response and Corrective Action Plan

City's Response: The City is on target to catch up on all outstanding Single Audit packet submissions and expects to be on time for FY 2019 and going forward.

Corrective Action Plan: City Management and Controller to continuously work with auditors to ensure delinquent reports are submitted as soon as possible and that FY 2019 can be submitted in a timely manner.

Planned Implementation Date: June 30, 2020

Responsible Person: Cecil W. Rhambo, Jr., City Manager and Rafaela King, Controller

2013-006 – Schedule of Expenditures of Federal Awards (SEFA) Preparation (MW)

Repeat Finding: 2012-006

Criteria: Pursuant to OMB Circular No. A-133 Subpart C §_ .300 (a) and (d), the City has responsibility to:

- Identify, in its accounts, all Federal awards received and expended and the Federal programs under which they were received. Federal program and award identification shall include, as applicable, the CFDA title and number, award number and year, name of the Federal agency, and name of the pass-through entity.
- Prepare appropriate financial statements, including the Schedule of Expenditures of Federal Awards in accordance with § 310.

Condition, Cause and Effect: Upon review of the Schedule provided by the City, we noted the following issues:

- The federal funded expenditures for CFDA No. 66.202 Congressionally Mandated Projects were not initially reported in the Schedule. The City subsequently included the expenditures in the SEFA, and the program was selected as a major program.
- The City did not properly list the expenditures for CFDA Nos.16.738 and 16.804 Justice Assistance Grants (JAG) Program Cluster by award number and year in the Schedule. The City subsequently corrected the reporting of the JAG Program Cluster.
- The expenditures for CFDA No. 17.259 Workforce Investment Act (WIA) Youth Activities should be only reported under award number Y080915. However, the City reported a portion of the expenditure under another award number that is no longer valid. The City subsequently reported WIA Youth Activities under the correct award number.
- The City over reported expenditures in the amount of \$427,411 under Highway Planning and Construction (CFDA No. 20.205 -HP21L-5078(012)) in prior years.

Failure to prepare an accurate and complete SEFA resulted in noncompliance with OMB Circular No. A-133 Subpart C §_ .300 (a) and (d).

Recommendation: We recommend the City develop, document, and implement policies and procedures to ensure the SEFA is prepared accurately and completely in accordance with OMB Circular No. A-133 Subpart C §_ .300 (a) and (d).

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation.

Corrective Action Plan: The City will update the SEFAs in the future to ensure the breakdown of specific programs is correct. The report will be reviewed by supervisors prior to submission to auditors. The City will also establish and document policies and procedures to implement this process and will include assignment of authority and responsibility, reconciliation, and review of the SEFA. In the meantime, the City Controller department will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2019

Responsible Person: Rafaela King, Controller

2013-007 – Equipment and Real Property Management (MW)

Repeat Finding: 2012-007

Federal Program Title:	Community Development Block Grants/Entitlement Grants
Federal Catalog Number:	14.218
Federal Agency:	U.S. Department of Housing and Urban Development
Pass-Through Entity:	Not applicable
Federal Award Number and Year:	B-12-MC-06-0515 -2012
Category of Finding:	Equipment and Real Property Management

Criteria: TITLE 24 - HOUSING AND URBAN DEVELOPMENT, PART 85 – ADMINISTRATIVE REQUIREMENTS FOR GRANTS AND COOPERATIVE AGREEMENTS TO STATE, LOCAL AND FEDERALLY RECOGNIZED INDIAN TRIBAL GOVERNMENTS CODE OF FEDERAL REGULATIONS, Subpart C - Post-award Requirements, Section 85.32 - Equipment states:

"d) *Management requirements.* Procedures for managing equipment (including replacement equipment), whether acquired in whole or in part with grant funds, until disposition takes place will, as a minimum, meet the following requirements:

1. Property records must be maintained that include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property."

U.S. OFFICE OF MANAGEMENT AND BUDGET CIRCULAR A-133-AUDITS OF STATES, LOCAL GOVERNMENTS, AND NON-PROFIT ORGANIZATIONS (OMB Circular A-133), Subpart C-Auditees, Section .300-Auditee Responsibilities

"b) Maintain internal control over federal programs that provides reasonable assurance that the auditee is managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its federal programs."

Condition: Our review identified that the City did not maintain property records of all equipment acquired using Federal funds. As a result, we could not perform a physical inspection due to lack of adequate property records.

Cause: The City is unaware of the requirement to maintain property records.

Effect: The City is exposed to possible grantor sanctions.

Questioned Costs: Purchases of equipment for the reporting year amounted to \$40,467.

Context: No property records were available for review.

Recommendation: We recommend that the City maintain complete property records, which include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date, cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property.

Management Response and Corrective Action Plan

City's Response: The City concurs with recommendation.

Corrective Action Plan: Finance staff will be assigned to work with the Housing department in regards to submission of all financial reporting and reimbursement requests. Also, procedures will be established to ensure these are revisited and given attention to on a monthly basis. This will include training of a grant coordinator and training of various grant program personnel to establish policies and procedures for compliance with terms of the grant. These procedures will also include review of reports and maintaining required documentation show proof of performance reporting. In the meantime, the Grants and City Controller department will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2020

Responsible Person: Aubrey Relf, City Grants Manager and Rafaela King, Controller

2013-008 – Reporting (SD)

Repeat Finding: 2012-012

Federal Program Title: Community Development Block Grants - Entitlement Grants
Federal Catalog Number: 14.218
Federal Agency: U.S. Department of Housing and Urban Development
Pass-Through Entity: Not applicable
Federal Award Number and Year: B-12-MC-06-0515 – 2012, B-11-MN-06-0505 – 2011,
B-08-MN-06-0505 – 2008
Category of Finding: Reporting

Criteria: Title 24 -COMMUNITY DEVELOPMENT GRANTS, Part 570 - COMMUNITY DEVELOPMENT BLOCK GRANTS, Subpart J - Grant Administration, Section 570.507 -Reports states:

"(a) (1) Entitlement grant recipients and HUD-administered small cities recipients in Hawaii. The annual performance and evaluation report shall be submitted in accordance with 24 CFR part 91.
(d) Other reports. Recipients may be required to submit such other reports and information as HUD determines are necessary to carry out its responsibilities under the Act or other applicable laws."

Our review of the grant requirements identified the following reports are required for submission to the U.S. Department of Housing and Urban Development:

- SF-425, Federal Financial Report
- C04PR03 - Activity Summary Report (C04PR03)
- C04PR26 - CDBG Financial Summary (C04PR26)
- HUD 60002, Section 3 Summary Report, Economic Opportunities for Low- and Very Low Income Persons (Section 3 Summary Report)
- Subaward Reporting under the Transparency Act (Subaward Report)

Per Federal Register Volume 73 No. 194 issued in 2008 Notice of Allocations, Application Procedures, Regulatory Waivers Granted to and Alternative Requirements for Emergency Assistance for Redevelopment of Abandoned and Foreclosed Homes Grantees Under the Housing and Economic Recovery Act, 2008, Subpart 0 - Reporting states:

"Each grantee must submit a quarterly performance report, as HUD prescribes, no later than 30 days following the end of each quarter, beginning 30 days after the completion of the first full calendar quarter after grant award and continuing until the end of the 15th month after initial receipt of grant funds".

Accordingly, the City is also required to submit a quarterly performance report for Neighborhood Stabilization Program (NSP) funds: NSP1 and NSP3, respectively.

U.S. OFFICE OF MANAGEMENT AND BUDGET CIRCULAR A-133-AUDITS OF STATES, LOCAL GOVERNMENTS, AND NON-PROFIT ORGANIZATIONS (OMB Circular A-133), Subpart C-Auditees, Section .300-Auditee Responsibilities

"(b) Maintain internal control over federal programs that provides reasonable assurance that the auditee is managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its federal programs."

Condition: The City submitted C04PR03, C04PR26, Section 3 Summary Report, and quarterly performance reports as required. However, our review identified that reported amounts were not reconciled to financial records as follows:

1. Quarterly Performance Report for NSP funds (Performance Report)

		A	B	A - B
Program	Quarter Ended	Expenditure per General Ledger	Expenditure per Performance Report	Variance
NSP 1	September 30, 2012	\$ 550	\$ -	\$ 550
NSP 1	June 30, 2013	49,092	-	49,092
NSP 3	September 30, 2012	158,983	2,500	156,483
NSP 3	June 30, 2013	18,238	29,138	(10,900)

		A	B	A - B
Program	Quarter Ended	Drawdown per General Ledger	Drawdown per Performance Report	Variance
NSP 3	June 30, 2013	\$ -	\$ 37,868	\$ (37,868)

		A	B	A - B
Program	Quarter Ended	Program Income per General Ledger	Program Income per Performance Report	Variance
NSP 1	June 30, 2013	\$ 117,213	\$ 117,019	\$ 194

In addition, we noted the SF-425 and Subaward report were not available for review.

Cause: Lack of internal control over preparation and submission of the reports. Various adjustments were made to the City's general ledger in preparation for financial reporting of the fiscal year. Upon the preparation and submission of the quarterly reports noted above, these adjustments were not yet reflected in the accounting records. Additionally, the City did not provide the SF-425 and Subaward report.

Effect: The City's failure to comply with stated rules and regulations over the required reports increases the risk that inaccurate or incomplete information will be reported.

Questioned Costs: No specific questioned costs were identified.

Context: Of the six quarterly reports selected for testing, two reports for the quarters ending December 31, 2012, and June 30, 2013, respectively, were not available for review, and four were not reconciled to financial records as stated above. Of the one Subaward Report selected for testing, one was not available for review.

Recommendation: The City should strengthen its process over preparation of reports to ensure the reports are based on applicable accounting or performance records and they are reviewed for accuracy and completeness prior to submission.

Management Response and Corrective Action Plan

City's Response: The City concurs with recommendation.

Corrective Action Plan: Finance staff will be assigned to work with the Housing department in

regards to submission of all financial reporting and reimbursement requests. Also, procedures will be established to ensure these are revisited and given attention to on a monthly basis. This will include training of a grant coordinator and training of various grant program personnel to establish policies and procedures for compliance with terms of the grant. These procedures will also include review of reports and maintaining required documentation show proof of performance reporting. In the meantime, the Grants and City Controller department will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2020

Responsible Person: Aubrey Relf, City Grants Manager and Rafaela King, Controller

2013-009 – Subrecipient Monitoring (MW, NC)

Repeat Finding: 2012-009

Federal Program Title:	Community Development Block Grants - Entitlement Grants
Federal Catalog Number:	14.218
Federal Agency:	U.S. Department of Housing and Urban Development
Pass-Through Entity:	Not applicable
Federal Award Number and Year:	B-12-MC-06-0515 – 2012
Category of Finding:	Subrecipient Monitoring

Criteria: U.S. OFFICE OF MANAGEMENT AND BUDGET CIRCULAR A-133 - AUDITS OF STATES, LOCAL GOVERNMENTS, AND NON-PROFIT ORGANIZATIONS (OMB Circular A-133), Subpart D - Federal Agencies and Pass-Through Entities, Section .400 - Responsibilities states:

(d) Pass-through entity responsibilities. A pass-through entity shall perform the following:

(4) Ensure that subrecipients expending \$300,000 (\$500,000 for fiscal years ending after December 31, 2003) or more in federal awards during the subrecipient's fiscal year have met the audit requirements of this part for that fiscal year.

(5) Issue a management decision on audit findings within six months after receipt of the subrecipient's audit report and ensure that the subrecipient takes appropriate and timely corrective action.

Condition: Our review identified the City did not perform the requirement to ensure that subrecipients expending \$500,000 or more in federal awards during the subrecipient's fiscal year have met the Single audit requirements. In addition, the City did not have a Single Audit requirement listed in their contracts with subrecipients.

Cause: The City lacks formal policies and procedures over subrecipient monitoring.

Effect: The City is exposed to possible grantor sanctions.

Questioned Costs: Total payments made during the year to subrecipients examined were \$136,362.

Context: Of the two (2) subrecipients tested, we noted that the City could not provide required documentation for monitoring the Single Audit requirement for two (2) out of two (2) subrecipients tested.

Recommendation: We recommend that the City establish policies and procedures over the monitoring of subrecipients in accordance with OMB Circular A-133, as well as adding a Single Audit requirement in its contracts with subrecipients.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation.

Corrective Action Plan: The Controller will work with the Housing Director to update the subrecipient contract to include a single audit requirement. The City will also establish and document policies and procedures to maintain subrecipients. These policies and procedures will be designed to serve as a system of internal controls required by OMB's Uniform Guidance (2 CFR 200). In the meantime, the Housing and City Controller department will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2020

Responsible Person: Delmonsha Green, Housing Director and Rafaela King, Controller

2013-010 – Procurement, Suspension and Debarment (SD)

Repeat Finding: 2012-011

Federal Program Title:	Community Development Block Grants - Entitlement Grants
Federal Catalog Number:	14.218
Federal Agency:	U.S. Department of Housing and Urban Development
Pass-Through Entity:	Not applicable
Federal Award Number and Year:	B-12-MC-06-0515 – 2012
Category of Finding:	Procurement, Suspension and Debarment

Criteria: Per OMB Circular A-102 Common Rule, all recipients shall establish written procurement procedures. In addition, contract files shall be examined to:

1. Verify that the files document the significant history of the procurement, including the rationale for the method of procurement, selection of contract type, contractor selection or rejection and the basis of the contract price.
2. Verify that procurements provide full and open competition.
3. Support the rationale to limit competition in those cases where competition was limited and that the limitation was justified.
4. Verify that contract files exist and that appropriate cost or price analysis was performed in connection with procurement actions, including contract modification and that the analysis supported the procurement actions.
5. Verify that the Federal awarding agency approved procurements exceeding \$100,000 when such approval was required.
6. Verify compliance with other procurement requirements specific to an award.

Condition: The City must retain all supporting documentation between the City and any contractor to ensure that procurement procedures were performed in accordance with all provisions and standards set forth in the grant agreement. The City has not provided us with the documentation to determine its compliance with the applicable requirements for procurement.

Cause: Lack of formal policies and procedures over the documentation and retention of procurement procedures.

Effect: Failure to document and retain procurement procedures may result in noncompliance with procurement requirements.

Questioned Costs: Questioned costs were \$201,599, which represent total payments made to 3 selected contractors.

Context: The City could not provide all necessary procurement files for three selected contractors.

Recommendation: We recommend that the City enforce policies and procedures over the maintenance of procurement documentation including documenting the check for suspension/debarment for contractors used in the Community Development Block Grants funded projects to ensure procurement requirements are met.

Management Response and Corrective Action Plan

City's Response: Due to continued staff turnover there has been very little progress in addressing the findings.

Corrective Action Plan: The City will update the procurement policies it currently has in its Standard Operations Manual (SOM) to include procedures for filing and retention of documents. The updated policies will also include procedures to ensure compliance with Circular A-102 are met.

Planned Implementation Date: June 30, 2020

Responsible Person: Rafaela King, Controller

2013-011 – Reporting (MW, NC)

Repeat Finding: 2012-021

Federal Program Title: Section 8 Housing Choice Vouchers
Federal Catalog Number: 14.871
Federal Agency: U.S. Department of Housing and Urban Development
Pass-Through Entity: Not applicable
Federal Award Number and Year: CA071-2013
Category of Finding: Reporting

Criteria: TITLE 24 - HOUSING AND URBAN DEVELOPMENT, PART 5 - GENERAL HUD PROGRAM REQUIREMENTS; WAIVERS, Subpart H - Uniform Financial Reporting Standards, Section 5.801 - Uniform Financial Reporting Standards states:

"(b) Entities (or individuals) to which this subpart is applicable must provide to HUD, on an annual basis, such financial information as required by HUD."

TITLE 24 - HOUSING AND URBAN DEVELOPMENT, PART 982 - SECTION 8 TENANT-BASED ASSISTANCE: HOUSING CHOICE VOUCHER PROGRAM, Subpart D - Annual Contributions Contract and PHA Administration of Program, Section 982.158-Program Accounts and Records.

"(a) The PHA must maintain complete and accurate accounts and other records for the program in accordance with HUD requirements, in a manner that permits a speedy and effective audit. The records must be in the form required by HUD, including requirements governing computerized or electronic forms of record-keeping. The PHA must comply with the financial reporting requirements in 24 CFR part 5, subpart H."

U.S. OFFICE OF MANAGEMENT AND BUDGET CIRCULAR A-133, AUDITS OF STATES, LOCAL GOVERNMENTS, AND NON-PROFIT ORGANIZATIONS (OMB CIRCULAR A-133), Subpart C - Federal Agencies and Pass-Through Entities, Section. 300 -Auditee Responsibilities

"(b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

Based on the above compliance requirements and review of the grant requirements, public housing agencies (PHAs) are required to submit the following reports:

1. HUD-52681-B, Voucher for Payment of Annual Contributions and Operating Statement
2. Financial Reports - Financial Assessment Sub-system, FASS-PH
3. HUD-52648, SEMAP Certification - Addendum for Reporting Data for Deconcentration Bonus Indicator
4. HUD-50058, Family Report

Condition: The Housing Authority did not submit the FASS-PH report for fiscal year 2012-13. In addition, our review of the submitted HUD-52681-B reports for the fiscal year 2012- 2013 identified net reserved assets (NRA) and unreserved net assets (UNA) were not reconciled to financial records primarily as a result of differences noted in Housing Assistance Payments (HAP) and program administration expenses.

Cause:

- The Housing Authority was unable to submit the FASS-PHA report for fiscal year 2012-13. The report traditionally relies on data submitted for the prior year to establish the opening net assets balance. The financial data for fiscal year 2011-12 had been adjusted upon completion of the audit of the financial statements; however, an internal error in the federal reporting system prevented the Housing Authority from successfully updating the data to reflect accurate fiscal year 2011-12 financial information. The report for fiscal year 2012-13 cannot be submitted until the prior year's data has been successfully saved and committed.
- Lack of internal control upon the preparation of HUD-52681-B reports. Various adjustments were made to the City's general ledger in preparation for financial reporting of the fiscal year. Upon the preparation and submission of the reports noted above, these adjustments were not yet reflected in the accounting records.

Effect: Failure to perform with the reporting requirements may result in noncompliance with OMB Circular A-133.

Questioned Costs: There are no questioned costs for the FASS-PH reports. Questioned costs for the HUD-52681-B reports are not applicable as the City's financial records indicated a higher amount of expenditures than the reported amount.

Context:

- The Housing Authority did not submit the required annual FASS-PH report to HUD.
- Of the 12 HUD-52681-B reports, 4 reports included incorrect HAP and program administration expenses.

Recommendation: We recommend the City to establish policies and procedures that will ensure accurate and timely submission of all required reports.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation.

Corrective Action Plan: Finance staff will be assigned to work with the Housing department in regards to submission of all financial reporting and reimbursement requests. Also, procedures will be established to ensure these are revisited and given attention to on a monthly basis. This will include training of a grant coordinator and training of various grant program personnel to establish policies and procedures for compliance with terms of the grant. The City will also establish and document policies and procedures designed to serve as a system of internal controls required by OMB's Uniform Guidance (2 CFR 200). In the meantime, the City will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2020

Responsible Person: Delmonsha Green, Housing Director and Rafaela King, Controller

2013-012 – Special Tests and Provisions – Housing Quality Standards Inspections (NC)

Repeat Finding: 2012-019

Federal Program Title:	Section 8 Housing Choice Vouchers
Federal Catalog Number:	14.871
Federal Agency:	U.S. Department of Housing and Urban Development
Pass-Through Entity:	Not applicable
Federal Award Number and Year:	CA071-2013
Category of Finding:	Special Tests and Provisions - Housing Quality Standards Inspections

Criteria: TITLE 24 - HOUSING AND URBAN DEVELOPMENT, PART 982 - SECTION 8 TENANT BASED ASSISTANCE: HOUSING CHOICE VOUCHER PROGRAM, Subpart I - Dwelling Unit: Housing Quality Standards, Inspection and Maintenance, Section 982.405 - PHA initial and periodic unit inspection states:

"(a) The PHA must inspect the unit leased to a family prior to the initial term of the lease, at least annually during assisted occupancy, and at other times as needed, to determine if the unit meets the HQS. (See § 982.305(b)(2) concerning timing of initial inspection by the PHA.)"

Condition: The Housing Authority is required to inspect the leased unit at least annually and to conduct quality control re-inspection. The Housing Authority is also required to document the annual housing quality standards (HQS) inspections and quality re-inspection report. Our review identified seven missing inspection or re-inspection reports.

Cause: The annual HQS inspection and quality re-inspection reports could not be provided due to staff oversight and lack of staff. Additionally, inspections were previously conducted by City personnel who were no longer employed by the City during the current audit examination period. The inspection records associated with the terminated employee could not be located by the City.

Effect: Failure to maintain the annual HQS and re-inspection reports in participant files may result in noncompliance with the requirements related to HQS.

Questioned Costs: Questioned costs were \$9,489, which represent total payments made to seven (7) selected participants.

Context: Of fifty (50) participant files reviewed, 7 participant files did not have a record of HQS report or reinspection report indicating the City's performance of inspection or re-inspection. Upon assessing the error rate of samples tested as well as discussion with the City on the cause of the error, we determined it to be indicative of a systemic issue within the City's record-retention processes and omitted further audit testing.

Recommendation: We recommend that the Housing Authority enforce its policies and procedures pertaining to inspection and re-inspection of leased units to ensure that such activities are performed in a timely manner and are sufficiently documented.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation.

Corrective Action Plan: The Controller's Office will work with the Housing Director to ensure that the 30-day time period is met for re-inspections. While staff shortages in the Housing department contribute to the untimely re-inspections, the City will also establish and document policies and procedures to track rescheduled and/or subsequently cancelled inspections to ensure they are performed in a timely manner. In the meantime, the City will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2020

Responsible Person: Delmonsha Green, Housing Director and Rafaela King, Controller

2013-013 – Special Tests and Provisions – Rolling Forward Equity Balances (MW)

Repeat Finding: 2012-022

Federal Program Title:	Section 8 Housing Choice Vouchers
Federal Catalog Number:	14.871
Federal Agency:	U.S. Department of Housing and Urban Development
Pass-Through Entity:	Not applicable
Federal Award Number and Year:	CA071-2013
Category of Finding:	Special Tests and Provisions - Rolling Forward Equity Balances

Criteria: TITLE 24 - HOUSING AND URBAN DEVELOPMENT, PART 982 - SECTION 8 TENANT-BASED ASSISTANCE: HOUSING CHOICE VOUCHER PROGRAM, Subpart D - Annual Contributions Contract and PHA Administration of Program, Section 982.158 - Program Accounts and Records states: "(a) The PHA must maintain complete and accurate accounts and other records for the program in accordance with HUD requirements, in a manner that permits a speedy and effective audit. The records must be in the form required by HUD, including requirements governing computerized or electronic forms of record-keeping. The PHA must comply with the financial reporting requirements in 24 CFR part 5, subpart H."

Condition: The Housing Authority is required to properly account for program activity. Our review identified that the HAP equity account was not correctly stated.

Cause: The error identified may have resulted from either mathematical error when compiling the HAP related activities or the use of improper documentation to support the calculation.

Effect: The Housing Authority is not in compliance with grant requirements.

Questioned Costs: The questioned costs cannot be calculated because the total additional funding received by the Housing Authority is unknown.

Context: The Housing Authority reported the HAP equity account in the amount of \$721,018 instead of \$722,141.

Recommendation: We recommend the Housing Authority establish and implement policies and procedures over calculation of HAP equity account.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation.

Corrective Action Plan: The Controller will work with the Housing Director to ensure that the HAP equity balance is rolled forward on an annual basis. The City will also establish and document policies and procedures designed to serve as a system of internal controls required by OMB's Uniform Guidance (2 CFR 200). In the meantime, the Housing and City Controller department will take steps to address the specific finding noted above to ensure accurate computation of the HAP equity account.

Planned Implementation Date: June 30, 2020

Responsible Person: Delmonsha Green, Housing Director and Rafaela King, Controller

2013-014 – Procurement, Suspension and Debarment (SD, NC)

Federal Program Title: Congressionally Mandated Projects
Federal Catalog Number: 66.202
Federal Agency: U.S. Environmental Protection Agency- Office of the Chief Financial Officer
Pass-Through Entity: Not applicable
Federal Award Number and Year: XP-96965001-2013; XP-OOT8070-2012
Category of Finding: Procurement, Suspension and Debarment

Criteria: Per OMB Circular A-102 Common Rule § __ .36(f)(l), Grantees and subgrantees must perform a cost or price analysis in connection with every procurement action including contract modifications.

Condition: The City must retain all supporting documentation between the City and any contractor to ensure that procurement procedures were performed in accordance with all provisions and standards set forth in the grant agreement. The City has not provided us with the documentation necessary to perform review on the City's cost and price analysis.

Cause: Lack of formal policies and procedures over the documentation and retention of procurement procedures.

Effect: Failure to document and retain procurement procedures may result in noncompliance with procurement requirements per OMB Circular A-102 Common Rule.

Questioned Costs: \$123,437

Context: For one out of two selected samples, the City did not retain bidding packets of the contractor.

Recommendation: We recommend that the City retain necessary procurement documents such as bidding packets.

Management Response and Corrective Action Plan

City's Response: The City currently has a procurement policy entitled "Procedure for Review and Execution of Contracts; Resolutions, and Procurement Process."

Corrective Action Plan: The City is centralizing the Purchasing Department within the Controller's Office. All bids will be maintained in the Purchasing Division. The City will also establish and document policies and procedures designed to serve as a system of internal controls required by OMB's Uniform Guidance (2 CFR 200). In the meantime, the City Manager and City Controller department will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2020

Responsible Person: Cecil W. Rhambo, Jr., City Manager and Rafaela King, Controller

2013-015 – Reporting

Federal Program Title:	Congressionally Mandated Projects
Federal Catalog Number:	66.202
Federal Agency:	U.S. Environmental Protection Agency- Office of the Chief Financial Officer
Pass-Through Entity:	Not applicable
Federal Award Number and Year:	XP-96965001-2013; XP-OOT80701-2012
Category of Finding:	Reporting

Criteria: OMB Circular A-102 Common Rule requires that non-Federal entities receiving Federal awards (e.g., the City) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

Per the administrative and programmatic conditions in the grants agreement for award number XP-96965001, the City is required to comply with the following requirements:

1. The Financial Status Report covering the period from "project/budget period start date" to September 30 of each calendar year shall be submitted to the Grants Management Office, no later than December 31 of the same calendar year.
2. The recipient agrees to complete and submit to the Grants Management Office, a Minority Business Enterprise/Woman Business Enterprise (MBE/WBE) Utilization Report (EPA Form 5700-52A), within 30 days after the end of the Federal fiscal year, i.e., by October 30 of each calendar year. Negative reports are required.
3. The recipient shall submit quarterly progress reports to the U.S. Environmental Protection Agency Project Officer within 30 calendar days after the end of each Federal fiscal quarter (January 30, April 30, July 30, and October 30).

Per the administrative and programmatic conditions in the grants agreement for award number XP-OOT80701, the City is required to comply with the following requirements:

1. The final Federal Financial Report covering the entire project period shall be submitted within 90 days after the end of the project period according to 40 CFR Part 31.23(b) and 31.41(b).
2. The recipient agrees to complete and submit to the Grants Management Office, a MBE/WBE Utilization Report (EPA Form 5700-52A), within 30 days after the end of the semi-annual reporting period; i.e., by April 30 and October 30 of each calendar year. Negative reports are required.
3. Semi-annual technical performance reports must be submitted within 30 days following the end of each six-month period and must include documentation of the costs incurred during the reporting period.

Condition: During our audit of the program, we noted the following:

1. (SD, NC) The "recipient share of expenditures" in one Financial Status Report for award number XP-96965001 did not agree with the accounting record.
2. (SD, NC) The following reports were not submitted by the due date.
 - a. Award number XP-96965001 - Financial Status Report: The due date was December 31, 2012, but the City submitted it on July 23, 2013.
 - b. Award number XP-OOT80701 - Final Federal Financial Report: The due date was August 13, 2013, but the City submitted it on August 27, 2013.
 - c. (NC)The City was not able to provide two selected MBE/WBE Utilization Reports and three selected performance reports.

Cause: Lack of formal policies and procedures over preparation and submitting the required reports.

Effect: Failure to reporting the accurate amount on the Financial Status Report, submitting the reports on a timely basis, and submitting the required reports may result in non-compliance with the OMB Circular A-102 Common Rule and the grant agreements.

Questioned Costs: Not applicable because the recipient share of expenditure in the Financial Status Report was not federally funded and the MBE/WBE Utilization Reports and performance reports do not include federal expenditures.

Context: Seven out of the seven reports tested, we noted the following:

1. One report did not agree with the accounting record regarding the recipient shared of expenditure.
2. Two reports were not submitted on a timely basis.
3. Five reports were not provided to us in order to verify that the reports were submitted and included the required information.

Recommendation: We recommend that the City establish and enforce policies and procedures over report preparation to ensure that all amounts are accurate and the required reports were submitted.

Management Response and Corrective Action Plan

The City agrees with the recommendations to establish and enforce policies and procedures over report preparation to ensure that all amounts are accurate and the required reports are submitted. Upon entering into a grant contract, the City department responsible for grant management will complete a checklist identifying pertinent grant contract information, grant financial and progress/performance reporting requirements based on the specific grant contract requirements, assess and assign reporting responsibilities, and develop a schedule of reporting timelines. Completed grant checklists shall be submitted to the City Controller to initiate accounting setup and recordkeeping. The expected implementation date is January 2, 2016.

The responsible official to oversee that grant checklists are completed and submitted will be the City Controller.

City's Response: Due to continued staff turnover there has been very little progress in addressing the findings.

Corrective Action Plan: The City will continue to take the above mentioned steps to address the specific finding noted above. The City will also document policies and procedures designed to serve as the system of internal controls required by OMB's Uniform Guidance (2 CFR 200).

Planned Implementation Date: June 30, 2020

Responsible Person: Rafaela King, Controller

2013-016 – Eligibility

Federal Program Title: WIA Youth Activities
Federal Catalog Number: 17.259
Federal Agency: U.S. Department of Labor Employment and Training Administration
Pass-Through Entity: County of Los Angeles
Federal Award Number and Year: Y080915-2008
Category of Finding: Eligibility

Criteria: The following is in accordance with Title 29 - LABOR, CHAPTER 30 WORKFORCE INVESTMENT SYSTEMS, SUBCHAPTER V -ADMINISTRATION, Section 2939 -Administrative provisions states:

"(h) Enforcement of Military Selective Service Act The Secretary shall ensure that each individual participating in any program or activity established under this chapter, or receiving any assistance or benefit under this chapter, has not violated section 3 of the Military Selective Service Act (50 App. U.S.C. 453) by not presenting and submitting to registration as required pursuant to such section. The Director of the Selective Service System shall cooperate with the Secretary to enable the Secretary to carry out this subsection."

TITLE 20 - EMPLOYEES' BENEFITS, PART 664 - YOUTH ACTIVITIES UNDER TITLE 1 OF THE WORKFORCE INVESTMENT ACT, SUBPART B- ELIGIBILITY FOR YOUTH SERVICES, Section 664.200 - Who is eligible for youth services? states:

"An eligible youth is defined, under the Workforce Investment Act of 1998 (WIA) sec. 101(13), as an individual who:

- (a) Is age 14 through 21;
- (b) Is a low income individual, as defined in the WIA section 101(25); and
- (c) Is within one or more of the following categories:

- (1) Deficient in basic literacy skills;
- (2) School dropout;
- (3) Homeless, runaway, or foster child;
- (4) Pregnant or parenting;
- (5) Offender; or
- (6) Is an individual (including a youth with a disability) who requires additional assistance to complete an educational program, or to secure and hold employment. (WIA sec. 101(13).)"

TITLE 20 -EMPLOYEES' BENEFITS, PART 664 - YOUTH ACTIVITIES UNDER TITLE 1 OF THE WORKFORCE INVESTMENT ACT, SUBPART B - ELIGIBILITY FOR YOUTH SERVICES, Section 664.205 - How is the "deficient in basic literacy skills" criterion in 664.200 (c) (1) defined and documented? states:

"(a) Definitions and eligibility documentation requirements regarding the "deficient in basic literacy skills" criterion in § 664.200(c)(1) may be established at the State or local level. These definitions may establish such criteria as are needed to address State or local concerns, and must include a determination that an individual:

- (1) Computes or solves problems, reads, writes, or speaks English at or below the 8th grade level on a generally accepted standardized test or a comparable score on a criterion-referenced test; or
- (2) Is unable to compute or solve problems, read, write, or speak English at a level necessary to function on the job, in the individual's family or in society. (WIA secs. 101(19), 203(12).)"

(b) In cases where the State Board establishes State policy on this criterion, the policy must be included in the State plan. (WIA secs. 101(13)(C)(i), 101(19).)"

TITLE 20-EMPLOYEES' BENEFITS, PART 664-YOUTH ACTIVITIES UNDER TITLE 1 OF THE WORKFORCE INVESTMENT ACT, SUBPART B-ELIGIBILITY FOR YOUTH SERVICES, Section 664.210 - How is the "requires additional assistance to complete an educational program, or to secure and hold employment" criterion in 664.200(c)(6) defined and documented? states:

"Definitions and eligibility documentation requirements regarding the "requires additional assistance to complete an educational program, or to secure and hold employment" criterion of § 664.200(c)(6) may be established at the State or local level. In cases where the State Board establishes State policy on this criterion, the policy must be included in the State Plan. (WIA sec. 101(13)(C)(iv).)"

The following is in accordance with OMB Circular A-133 Subpart C Section 300

(b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.

Condition: Our review of eligibility identified the following:

- (MW) Four participant files were not available for review.
- (MW) Eligibility worksheet was not signed by the City's CareerLink staff and it was not indicated whether the participant was eligible or not.

Cause: The grant agreement between the City and the Los Angeles County (County) ended on June 30, 2013 and the City had to return all the participant files back to the County. However, the County could not provide participant files for four participants. Lack of oversight over eligibility process.

Effect: Failure to present documentation may result in noncompliance with grant requirements.

Questioned Costs: \$5,996 related to total amount paid to participants whose files were not available for review. The participant with no approval on eligibility worksheet met the eligibility requirements based on our review. Therefore, there is no questioned cost.

Context: Of the 25 samples tested, we noted the following:

- Four participant files were not available for review.
- One eligibility worksheet was not signed by the City's CareerLink staff and it was not indicated whether the participant was eligible or not.

Recommendation: We recommend the City to strengthen its policies and procedures over eligibility process and document retention in the case the City manages a similar grant in the future.

Management Response and Corrective Action Plan

City's Response: Due to continued staff turnover there has been very little progress in addressing the findings.

Corrective Action Plan: The City will ensure that all expenditures related to the JAG grants have a project code to ensure that all expenditures are captured and included in the Expenditure – Summary Sheet. The City will also establish policies and procedures which will be designed to serve as the system of internal controls required by OMB’s Uniform Guidance (2 CFR 200). In the meantime, the Grants Manager and the City Controller will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2020

Responsible Person: Rafaela King, Controller

2013-017 – Reporting (SD, NC)

Federal Program Title: ARRA- Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to Units of Local Government
Federal Catalog Number: 16.804
Federal Agency: U.S. Department of Justice
Pass-Through Entity: City of Los Angeles
Federal Award Number and Year: C-118365-2009
Category of Finding: Reporting

Criteria: The OMB Circular A-1 02 Common Rule requires that non-Federal entities receiving Federal awards (e.g., the City) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

Condition: The City must include *all* expenditures incurred during the year on the Report of Expenditure – Summary Sheet. However, The City failed to include camera installation fee in the amount of \$113,574 in the report.

In addition, the amount for County of Los Angeles Sheriff's services on the Report of Expenditure - Summary Sheet was \$72,590 while the general ledger showed \$72,593 which is a \$3 difference.

Cause: Lack of formal policies and procedures over preparation of the report.

Effect: Failure to document labor costs incurred relating to camera installation and incorrect computation of expenditures may result in not being in compliance with grant requirements.

Questioned Costs: Not applicable because the camera installation fee was an allowable expenditure and the reported expenditure is less than the actual amount.

Context: Out of two samples tested,

- 1) One did not have labor cost related to camera installation included on the Expenditure Report - Summary Sheet;
- 2) One did not report the correct expenditure amount.

Recommendation: We recommend that the City establish and enforce policies and procedures over report preparation to ensure that all applicable costs are included on the Report of Expenditures - Summary Sheet and the amounts are correctly computed.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation.

Corrective Action Plan: The Controller's office will establish procedures for reviewing the accuracy of the Report of Expenditure – Summary Sheet. We will work with the Grants Manager to ensure compliance and information is captured and reviewed. The City will also establish policies and procedures which will be designed to serve as the system of internal controls required by OMB's Uniform Guidance (2 CFR 200). In the meantime, the Grants Manager and the City Controller will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2020

Responsible Person: Aubrey Relf, the City's Grants Manager and Rafaela King, Controller

2013-018 – Cash Management (MW)

Federal Program Title: JAG Program Cluster
Federal Catalog Number: 16.738 and 16.804
Federal Agency: U.S. Department of Justice
Pass-Through Entity: CFDA 16.738 - N/A
CFDA 16.804 - City of Los Angeles
Federal Award Number and Year: CFDA 16.738 - 2008-DJ-BX-0265; 2009-DJ-BX-0471; 2010
- DJ-BX-1301; 2011-DJ-BX-2829
CFDA 16.804 - C-118365 - 2009
Category of Finding: Cash Management

Criteria: U.S. DEPARTMENT OF JUSTICE, OFFICE OF JUSTICE PROGRAMS FINANCIAL GUIDE SECTION III - POST AWARD REQUIREMENTS:

3.1 Payments: Drawing what is only needed.

Your organization should request funds upon immediate disbursement/reimbursement requirements. Funds will not be paid in a lump sum, but rather disbursed over time as project costs are incurred or anticipated (with the exception of block grant programs such as the Byrne Justice Assistance Grant (JAG) Program, Juvenile Accountability Block Grant (JABG) Program, and State Criminal Assistance Program (SCAAP) awards, which may be drawn or paid out in a lump sum).

Fund requests from subrecipients create a continuing cash demand on award balances of the State. States should keep in mind that idle funds in the hands of subrecipients will impair the goals of effective cash management.

You should develop written procedures for cash management of funds to ensure that Federal cash on hand is kept at or near zero.

Office of Management and Budget (OMB) Circular A-102 § .21(i) Interest earned on advances:
Grantees and subgrantees shall promptly, but at least quarterly, remit interest earned on advances to the federal agency.

SUBRECIPIENT AGREEMENT CONTRACT C-118365 SECTION III PAYMENT:

301. Payment of Grant Funds and Method of Payment

C: Interest Income: Subrecipient must account for all interest income earned from the Recovery Act JAG 09 Grant. In accordance with the Office of Justice Programs (OJP) financial guidelines, interest earned on JAG funds is considered program income, and must be expended only on allowable purpose areas under these programs. Subrecipient will maintain records of and account for any interest earned on Recovery Act JAG funds. In order to reprogram and expend interest earned, subrecipient must submit a Budget Modification Request to the City for approval prior to expending the interest amount. Interest earned not expended by the close of the Grant period must be returned to the City to be returned to the grantor no later than 90 days after the end of the Grant period.

Condition: The City does not have written policies and procedures for cash management of fund to ensure that federal cash on hand is kept at or near zero. Although the City requested and received an approval for the extension of the American Recovery and Reinvestment Act of 2009 (ARRA) JAG program through April 30, 2013 from the City of Los Angeles, the earned but unexpended interest income was returned to the City of Los Angeles on December 10, 2014, 134 days after the July 29, 2013 due date.

There is no evidence that the City remitted any interest earned but not expended for the non-ARRA JAG funding awarded by the U.S. Department of Justice.

Cause: Lack of formal policies and procedures over cash management.

Effect: Failure to establish written policies and procedures for cash management, remittance of interest earned but unexpended for non-ARRA funding awarded by the U.S. Department of Justice, and late return of earned but unexpended interest income for ARRA funding awarded by the City of Los Angeles within the required due date results in non-compliance with post award requirements of Section III of the U.S. Department of Justice, OMB A-102 § __ .2l(i) Interest earned on advances, the OJP Financial Guide and Section III of the subrecipient agreement between the City and City of Los Angeles and may lead to a reduction or discontinuance of federal assistance in future grant periods.

Questioned Costs: The amount of interest income earned but unexpended related to non-ARRA funding awarded by the U.S. Department of Justice.

Context: The City was not able to provide a copy of the written policies and procedures on cash management, evidence that interest earned for non-ARRA awards was returned, and late remittance of earned but unexpended interest income at the close out of the grant.

Recommendation: We recommend that the City develop and establish written policies and procedures on cash management and strengthen internal controls to ensure timely remittance of unexpended interest income to the grantor.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation.

Corrective Action Plan: The Grants Manager together with the City Controller will ensure that written policies and procedures are developed and established regarding cash management and strengthen internal controls to ensure timely remittance of unexpended interest income to the grantor. The policies and procedures will be designed to serve as the system of internal controls required by OMB's Uniform Guidance (2 CFR 200). In the meantime, the Grants Manager and the City Controller will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2021

Responsible Person: Aubrey Relf, the City's Grants Manager and Rafaela King, Controller

2012-014 – CFDA 14.239 HOME Investment Partnership Program - Matching, Level of Effort, and Earmarking (MW, NC)

Condition: In accordance with the grant requirements, the City may expend no more than ten percent of the fiscal year HOME basic formula allocation plus any funds received for its HOME administrative and planning costs. Our review identified that the City incurred and claimed administrative and planning costs in excess of ten percent of the fiscal year HOME basic formula allocation plus any funds received.

Recommendation: We recommend that the City establish and enforce its policies and procedures over monitoring expenses charged to the HOME program to ensure earmarking requirements are met.

Management Response and Corrective Action Plan

City's Response: Due to continued staff turnover there has been very little progress in addressing the findings.

Corrective Action Plan: The Home Program is now being handled by the Grants Unit because of the additional personnel and consultants in the Grants Unit. This change has strengthened controls regarding the HOME program. The City Controller will work with the Grants Manager to establish and document policies and procedures designed to serve as a system of internal controls required by OMB's Uniform Guidance (2 CFR 200). The Grants Division will be responsible for the enforcement of policies and procedures.

Planned Implementation Date: June 30, 2021

Responsible Person: Aubrey Relf, Grants Manager and Rafaela King, Controller

2012-015 – CFDA 14.239 HOME Investment Partnership Program – Reporting (MW, NC)

Condition: The City received \$416,508 from U.S. Department of Housing and Urban Development for its HOME program during fiscal year 2012, which was used to fund the First-time Homebuyer's Program and the Residential Rehabilitation Program. However, the City was unable to provide the Form HUD 60002, Section 3 Summary Report upon our request.

Recommendation: We recommend that the City establish and enforce its policies and procedures over the preparation and submission of the Form HUD 60002, Section 3 Summary Report to ensure the performance reporting requirements are met.

Management Response and Corrective Action Plan

City's Response: Due to continued staff turnover there has been very little progress in addressing the findings.

Corrective Action Plan: The Home Program is now being handled by the Grants Unit because of the additional personnel and consultants in the Grants Unit. This change has strengthened controls regarding the HOME program. The City Controller will work with the Grants Manager to establish and document policies and procedures designed to serve as a system of internal controls required by OMB's Uniform Guidance (2 CFR 200). The policies will include procedures for the timely preparation and submission of all HUD related forms including Form HUD 60002, Section 3 Summary Report. The Grants Division will be responsible for the enforcement of policies and procedures.

Planned Implementation Date: June 30, 2021

Responsible Person: Aubrey Relf, Grants Manager and Rafaela King, Controller

2012-016 – CFDA 14.239 HOME Investment Partnership Program - Procurement, Suspension and Debarment (SD)

Condition: The City was unable to provide the procurement documentation on the contractors of HOME Residential Rehabilitation projects selected.

Recommendation: We recommend that the City establish and enforce its policies and procedures over the maintenance of procurement documentation including documenting the check for suspension/debarment for contractors used in HOME funded projects to ensure procurement requirements are met.

Management Response and Corrective Action Plan

City's Response: Due to continued staff turnover there has been very little progress in addressing the findings.

Corrective Action Plan: The Home Program is now being handled by the Grants Unit because of the additional personnel and consultants in the Grants Unit. This change has strengthened controls regarding the HOME program. The City Controller will work with the Grants Manager to establish and document policies and procedures designed to serve as a system of internal controls required by OMB's Uniform Guidance (2 CFR 200). The Contract Compliance Officer and Purchasing Manager that will be hired by July 1, 2019 will include checking for suspension and debarment of contractors used in HOME-funded projects as part of their policies and procedures. The Grants Division will be responsible for the enforcement of policies and procedures.

Planned Implementation Date: June 30, 2021

Responsible Person: Aubrey Relf, Grants Manager and Rafaela King, Controller

2012-017 – CFDA 14.239 HOME Investment Partnership Program – Special Tests and Provisions – Housing Quality Standards Inspections (SD)

Condition: The City was unable to provide documentation that identifies HOME assisted rental housing on which the on-site inspections are due, resulting in an unknown population to be tested.

Recommendation: We recommend that the City establish and enforce its policies and procedures over the preparation and maintenance of documentation that identifies those units for which housing on-site inspections are due to ensure housing quality standards requirements are met.

Management Response and Corrective Action Plan

City's Response: Due to continued staff turnover there has been very little progress in addressing the findings.

Corrective Action Plan: The Home Program is now being handled by the Grants Unit because of the additional personnel and consultants in the Grants Unit. This change has strengthened controls regarding the HOME program. The City Controller will work with the Grants Manager to establish and document policies and procedures designed to serve as a system of internal controls required by OMB's Uniform Guidance (2 CFR 200). The policies and procedures established for the HOME Investment Partnership Program will include procedures to ensure compliance with all HOME requirements established under CFDA 14.239. The Grants Division will be responsible for the enforcement of policies and procedures.

Planned Implementation Date: June 30, 2021

Responsible Person: Aubrey Relf, Grants Manager and Rafaela King, Controller

2012-018 – CFDA 14.239 HOME Investment Partnership Program – Cash Management (MW)

Condition: The City has unused program income in the amount of approximately \$623,000 at June 30, 2012. Pursuant to the grant requirements, the City must disburse the HOME funds in the local account of the HOME Investment Trust Fund prior to requesting HOME funds in the United States Treasury account.

Recommendation: We recommend that the City establish and enforce its policies and procedures over the cash management requirements to ensure the HOME funds in the local account of the HOME Investment Trust Fund are used prior to requesting HOME funds in the United States Treasury account.

Management Response and Corrective Action Plan

City's Response: Due to continued staff turnover there has been very little progress in addressing the findings.

Corrective Action Plan: The Home Program is now being handled by the Grants Unit because of the additional personnel and consultants in the Grants Unit. This change has strengthened controls regarding the HOME program. The City Controller will work with the Grants Manager to establish and document policies and procedures designed to serve as a system of internal controls required by OMB's Uniform Guidance (2 CFR 200). The policies and procedures established for the HOME Investment Partnership Program will include procedures to ensure compliance with all HOME requirements established under CFDA 14.239. The Grants Division will be responsible for the enforcement of policies and procedures.

Planned Implementation Date: June 30, 2021

Responsible Person: Aubrey Relf, Grants Manager and Rafaela King, Controller

FINANCIAL STATEMENTS

2016-009 - Bank Reconciliations (MW)

Criteria: Bank reconciliations should be prepared and review in a timely manner.

Condition: Bank reconciliations are not prepared and reviewed in a timely manner. As of the date of this report, the last bank reconciliation prepared was for August 2014.

Cause: Due to the vacancies in key positions in the City Controller's office, staff fell behind on the monthly reconciliations of the over 30 bank accounts.

Effect or Potential Effect: An embezzlement remained undetected for years. Also, cash could be materially misstated.

Repeat of a Prior-Year Finding: Yes, 2015-012, 2014-045

Recommendation: The City should have City employees trained to perform monthly bank reconciliations for all City bank accounts. Subsequently, a documented review and approval of the bank reconciliations should be performed in a timely manner to ensure that any discrepancies are discovered and addressed appropriately.

This addresses COSO's Control Environment, Principle 4: demonstrates commitment to competency, and Principle 5: enforce accountability.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation.

Corrective Action Plan: The Controller's Office has hired additional staff and senior level accountants and assigned them to bring current all bank reconciliations and other accounting functions. This higher level of experience is expected to help in assuring the day to day operations of the department occur timely and are more accurate. As the process moves along, new policies & procedures are being implemented. The City will document these policies and procedures which will be designed to serve as a system of internal controls required by OMB's Uniform Guidance (2 CFR 200). In the meantime, the City will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2019

Responsible Person: Rafaela King, Controller

2015-012 – Bank Reconciliations (MW)

Criteria: Bank reconciliations should be prepared and review in a timely manner.

Condition: Bank reconciliations are not prepared and reviewed in a timely manner. As of the date of this report, the last bank reconciliation prepared was for August 2014.

Cause: Due to the vacancies in key positions in the City Controller's office, staff fell behind on the monthly reconciliations of the over 30 bank accounts.

Effect or Potential Effect: An embezzlement remained undetected for years. Also, cash could be materially misstated.

Repeat of a Prior-Year Finding: Yes, 2014-045

Recommendation: The City should have City employees trained to perform monthly bank reconciliations for all City bank accounts. Subsequently, a documented review and approval of the bank reconciliations should be performed in a timely manner to ensure that any discrepancies are discovered and addressed appropriately.

This addresses COSO's Control Environment, Principle 4: demonstrates commitment to competency, and Principle 5: enforce accountability.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation.

Corrective Action Plan: The Controller's Office has hired additional staff and senior level accountants and assigned them to bring current all bank reconciliations and other accounting functions. This higher level of experience is expected to help in assuring the day to day operations of the department occur timely and are more accurate. As the process moves along, new policies & procedures are being implemented. The City will document these policies and procedures which will be designed to serve as a system of internal controls required by OMB's Uniform Guidance (2 CFR 200). In the meantime, the City will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2019

Responsible Person: Rafaela King, Controller

2015-013 – Cash Transfers (MW)

Criteria: Physical cash transfers should be properly approved, tracked, and recorded in the general ledger (GL) in a timely manner to ensure cash GL balances reflect actual balances.

Condition: Transfers between Local Agency Investment Fund (LAIF) and checking accounts are not communicated or recorded as they take place. Instead, transfers are recorded during the bank reconciliation process. However, since the general checking account hasn't been reconciled since August 2014, there are multiple million dollar transfers that have not been recorded to date.

Cause: There is a lack of communication between City Treasurer's Office and City Controller's Office. Also, vacant key positions and high management turnover allowed for bank reconciliations to fall behind.

Effect or Potential Effect: Cash GL accounts are materially misstated and cannot be relied upon.

Repeat of a Prior-Year Finding: No

Recommendation: The City should establish proper policies and procedures that address the approval, handling, and recording of cash transfers between bank accounts.

This addresses COSO's Control Environment, Principle 5: enforces accountability, Control Activities, Principle 12: deploys through policies & procedures and Information & Communication, Principle 15: communicates externally.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation.

Corrective Action Plan: The Controller's Office has hired additional staff and senior level accountants who are CPAs and assigned them to reconcile the more complex bank accounts. This higher level of experience is expected to help in assuring the day to day operations of the department occur timely and are more accurate. As the process moves along, new policies & procedures are being implemented. Cash transfers are now being recorded as they happen as opposed to during the bank reconciliation process. The City will also document these policies and procedures which will be designed to serve as a system of internal controls required by OMB's Uniform Guidance (2 CFR 200). In the meantime, the City will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2019

Responsible Person: Douglas Sanders, City Treasurer and Rafaela King, Controller

2015-014 – Cash Disbursement – Review and Approval Process (MW)

Criteria: Invoices should go through the proper review and approval process prior to cash disbursement to ensure accuracy and validity of invoice.

Condition: Invoices were not thoroughly reviewed prior to payment. Of twenty-three (23) haphazardly sampled transactions, the City processed one (1) invoice that did not foot, yet the City proceeded with paying the (higher) total invoice amount.

Cause: Poor review during approval process caused the City to process incorrect amount.

Effect or Potential Effect: Overpayment for services/goods contributing to fund deficit.

Repeat of a Prior-Year Finding: No

Recommendation: The City should strengthen its review procedures and provide necessary training for staff emphasizing the need to scrutinize invoices for accuracy. Any discrepancies should be resolved with the vendor prior further processing the invoice for payment.

This addresses COSO's Control Environment, Principle 4: demonstrates commitment to competence and Control Activities, Principle 12: deploys through policies & procedures.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation.

Corrective Action Plan: The City has hired a Deputy Controller to oversee the accounts payable functions. A process has been established and implemented to ensure that the accounts payable edit list is reviewed prior to printing checks. Any discrepancies are pulled from the batch and corrected before proceeding with the printing of checks. The Deputy Controller signs off on the batch edit report once review has been completed. The City will also establish and document policies and procedures designed to serve as a system of internal controls required by OMB's Uniform Guidance (2 CFR 200). In the meantime, the City will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2020

Responsible Person: Rafaela King, Controller

2015-015 – Cash Disbursement – Payments Based on Quotes (MW)

Criteria: Per City policy, payments must be processed on original invoices only.

Condition: Payments were made based only on quotes, not original invoices. Of twenty-five (25) randomly sampled cash disbursements, the City processed one (1) transaction on a quote.

Cause: Lack of enforcement of City policy or lack of documentation of the exception.

Effect or Potential Effect: Potential payment of unauthorized expenditure or double payment for services/goods.

Repeat of a Prior-Year Finding: Yes, 2014-031

Recommendation: The City should strengthen its monitoring of City staff adhering to City policy.

This addresses COSO's Control Activities, Principle 12: deploys through policies & procedures and Information & Communication, Principle 14: communicates internally.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation.

Corrective Action Plan: The Controller's staff now reviews requisitions and warrant requests prior to submitting to accounts payable staff for input. The checks are further reviewed by the Budget Officer, and Controller (or Deputy) prior to the Controller signing the checks. The City will also establish and document policies and procedures designed to serve as the system of internal controls required by OMB's Uniform Guidance (2 CFR 200). In the meantime, the City Controller department will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2019

Responsible Person: Rafaela King, Controller

2015-016 – Cash Disbursement – Payments Processed without Supporting Documentation (MW)

Criteria: Request of Warrants are used for expenses that have already been incurred prior to having a purchase requisition and purchase order. These requests along with their supporting documentation have to go through City Council and get approved before Accounts Payable is to issue payment.

Condition: Payments were processed on Request of Warrant without supporting invoices present. Of twenty-five (25) randomly sampled cash disbursements, the City processed two (2) transactions on a Request of Warrant without the supporting invoice present.

Cause: Weak controls over procurement procedures and cash disbursement.

Effect or Potential Effect: Potential risk of remitting payment for unauthorized expenditures and misuse of City funds.

Repeat of a Prior-Year Finding: No

Recommendation: The City should strengthen its procurement policies and internal controls over cash disbursements.

This addresses COSO's Control Activities, Principle 12: deploys through policies & procedures and Information & Communication, Principle 14: communicates internally.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation and has since stopped issuing Request of Warrants. Now, expenses that have been occurred prior to approval, go directly to Council along with a Staff Report prior to a warrant being processed.

Corrective Action Plan: The City will establish and document policies and procedures to serve as the system of internal controls required by OMB's Uniform Guidance (2 CFR 200).

Planned Implementation Date: June 30, 2019

Responsible Person: Rafaela King, Controller

2015-017 – Cash Disbursement – Sensitive Information (MW)

Criteria: City should protect City funds by safeguarding sensitive information from potential malicious activities.

Condition: Sensitive bank information (such as account and routing numbers) are printed on check copies.

Cause: There was lack of awareness of exposure.

Effect or Potential Effect: There is sufficient information and signatures on the check copies that opens up the risk of an individual to attempt and potentially succeed in negotiating the check copy again.

Repeat of a Prior-Year Finding: No

Recommendation: The City should ensure to conceal any sensitive information on duplicate of documentation to prevent any unauthorized and/or fraudulent transactions.

This addresses COSO's Risk Assessment, Principle 8: considers the potential for fraud in assessing risks.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation and notes that this has been addressed and sensitive bank information is no longer printed on check copies.

Corrective Action Plan: The City will establish and document policies and procedures to serve as the system of internal controls required by OMB's Uniform Guidance (2 CFR 200).

Planned Implementation Date: June 30, 2019

Responsible Person: Rafaela King, Controller

2015-018 – Capital Assets – Government-wide (MW)

Criteria: Capital assets net of depreciation are presented on the government-wide statements. Therefore, the City must maintain complete and accurate records of capital assets and related accumulated depreciation.

Condition: The City has not been maintaining records for government-wide capital assets. The City provided capital asset schedule did not agree to the trial balance and appeared incomplete.

Cause: The City has experienced significant turnover in the finance department. When a staff person leaves, their duties may not be reassigned. In addition, City staff appear to have weak governmental accounting knowledge and lack of guidance from supervisors.

Effect or Potential Effect: Governmental capital assets might be inaccurate or incomplete.

Repeat of a Prior-Year Finding: Yes, 2014-060A, 2014-087B, 2013-001 (1.b.)

Recommendation: Capital asset records should be maintained on a regular periodic basis. Finance department management should ensure that critical accounting tasks are being completed. The City should provide proper training or other resources to City staff to adequately equip them for the successful execution of their daily tasks. We recommend that the City start the process by assigning a qualified staff to bring records up to date and maintain.

This addresses COSO's Control Environment, Principle 4: demonstrates commitment to competence and Control Activities, Principle 12: deploys through policies & procedures.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation.

Corrective Action Plan: The Controller plans on hiring a Purchasing Manager by July 1, 2019, who will be assigned to maintain capital asset records. The City will also establish and document policies and procedures designed to serve as the system of internal controls required by OMB's Uniform Guidance (2 CFR 200). In the meantime, the City Controller department will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2021

Responsible Person: Rafaela King, Controller

2015-019 – Capital Assets – Proprietary and Fiduciary (MW)

Criteria: Proprietary and fiduciary funds are reported using the full accrual basis of accounting. Capital assets are recorded as an asset on the balance sheet and depreciated over their useful lives.

Condition: Capital assets have not been updated beyond June 30, 2014. The City provided capital asset schedule did not agree to the trial balance and appeared incomplete. Typically, acquisitions of capital assets are initially posted to an expense account (capital outlay), then recorded as an asset by journal entry. The journal entries to record the assets were not made. In addition, depreciation expense has not been recorded since June 30, 2014.

Cause: The City has experienced significant turnover in the finance department. When a staff person leaves, their duties may not be reassigned. Consequently, significant routine entries were not adjusted and posted.

Effect or Potential Effect: Capital assets are materially misstated.

Repeat of a Prior-Year Finding: Yes, 2014-060A, 2014-087B, 2013-001 (1.b.)

Recommendation: The City should develop and implement a monthly and year-end closing checklists for staff to use as a guide. The City could require staff sign off on steps as completed and a supervisor approval of the completed checklist on a monthly basis. Such a checklist would prevent routine entries from being forgotten. We recommend that the City start the process by assigning a qualified staff to bring records up to date and maintain.

This addresses COSO's Control Environment, Principle 4: demonstrates commitment to competence and Control Activities, Principle 12: deploys through policies & procedures.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation.

Corrective Action Plan: The Controller plans on hiring a Purchasing Manager by July 1, 2019, who will be assigned to maintain capital asset records. The City will also establish and document policies and procedures designed to serve as the system of internal controls required by OMB's Uniform Guidance (2 CFR 200). In the meantime, the City Controller department will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2021

Responsible Person: Rafaela King, Controller

2015-020 – Capital Assets – Physical Inventory (MW)

Criteria: A physical inventory of capital assets should be performed periodically.

Condition: Current City staff are not aware of a physical inventory of assets having been performed. As a result, retirements of capital assets may not have been recorded. For preparation of the schedules provided by the City, the department heads were sent an email asking if there were any asset retirements. Asset retirements are likely to be missed if this process is not performed timely and if a listing of recorded assets is not provided for review by department heads.

Cause: A physical inventory of capital assets was not performed and asset retirements were not recorded on a timely basis.

Effect or Potential Effect: Capital assets might be significantly misstated.

Repeat of a Prior-Year Finding: Yes, 2014-060A, 2014-087B, 2013-001 (1.b.)

Recommendation: The City should consider performing physical inventory of City's capital assets, including infrastructure and construction in progress to establish a solid foundation for its capital assets. Also, a process for reporting asset retirements should be developed.

This addresses COSO's Control Activities, Principle 12: deploys through policies & procedures and Information & Communication, Principle 13: uses relevant, quality information.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation.

Corrective Action Plan: Physical inventory of all assets will be scheduled to be done by the Purchasing Manager, who is expected to be hired by July 1, 2019. The Purchasing Manager will be in charge of keeping updated records of capital assets. The City will also establish and document policies and procedures designed to serve as the system of internal controls required by OMB's Uniform Guidance (2 CFR 200).

Planned Implementation Date: June 30, 2021

Responsible Person: Rafaela King, Controller

2015-021 – Construction in Progress – Lack of Status Reports (SD)

Criteria: Progress billings for ongoing construction should be properly reviewed to ensure that the City only pays for actual work completed.

Condition: Progress billings lack job status reports, but were still processed for payment. This suggests poor and inadequate due diligence review of the progress billings prior to payment.

Cause: Lack of scrutiny in reviewing progress billings and poor supervisory review during approval process.

Effect or Potential Effect: Potential overpayment of contracts and overstatement of expenses.

Repeat of a Prior-Year Finding: No

Recommendation: The City should strengthen review procedures for invoices to ensure that City is only paying for actual work performed by contractors.

This addresses COSO's Control Environment, Principle 5: enforces accountability and Control Activities, Principle 12: deploys through policies & procedures.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation.

Corrective Action Plan: The Controller plans on hiring a Contract Compliance Officer by July 1, 2019 who will work with project managers to ensure that the above mentioned criteria is met. Also, the Controller plans on having regular meetings with Public Works to review financial status on all CIP projects along with reviewing all invoices prior to submission for payment. The City will also establish and document policies and procedures designed to serve as the system of internal controls required by OMB's Uniform Guidance (2 CFR 200). In the meantime, the City Controller department will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2021

Responsible Person: Rafaela King, Controller

2015-022 – Construction in Progress – Retentions (SD)

Criteria: Retentions held for constructions in progress should be properly recorded.

Condition: Retentions payable were not recorded. Of twenty-three (23) haphazardly sampled transactions, the City processed four (4) construction in progress invoices for which they did not account for the retention amount as retention payable.

Cause: It appeared that failure to record the retention payable was due to inadequate review of the account classification assigned on the invoice. That is partly due to the vacancies of key positions in the department.

Effect or Potential Effect: Failure to record retention payable could lead to understatement of expenses and payables. It could also affect budgeting due to the information gap of the outstanding amount.

Repeat of a Prior-Year Finding: No

Recommendation: The City should strengthen review procedures for invoices. Also, construction in progress should be separately tracked to ensure that all retention liabilities are properly recorded, tracked, and cleared as appropriate.

This addresses COSO's Control Environment, Principle 5: enforces accountability and Control Activities, Principle 12: deploys through policies & procedures.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation.

Corrective Action Plan: All CIP invoices will be reviewed by the Contract Compliance Officer (expected to be hired by July 1, 2019) prior to submission for payment. In the meantime, the Deputy Controller will be reviewing all CIP related retentions and payables for proper accounting. GL staff will be reviewing retention payable balances on a monthly basis for accuracy. The City will also establish and document policies and procedures designed to serve as the system of internal controls required by OMB's Uniform Guidance (2 CFR 200).

Planned Implementation Date: June 30, 2021

Responsible Person: Rafaela King, Controller

2015-023 – Retentions Payable (SD)

Criteria: Retentions held for construction in progress should be continuously monitored and tracked.

Condition: The retention payable schedule still had outstanding balances dating back as far as 2006.

Cause: It appears that retention liabilities were being paid by the City, however, instead of releasing the payables the disbursements were recorded as capital outlay expense.

Effect or Potential Effect: Expenses are recorded twice; once during establishment of the retention payable and again when the cash disbursement is made. As a result, expenses and/or capital assets were overstated.

Repeat of a Prior-Year Finding: No

Recommendation: The City should establish procedures, assign staff, and provide adequate training to properly record and track retention payable. The City should establish policies and procedures to ensure that when an invoice for a retention is paid, the retention payable is relieved in the same period.

This addresses COSO's Control Environment, Principle 5: enforces accountability and Control Activities, Principle 12: deploys through policies & procedures.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation.

Corrective Action Plan: All CIP invoices will be reviewed by the Contract Compliance Officer (expected to be hired by July 1, 2019) prior to submission for payment. In the meantime, the Deputy Controller will be reviewing all CIP related retentions and payables for proper accounting. GL staff will be reviewing retention payable balances on a monthly basis for accuracy and will also reconcile the retention accounts to ensure all payments related to CIP projects are correct and the amount held is appropriate. Retention accounts will be reviewed on a timely basis to make sure retentions are released upon the completion of projects with the Notice of Completion as supporting documentation. The City will also establish and document policies and procedures designed to serve as the system of internal controls required by OMB's Uniform Guidance (2 CFR 200). In the meantime, the City will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2020

Responsible Person: Rafaela King, Controller

2015-024 – Long-term Debt – Government-wide (MW)

Criteria: While long-term debt is not recorded in fund accounting, the City has to present them in government-wide statements. The City should maintain long-term debt records on a regular periodic basis.

Condition: The City has separate government-wide funds in the general ledger to keep track of government-wide balances, such as long-term debt and capital assets. However, the City does not periodically update and maintain these GL accounts.

Cause: There was no designated staff assigned to maintain these GL accounts and the City's delinquency in the financial audits allowed the City to fall behind and overlook the need to review and update these GL balances.

Effect or Potential Effect: City doesn't effectively track long-term debt balances in the general ledger, which allows for more errors and makes reconciling at year end more time-consuming.

Repeat of a Prior-Year Finding: No

Recommendation: The City should maintain government-wide funds during the fiscal year or at least on a period basis. This would aid in better overview of outstanding obligations and can contribute to more effective and accurate budgeting.

This addresses COSO's Control Environment, Principle 5: enforces accountability and Control Activities, Principle 12: deploys through policies & procedures.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation.

Corrective Action Plan: The Controller's office will assign specific accounting staff to maintain the long-term debt accounts and keep the long-term debt schedules current. The City will also establish and document policies and procedures designed to serve as the system of internal controls required by OMB's Uniform Guidance (2 CFR 200). In the meantime, the City Controller department will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2020

Responsible Person: Rafaela King, Controller

2015-025 – Long-term Debt – Discount on Bonds (SD)

Criteria: Discount on bonds are required to be amortized over the life of the long-term debt. Proprietary and fiduciary funds report using full accrual basis of accounting and therefore should record these items in their GL. While governmental funds don't record long-term debt and other related liabilities (discounts, premiums, deferred gains/losses on refunding), reporting of these items are required for governmental activities in the government-wide statements, therefore, records should be maintained on a regular periodic basis.

Condition: The City properly amortized discounts on bonds for proprietary funds. However, it failed to do so for fiduciary funds and government-wide funds.

Cause: City staff appear to have weak governmental accounting knowledge and lack of guidance from supervisors. In addition, lack of review of annual financial statements allowed inconsistencies like this to remain undetected.

Effect or Potential Effect: Expenses are misstated.

Repeat of a Prior-Year Finding: No

Recommendation: The City should have month end and/or year-end checklists to ensure that all routine journals are prepared, approved, and posted. Periodic reviews of the financial statements would also allow the detection of unusual items (no movement in long-term obligations and related accounts).

This addresses COSO's Control Activities, Principle 12: deploys through policies & procedures and Information & Communication, Principle 13: uses relevant, quality information.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation.

Corrective Action Plan: The City has created and implemented monthly and annual checklists to ensure all reporting and journal entries are prepared, approved, and posted on a regular basis. Currently, the Deputy Controller reviews all journal entries and makes sure there is adequate supporting documentation prior to approval and posting. The City will also establish and document policies and procedures designed to serve as the system of internal controls required by OMB's Uniform Guidance (2 CFR 200).

Planned Implementation Date: June 30, 2019

Responsible Person: Rafaela King, Controller

2015-026 – Accruals (SD)

Criteria: Accruals should be properly reversed in the beginning of the following FY.

Condition: Accruals were not properly reversed/adjusted after year end.

Cause: High turnover in personnel and the City's delinquency in audits has resulted in significant difficulty for current staff to retrieve older documentation.

Effect or Potential Effect: Accruals and the related income statement accounts could be misstated.

Repeat of a Prior-Year Finding: No

Recommendation: Review of year end balances would have allowed the City to discover the error due to the unusual balance in one account and a zero change from one year to the other.

This addresses COSO's Control Activities, Principle 10: selects and develops control activities and Information & Communication, Principle 13: uses relevant, quality information.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation.

Corrective Action Plan: Accruals are now being set up with a corresponding journal entry to reverse at the time of entry. The Deputy Controller is oversees this process. The City will also establish and document policies and procedures designed to serve as the system of internal controls required by OMB's Uniform Guidance (2 CFR 200).

Planned Implementation Date: June 30, 2019

Responsible Person: Rafaela King, Controller

2015-027 – Rubbish Assessment – Proprietary (SD)

Criteria: Assessments should be separately tracked by using a separate (unique) revenue code.

Condition: The City recorded rubbish assessment revenues gross with other rubbish revenue. Total rubbish assessments collected for the year is not easily accessible upon request.

Cause: It appears that City staff has not been instructed to separately track assessments for rubbish.

Effect or Potential Effect: Enterprise fund's revenue might be misstatement due to inadequate tracking and recording of assessment revenue.

Repeat of a Prior-Year Finding: No

Recommendation: The City should maintain a separate revenue code for assessment proceeds.

This addresses COSO's Control Activities, Principle 10: selects and develops control activities and Information & Communication, Principle 14: communicates internally.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation.

Corrective Action Plan: The Controller's office will ensure that separate revenue accounts are used. The City is now separating the Rubbish department from the Water department also. Separate staff will allow for more accountability and assist in ensuring the management of both departments track the revenues in their respective areas/departments. The City will also establish and document policies and procedures designed to serve as the system of internal controls required by OMB's Uniform Guidance (2 CFR 200). In the meantime, the City will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2020

Responsible Person: Rafaela King, Controller

2015-028 – Accrued Payroll (MW)

Criteria: Accrued payroll should be calculated and posted to ensure proper cutoff of payroll expenses.

Condition: The City recorded the payroll expenses in the appropriate fiscal year, however it failed to create a liability. Instead, the City credited cash as of year-end when in fact cash wasn't disbursed until July or later of the following fiscal year.

Cause: Weak accounting personnel and lack of proper supervision and review allowed incorrect entries to be posted.

Effect or Potential Effect: Cash and accrued payroll are significantly understated as of year-end.

Repeat of a Prior-Year Finding: No

Recommendation: The City should provide proper training to staff to allow them perform their day-to-day duties effectively. Adequate and timely review of the journals prior to posting would also allow for errors to be detected and corrected in a timely manner.

This addresses COSO's Control Environment, Principle 4: demonstrates commitment to competence and Control Activities, Principle 12: deploys through policies & procedures.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation.

Corrective Action Plan: The City has hired a licensed CPA as Deputy Controller with extensive payroll experience. The Deputy Controller is currently cleaning up payroll areas and training staff in all payroll-related matters. In addition, the City is also in the process of replacing the Payroll Supervisor position with another skilled accountant to ensure the general ledger entries and year-end entries are done accurately. The City will also establish and document policies and procedures designed to serve as the system of internal controls required by OMB's Uniform Guidance (2 CFR 200).

Planned Implementation Date: June 30, 2019

Responsible Person: Rafaela King, Controller

2015-029 – Accrued Expenses (MW)

Criteria: Expenses incurred but not paid as of year-end should be accrued, to ensure proper cutoff of expenses.

Condition: There were several items that were inappropriately included/excluded from the fiscal period. Upon testing subsequent cash disbursement, we noted that accounts payable and accrued expenses were understated by \$373,147 (net) due to improper cutoff.

Cause: Errors appear to be mainly due to oversight by staff and reviewer. There were also instances where service periods were within the following fiscal period, yet a liability was incorrectly included in the current period based on the resolution and/or budget approval.

Effect or Potential Effect: Expenses are recorded in the incorrect fiscal period causing either over/understatement of expenses. The errors also resulted in capital assets/construction in progress being capitalized in the wrong period.

Repeat of a Prior-Year Finding: No

Recommendation: The City should provide adequate training to staff how to properly determine cutoff. Adequate and timely review of accrual journals and their supporting documentation should be able to detect any errors prior to posting.

This addresses COSO's Control Environment, Principle 4: demonstrates commitment to competence and Control Activities, Principle 12: deploys through policies & procedures.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation.

Corrective Action Plan: The City has hired a Deputy Controller, who is in charge of accounts payable and is working with the Deputy Controller in charge of the general ledger staff. They are working to come up with a process to bring Accounts Payable, GL and accrued expenses together whereas the Accounts payable staff will be trained to understand the significance of the process and general ledger staff will review the work to ensure it is complete and accurate. The City will also establish and document policies and procedures designed to serve as the system of internal controls required by OMB's Uniform Guidance (2 CFR 200).

Planned Implementation Date: June 30, 2019

Responsible Person: Rafaela King, Controller

2015-030 – Cash Disbursement – Inadequate Review (MW)

Criteria: Partial payment forms should agree to supporting documentation, incl. purchase requisition, purchase order, and invoice.

Condition: For one item tested, the amount stated on the partial payment form differed from the amount on the supporting documentation.

Cause: Inadequate review of disbursement prior to approval of checks.

Effect or Potential Effect: Potential effects include overpayment of an invoice or short payment of an invoice that might potentially result in late and/or penalty fees.

Repeat of a Prior-Year Finding: No

Recommendation: The City should ensure that proper review is being performed prior to check disbursement.

This addresses COSO's Control Activities, Principle 12: deploys through policies & procedures and Information & Communication, Principle 14: communicates internally.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation.

Corrective Action Plan: The City will create a signature line on the partial payment form for the Controller to sign that will ensure that the review process is the same as for other check review processes. Partial payment forms have to be signed prior to going to accounts payable staff. The City will also establish and document policies and procedures designed to serve as the system of internal controls required by OMB's Uniform Guidance (2 CFR 200). In the meantime, the City Controller department will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2020

Responsible Person: Rafaela King, Controller

2015-031 – Cash Disbursement – Inadequate Supporting Documentation (MW)

Criteria: Supporting documentation should be attached to check copies for subsequent review of disbursements.

Condition: There were instances where only partial support was attached to the check copy, which were insufficient to determine the validity, accuracy, and reasonableness of the expense. Of twenty-five (25) randomly sampled cash disbursements, the City processed one (1) transaction where only partial supporting documentation was present with the check copy.

Cause: City staff is not adequately trained to determine if supporting documentation is missing.

Effect or Potential Effect: Payment of unauthorized and/or invalid expenses.

Repeat of a Prior-Year Finding: No

Recommendation: The City should strengthen its review procedures to ensure that sufficient supporting documentation is attached to the check requests. Also, additional training for staff is encouraged to allow detection of issues and corrective action to be set in motion sooner.

This addresses COSO's Control Environment, Principle 4: demonstrates commitment to competence and Information & Communication, Principle 13: uses relevant quality information.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation.

Corrective Action Plan: The City has hired a Deputy Controller who is in charge of accounts payable. The Deputy Controller reviews the support for all checks before they are submitted for signature to ensure it is complete and accurate. The City will also establish and document policies and procedures designed to serve as the system of internal controls required by OMB's Uniform Guidance (2 CFR 200). In the meantime, the City Controller department will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2020

Responsible Person: Rafaela King, Controller

2015-032 – Cash Disbursement – General Ledger Object Code Usage (SD)

Criteria: Classification of disbursements should appear reasonable and representative of the nature of the expense.

Condition: There were instances where general ledger object codes used do not appear to be reasonable and/or representative of the service/goods described in the invoice.

Cause: Could have been caused due to oversight and inadequate review.

Effect or Potential Effect: Misstatement of expense subgroups and potential effect on budget.

Repeat of a Prior-Year Finding: No

Recommendation: The City should strengthen its review procedures to include detection of classification errors as a review objective. Also, additional training for staff to help them better determine the appropriate classification is strongly encouraged.

This addresses COSO's Control Environment, Principle 4: demonstrates commitment to competence and Information & Communication, Principle 14: communicates internally.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation.

Corrective Action Plan: The Controller staff will work with all departments to train them on the correct general ledger account numbers to use to ensure consistency throughout the City. The Controller staff will also work with the Budget Officer during the budget process to ensure all departments with similar expenses are using the same object code and the budget supports the true definitions. Departments will also be trained to request budget modifications when necessary. The City will also establish and document policies and procedures designed to serve as the system of internal controls required by OMB's Uniform Guidance (2 CFR 200). In the meantime, the City Controller department will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2020

Responsible Person: Rafaela King, Controller

2015-033 – Credit Card Late Charges (SD)

Criteria: Per City policy, late charges and other penalties are must be prevented to protect City funds.

Condition: Late charges were incurred in January and March 2015.

Cause: Credit card statements were not paid on time.

Effect or Potential Effect: By incurring late and other penalty charges, City funds are wasted on expenditures that were not necessary and could have been prevented.

Repeat of a Prior-Year Finding: Yes, 2014-056A

Recommendation: The City should ensure that credit card statements, as well as other invoices are paid on time to avoid any late and other penalty charges from occurring. By implementing deadlines for credit card holders to submit all the supporting documentation, the City Controller's office should be able to go through the supporting documentation in a timely manner and have the statement balance paid prior to the due date.

This addresses COSO's Control Activities, Principle 12: deploys through policies & procedures.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation.

Corrective Action Plan: The administrative staff in the City Manager's Office monitors the City's one (1) issued credit card. The Controller will work with the staff in the City Manager's Office to ensure all charges are being pre-approved when possible. The City will also establish and document policies and procedures designed to serve as the system of internal controls required by OMB's Uniform Guidance (2 CFR 200). In the meantime, the City Controller department will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2021

Responsible Person: Rafaela King, Controller

2015-034 – Water Exception Report Document Retention (BP)

Criteria: Financial statement related reports should be maintained until the financial statement audit has been completed.

Condition: Water department currently only retains meter reading exception reports for a couple of months. E+P was unable to review any of the reports pertaining to FY 2015 and 2016.

Cause: The City’s document retention policy is only for a few months.

Effect or Potential Effect: Review of such reports are no longer possible at a later time.

Repeat of a Prior-Year Finding: No

Recommendation: The City should consider extending the document retention policy to accommodate any subsequent record reviews/audits.

This addresses COSO’s Control Activities, Principle 12: deploys through policies & procedures and Information & Communication, Principle 13: uses relevant, quality information.

Management Response and Corrective Action Plan

City’s Response: The City concurs with the recommendation.

Corrective Action Plan: The City Controller’s Office will recommend to the City Manager and the City Clerk that a new/updated retention policy is developed and this finding is addressed in the policy. The City will also document these policies and procedures and design them to serve as the system of internal controls required by OMB’s Uniform Guidance (2 CFR 200). In the meantime, the City Controller department will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2021

Responsible Person: Brian Dickinson, Municipal Water Manager

2015-035 – Meter Readings Lost (BP)

Criteria: Financial statement related reports should be adequately backed up and retained until the financial statement audit has been completed.

Condition: Previous meter readings were unavailable for testing/review due to update in reading software and equipment.

Cause: The City didn't save, back up, and/or retain data from old meter reading software and equipment.

Effect or Potential Effect: Review of such reports are no longer possible at a later time.

Repeat of a Prior-Year Finding: No

Recommendation: The City should ensure that updates to newer software and/or upgrades to more advanced equipment doesn't compromise prior data. Prior data should have been securely transitioned to new software or retained in another accessible format to allow easy access to legacy information.

This addresses COSO's Control Activities, Principle 12: deploys through policies & procedures and Information & Communication, Principle 13: uses relevant, quality information.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation.

Corrective Action Plan: The City Controller's Office will recommend to the City Manager and the City Clerk that a new/updated retention policy is developed and this finding is addressed in the policy. The City will also work with the new Water General Manager to ensure he understands the importance of keeping historical data until after the issuance of the audit report. The City will document these policies and procedures and design them to serve as the system of internal controls required by OMB's Uniform Guidance (2 CFR 200). In the meantime, the City Controller department will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2021

Responsible Person: Brian Dickinson, Municipal Water Manager

2015-036 – Accounts Receivable – Supporting Documentation (SD)

Criteria: The City should maintain supporting documentation until the financial statement audit has been completed.

Condition: The City was not able to provide requested supporting documents for accounts receivable balance.

Cause: High turnover in personnel and the City's delinquency in audits has resulted in high difficulty for current staff to retrieve older documentation.

Effect or Potential Effect: Review of supporting documentation at a later time is no longer possible.

Repeat of a Prior-Year Finding: No

Recommendation: The City should establish and implement a systematic filing system, as well as a document retention policy.

This addresses COSO's Control Activities, Principle 11: selects and develops control activities and Information & Communication, Principle 13: uses relevant, quality information.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation.

Corrective Action Plan: Currently, accounts receivable is not centralized. The Controller's Office intends to centralize all accounts receivable functions into the Controller's Office in order to maintain adequate records. The City will also establish and document policies and procedures designed to serve as the system of internal controls required by OMB's Uniform Guidance (2 CFR 200). In the meantime, the City Controller department will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2021

Responsible Person: Rafaela King, Controller

2015-037 – Credit Cards – Supporting Documentation (SD)

Criteria: Sufficient supporting documentation should be provided along with credit card statement for payment processing.

Condition: Supporting documentation was not attached to credit card statements.

Cause: Weak controls over credit card disbursements and inadequate filing system did not allow for time efficient retrieval of requested supporting documentation.

Effect or Potential Effect: Potential payment of unauthorized and/or unallowable expenses, misuse of City funds, and inefficiencies in fulfilling public requests and audit requests.

Repeat of a Prior-Year Finding: Yes, 2014-056A

Recommendation: The City should update its credit card procurement policy and provide proper training to City staff. Also, a more structured filing system of invoices would allow for more effective and efficient document retrieval.

This addresses COSO's Control Activities, Principle 12: deploys through policies & procedures.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation.

Corrective Action Plan: The Controller's Office has implemented a filing system for all accounts payable activities. This allows for easy retrieval of needed documentation. The credit card supporting documentation has been increased for all charges and are now attached to all statements ready for payment. The City will also document policies and procedures designed to serve as the system of internal controls required by OMB's Uniform Guidance (2 CFR 200).

Planned Implementation Date: June 30, 2019

Responsible Person: Rafaela King, Controller

2015-038 – City and ICMS Water Bills (MW)

Criteria: The City and its divisions should pay for their water usage to ensure that the water fund's cost are sufficiently covered.

Condition: The City and the Street Maintenance Division (formerly Infrastructure Construction & Maintenance Services) were not paying or accruing their water bills.

Cause: Unknown

Effect or Potential Effect: The water fund might generate a deficit due to the cost generated for City utility usage for which no revenue is generated.

Repeat of a Prior-Year Finding: No

Recommendation: The City and ICMS division should be paying for their water usage to ensure that the water fund's cost are adequately covered by matching revenue.

This addresses COSO's Control Activities, Principle 10: selects and develops control activities and Information & Communication, Principle 14: communicates internally.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation and believes that this has been addressed already.

Corrective Action Plan: The City will also establish and document policies and procedures designed to serve as the system of internal controls required by OMB's Uniform Guidance (2 CFR 200).

Planned Implementation Date: June 30, 2019

Responsible Person: Brian Dickinson, Municipal Water Manager

2015-039 – Credit Cards – Classification of Late and Penalty Charges (BP)

Criteria: While late and other penalty charges should be avoided as much as possible, incurred late and other penalty charges should be tracked and analyzed periodically.

Condition: The City classifies late and other penalty charges as “Special Department” expenses, which makes tracking them difficult.

Cause: Lack of review of credit card processing resulted in oversight and failure to apply corrective action, i.e. revision of GL account to be used.

Effect or Potential Effect: By classifying late and other penalty charges as “Special Department” expenses, it makes it difficult for supervisory personnel to detect such charges and take corrective action.

Repeat of a Prior-Year Finding: No

Recommendation: The City should record late and other penalty charges in a separate object code for more effective tracking purposes. Periodic review of such accounts should be performed to ensure that unnecessary expenses can be prevented going forward.

This addresses COSO’s Control Activities, Principle 12: deploys through policies & procedures and Information & Communication, Principle 13: uses relevant, quality information.

Management Response and Corrective Action Plan

City’s Response: The City concurs with the recommendation.

Corrective Action Plan: The City Controller’s Office will create an object code for late charges and penalties to allow for easy identification and tracking of such expenditures. The City will also establish and document policies and procedures designed to serve as the system of internal controls required by OMB’s Uniform Guidance (2 CFR 200).

Planned Implementation Date: June 30, 2020

Responsible Person: Rafaela King, Controller

2014-011 – Financial Statement Reporting (MW)

Criteria: City financial statements should periodically be reviewed by City Management to allow for timely discovery of significant variances from budgets and expected results and the development of corrective actions to address such variances.

Condition: The City does not have adequate internal controls to ensure accurate and complete financial statements. The City's management does not review the City's financial statements on a periodic basis and does not investigate significant variances from budgets and expected results.

Cause: Due to the vacancies of key positions in the City Controller's Office, financial statements are not periodically prepared in a timely manner. Therefore, financial statements are not periodically reviewed.

Effect or Potential Effect: Significant variances from budget and expected results could remain undetected, which would result in poor performance during the fiscal year.

Repeat of a Prior-Year Finding: No

Recommendation: The City should fill key positions to enable the timely preparation for City financial statements. The City should, then, periodically review and document the review of financial statements. Also, the City should perform a periodic budget to actual analysis to keep track of the City's fiscal position. This would allow management to make any necessary amendments to the budget in a timely and documented manner.

Timely and accurate financial statements are a prerequisite for understanding the City's financial position as well as for making cost effective management decisions impacting future financial performance of the City. Financial information needs to be comprehensive, timely, and accurate. This recommendation addresses COSO's Control Environment, Principle 4: demonstrates a commitment to competence and Information & Communication, Principle 13: uses relevant, quality information, and Principle 14: communicates internally.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation.

Corrective Action Plan: During 2018, the City has filled key positions and continues to fill other vacant positions in the Controller's Office. The additional staff will help ensure the timely preparation of reports. Budget versus actual review and reporting will happen on a monthly basis to ensure compliance with the budget and allow management to make any necessary changes timely. The City will also establish and document policies and procedures designed to serve as the system of internal controls required by OMB's Uniform Guidance (2 CFR 200). In the meantime, the City Controller department will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2020

Responsible Person: Rafaela King, Controller

2014-012 – Internal Control over Journal Entries – Review and Approval (MW)

Criteria: Journal entries should be properly reviewed and approved by an appropriate person prior to posting.

Condition: E+P noted that journal entries are not properly reviewed and approved prior to posting or at least lacking the documentation of review and approval.

Cause: Due to vacancies in key positions in the City Controller’s Office and the time constraint, there are instances of poor and insufficient review.

Effect or Potential Effect: Significant errors could remain undetected and materially misstate the financial statements.

Repeat of a Prior-Year Finding: No

Recommendation: All journal entries should be reviewed and approved by initial/signature of an appropriate level prior to posting. The process of preparing and posting of journal entries should be formalized in a policy establishing different levels of approvals.

This addresses COSO’s Control Activities, Principle 12: deploys through policies & procedures.

Management Response and Corrective Action Plan

City’s Response: The City concurs with the recommendation.

Corrective Action Plan: The City has hired a Deputy City Controller who is assigned to review all journal entries created by staff. The Deputy Controller is also responsible for making sure there is adequate support documentation and posting all journal entries. The City will also establish and document policies and procedures designed to serve as the system of internal controls required by OMB’s Uniform Guidance (2 CFR 200).

Planned Implementation Date: June 30, 2019

Responsible Person: Rafaela King, Controller

2014-013 – Internal Control over Journal Entries – Supporting Documentation (MW)

Criteria: Each journal entry should have sufficient supporting documentation attached to allow reviewer to determine the accuracy, reasonableness, and appropriateness of the entry prior to approval.

Condition: Journal entries that are to be posted do not have sufficient supporting documentation for the reviewer to properly approve.

Cause: Insufficient supporting documentation are attached to the journal entry.

Effect or Potential Effect: Incorrect entries could be posted due to the insufficient documentation available during review.

Repeat of a Prior-Year Finding: No

Recommendation: Adequate support that explains the purpose of the journal entry and from where the amounts are derived should be attached to the journal voucher to ensure existence and accuracy.

This addresses COSO's Control Activities, Principle 12: deploys through policies & procedures.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation.

Corrective Action Plan: The City has hired a Deputy City Controller who is assigned to review all journal entries created by staff. The Deputy Controller is also responsible for making sure there is adequate support documentation and posting all journal entries. The City will also establish and document policies and procedures designed to serve as a system of internal controls required by OMB's Uniform Guidance (2 CFR 200).

Planned Implementation Date: June 30, 2019

Responsible Person: Rafaela King, Controller

2014-014 – Internal Control over Journal Entries – Maintenance of Records (MW)

Criteria: Each journal entry posted should be assigned a unique, sequential number to fully account for each entry.

Condition: Journal entries that are posted are not numbered, filed, and maintained in a consistent manner. The total population of journal entries are, therefore, not tracked by the City. City staff was also unable to provide journal entry supporting documentation for FY14 and FY15 as they could not be located in the journal binder.

Cause: Journal numbers consist of the inputting staff's initials and manually generated numbers. There is no auto-generated sequential numbering of the journal voucher, which makes accounting for completeness difficult.

Effect or Potential Effect: City cannot determine the total number of journal entries posted.

Repeat of a Prior-Year Finding: No

Recommendation: The process of preparing journal entries should be formalized in a policy. Items that can be included in the policy are who can prepare journal entries, who can approve, dollar limits to approvals, what supporting documentation should be attached, how the entries are numbered and filed for future reference etc.

This addresses COSO's Control Activities, Principle 12: deploys through policies & procedures.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation.

Corrective Action Plan: The City is reviewing the limitations of the financial software. Once the capacity is determined for automation of sequential numbering, the City will establish a policy regarding the numbering system. The journal entries are filed and maintained in binders organized annually based on the current numbering system. The City will also establish and document policies and procedures designed to serve as a system of internal controls required by OMB's Uniform Guidance (2 CFR 200).

Planned Implementation Date: June 30, 2020

Responsible Person: Rafaela King, Controller

2014-015 – EFT Journal Entries (MW)

Criteria: Journal entries should be reviewed and approved by the Controller or a supervisory position. All journal entries should be accompanied by a full explanation and reference to adequate supporting data.

Condition: Journal entries for EFT disbursements, such as monthly Section 8 payments, are not being reviewed and documented as approved by the Controller or a supervisor position prior to posting.

Cause: Due to the vacancies in key positions in the Controller’s Office, EFT journal entries are posted without the Controller’s or supervisor’s review.

Effect or Potential Effect: Due to the nature of EFT entries, the lack of review and approval could result in significant errors that could materially misstate the financial statements.

Repeat of a Prior-Year Finding: No

Recommendation: EFT journal entries should be documented as reviewed and approved by the Controller or appropriate personnel prior to posting and disbursement.

This addresses COSO’s Control Activities, Principle 12: deploys through policies & procedures.

Management Response and Corrective Action Plan

City’s Response: The City concurs with the recommendation.

Corrective Action Plan: The City has hired a Deputy City Controller who is assigned to review all journal entries created by staff. The deputy is also responsible for ensuring there is adequate support documentation and posting all journal entries. The City will also establish and document policies and procedures designed to serve as a system of internal controls required by OMB’s Uniform Guidance (2 CFR 200). In the meantime, the City Controller department will continue to take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2019

Responsible Person: Rafaela King, Controller

2014-016 – EFT Upload .txt File (MW)

Criteria: EFT upload .txt file should be reviewed and approved by the Controller or any supervisory position prior to being uploaded to the bank, then sent to the Treasurer's office to subsequently confirm the correct amount was disbursed.

Condition: The EFT file being uploaded to the bank is a .txt file that can be easily altered. The City employee that uploads the file is in the City Controller's Office and is the same person who confirms the total EFT amount with the Treasurer's Office. The Treasurer's office does not receive a copy of the original report from the Local Housing Authority to ensure that the EFT was for the proper amount.

Cause: The Total EFT amount is currently being confirmed by the same person preparing the upload.

Effect or Potential Effect: If there were any unauthorized alterations to the EFT upload file, there are no controls in place to detect such.

Repeat of a Prior-Year Finding: No

Recommendation: The Treasurer's Office should confirm the EFT amount from an independent source or the original source document to ensure the accuracy of the EFT request.

This addresses COSO's Control Activities, Principle 12: deploys through policies & procedures.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation.

Corrective Action Plan: The City will write a policy regarding the review and upload of the .txt file that will involve the Treasurer's Office and Housing to ensure the correct amount is approved prior to the upload. The City will also establish and document policies and procedures designed to serve as a system of internal controls required by OMB's Uniform Guidance (2 CFR 200). In the meantime, the City Controller and City Treasurer Department will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2020

Responsible Person: Rafaela King, Controller and Douglas Sanders, City Treasurer.

2014-017 – Payroll Submission (MW)

Criteria: The payroll submission should be reviewed and approved by the Controller or a supervisory position prior to being submitted to payroll service vendor.

Condition: Payroll submissions are not being reviewed and approved by the Controller or any supervisor position prior to submitting to ADP, which increases the risk of inaccurate payroll.

Cause: There is no control in place to approve a payroll submission to the payroll service vendor before payroll is processed.

Effect or Potential Effect: Errors will not be detected and employees may receive an incorrect compensation.

Repeat of a Prior-Year Finding: No

Recommendation: Payroll should be documented as reviewed and approved by appropriate personnel prior to submission to the payroll service vendor.

This addresses COSO's Control Activities, Principle 12: deploys through policies & procedures.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation. The City will establish and document policies and procedures to ensure that payroll submissions to ADP are reviewed and approved of by a supervisor prior to submission.

Corrective Action Plan: The City hired a Deputy Controller to oversee and supervise the payroll department. The Deputy Controller reviews the payroll edit batch prior to submission to ADP. The City will also establish and document policies and procedures designed to serve as a system of internal controls required by OMB's Uniform Guidance (2 CFR 200).

Planned Implementation Date: June 30, 2019

Responsible Person: Rafaela King, Controller

2014-018 – Payroll Posting (MW)

Criteria: The posting of payroll should be completed within a timely manner to ensure that the City financial statements are accurate.

Condition: Payroll journal entries are not being posted timely and are at least three weeks behind, which could lead to materially misstated City financial statements and budget analysis due to incomplete payroll expenditures.

Cause: The accountant does not post payroll expenditures until a report has been generated by ADP, which the accountant obtains from payroll.

Effect or Potential Effect: The City financial statements may be materially misstated due to incomplete and inaccurate payroll expenditures.

Repeat of a Prior-Year Finding: No

Recommendation: Payroll journal entries should be prepared, reviewed, approved and posted to the general ledger in a timely manner to ensure accuracy of the financial statements.

This addresses COSO's Control Activities, Principle 12: deploys through policies & procedures.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation.

Corrective Action Plan: The City hired additional accounting staff. The payroll posting function is processed biweekly and reviewed prior to posting by one of the Deputy Controllers. The City will also establish and document policies and procedures designed to serve as a system of internal controls required by OMB's Uniform Guidance (2 CFR 200). In the meantime, the City Controller department will continue to take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2019

Responsible Person: Rafaela King, Controller

2014-019 – Payroll Account Numbers (SD)

Criteria: Payroll object codes generated by payroll service vendor should be followed by the City Accountant to ensure a consistent and accurate payroll expense.

Condition: Payroll general ledger account numbers generated by ADP are not always followed. The City accountant has the ability to make changes to the system journal entry import file based on the City's budget, i.e. reallocate overtime expenses from one fund to another.

Cause: Employee profiles are not regularly updated with current % allocations, per budget document.

Effect or Potential Effect: The City financial statements may be materially misstated because payroll expenditures may not be complete and accurate.

Repeat of a Prior-Year Finding: No

Recommendation: ADP's cost allocation function should be fully utilized to eliminate any manual adjustments. If manual adjustments are still necessary, appropriate supporting documentation of review and approval should be attached. If the revised general ledger account posting will be used consistently in the future, then ADP's cost allocation codes should be modified.

This addresses COSO's Control Activities, Principle 12: deploys through policies & procedures.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation.

Corrective Action Plan: The City hired a Deputy Controller with extensive payroll and ADP experience. The Deputy Controller has been auditing all payroll and HR entries in the database and is making corrections to ensure the correct cost allocations and profile setups are in the financial software and the account numbers are transferred to ADP. Other payroll-related errors, including object codes, are also being corrected to ensure the posting is correct in the financial software. The City will also establish and document policies and procedures designed to serve as a system of internal controls required by OMB's Uniform Guidance (2 CFR 200). In the meantime, the City Controller department will continue to take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2020

Responsible Person: Rafaela King, Controller

2014-020 – Employee Punch-in (SD)

Criteria: City employees are required to punch in and punch out every day to accurately record their hours worked in a day.

Condition: Employees are capable of punching in for other employees using their employee ID. The City does not seem to be utilizing the biometric employee punch-in feature. Also, the departments are inconsistent with the punch-in/out requirements. While some departments punch-in/out for lunch, others don't and the system automatically deducts an hour from the total hours logged for the day.

Cause: There is no secondary security that prevents employees from entering another employee's ID.

Effect or Potential Effect: Employees could be paid for time that they are not actually present.

Repeat of a Prior-Year Finding: No

Recommendation: The City should require employees to register their fingerprint in the system so that employees will use a dual punch-in that requires their employee code and fingerprint to eliminate the opportunity for employees to punch-in for other employees.

This addresses COSO's Control Activities, Principle 12: deploys through policies & procedures.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation.

Corrective Action Plan: The City will consider the use of fingerprinting as a secondary security measure in regards to timeclocks. This will be a meet and confer issue and will be addressed after all other possibilities are waived. The City will also establish and document policies and procedures designed to serve as a system of internal controls required by OMB's Uniform Guidance (2 CFR 200). In the meantime, the City Controller department will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2020

Responsible Person: Rafaela King, Controller

2014-021 – Labor Cost Allocation Budget Approval (MW)

Criteria: The approved labor cost allocation should be used to properly allocate the time of employees that work on multiple projects.

Condition: The fiscal year labor cost allocation budget used by payroll to enter employee fund and account allocations into ADP does not show documentation of approval and review by the Controller, budget department, and department manager of the affected departments.

Cause: E+P was not able to determine if the labor cost allocation went through the proper approval path.

Effect or Potential Effect: The incorrect funds could be charged with payroll expenditures that does not belong to them, which becomes more significant for federal grant programs.

Repeat of a Prior-Year Finding: No

Recommendation: The labor cost allocation budget should show which department it was prepared by, and documentation of review and approval from the Controller, budget department, and the affected department to ensure accuracy of the document and input into ADP.

This addresses COSO's Control Activities, Principle 12: deploys through policies & procedures.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation.

Corrective Action Plan: The labor cost allocation accounts are now included on employees' PA101 forms. Any changes to employee allocations are now entered by HR and verified by payroll once the executed copy has been received. The PA101 forms are signed by HR, the Budget Officer, and the Controller, along with the Department Head, City Manager, and employee. The City will establish and document policies and procedures designed to serve as a system of internal controls required by OMB's Uniform Guidance (2 CFR 200).

Planned Implementation Date: June 30, 2019

Responsible Person: Rafaela King, Controller

2014-022 – Department Manager Time Card Approval (SD)

Criteria: Employee time cards should be signed by the employee and approved by their supervisor.

Condition: Department managers' time cards are not reviewed and approved by another designated employee and are only signed by the department managers themselves.

Cause: There are no designated alternate signers in place who are to sign off on the department manager's time card.

Effect or Potential Effect: There is no monitoring of manager's actual time. Also, in the manager's absence, there is no assigned, consistent alternative to approve others' time cards, which could result in easy manipulation of time cards.

Repeat of a Prior-Year Finding: Yes, 2013-001

Recommendation: The departments should have appropriate alternate signers assigned to approve the managers' time card and other employee time cards in a manager's absence.

This addresses COSO's Control Activities, Principle 12: deploys through policies & procedures.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation.

Corrective Action Plan: The City's management staff and Department Heads do not use timecards. Management submits Leave Request Sheets upon absence. The attendance for management is 'exception based'. Any leave requests are preapproved and submitted to the managers. The City will establish and document policies and procedures designed to serve as a system of internal controls required by OMB's Uniform Guidance (2 CFR 200).

Planned Implementation Date: June 30, 2019

Responsible Person: Rafaela King, Controller

2014-023 – Fire Department Time Cards (SD)

Criteria: City employees should be aware of the hours submitted on their behalf and should be documented by signature.

Condition: City's fire department maintains a roster for their scheduling. A designated time keeper transfers the roster to time cards that are submitted to payroll. Employees don't always get to see submitted time sheet which also lacks employee signature.

Cause: Due to the nature of the firefighters' schedule, the time keeper summarizes the roster in the time cards and submits them often prior to the employees review for accuracy.

Effect or Potential Effect: City employees could be compensated for inaccurate time due to poor reporting controls.

Repeat of a Prior-Year Finding: No

Recommendation: The City should establish policies and procedures that ensure that time cards submitted to the City Controller's office are accurate by requiring not only the department head, but also the employees to review and approve/sign the time cards prior to submission to the City Controller's office.

This addresses COSO's Control Activities, Principle 12: deploys through policies & procedures.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation.

Corrective Action Plan: The City Controller's Office and Payroll Department are closely monitoring the timekeeping issues associated with the Fire Department. The Chief and Controller are considering installing timeclocks at the fire stations to alleviate the mishaps with payroll-related activities. The City will also establish and document policies and procedures designed to serve as a system of internal controls required by OMB's Uniform Guidance (2 CFR 200). In the meantime, the City Controller department will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2020

Responsible Person: Rafaela King, Controller

2014-024 – Vacation and Overtime (SD)

Criteria: City employees shall be compensated for actual hours worked.

Condition: There was an instance when a fire department employee was paid 17 hours of overtime in addition to 112 hours of vacation in one pay period.

Cause: City employees are currently compensated overtime for getting called in to work during their scheduled vacation.

Effect or Potential Effect: Improper use of public funds due to excessive and unreasonable compensation to City employees.

Repeat of a Prior-Year Finding: No

Recommendation: The City should establish policies and procedures that define whether employees on vacation can be called in for work. If such instances are allowed per City policy, there should be sufficient support attached to the time cards to allow for appropriate accounting. However, we recommend that employees should not be paid overtime in addition to vacation time. Instead, employees could be entitled to keep vacation time or get paid at their regular hourly rate.

This addresses COSO's Control Activities, Principle 12: deploys through policies & procedures.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation.

Corrective Action Plan: The City has hired a Deputy Controller to oversee and supervise the payroll department. The Deputy City Controller monitors and rejects all incorrect time submissions related to the Fire Department. All misuse and improper recording of vacation, holiday, additional pay, etc. is being heavily scrutinized and corrective policies are being written. The City will also establish and document policies and procedures designed to serve as a system of internal controls required by OMB's Uniform Guidance (2 CFR 200). In the meantime, the City Controller department will continue to take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2019

Responsible Person: Rafaela King, Controller

2014-025 – Payroll Allocation (SD)

Criteria: City should be able to review ADP provided reports and determine the reasonableness of general ledger (GL) accounts being charged.

Condition: City does not have a control in place to ensure that payroll posted to the GL is according to the properly allocated. City relies on ADP's allocation and no documentation of review has been noted. E+P was not able to trace employee payroll to GL.

Repeat of a Prior-Year Finding: No

Cause: City is currently mostly relying on ADP's GL allocation report with the exception that some funds are modified based on the budget.

Effect or Potential Effect: There could be a classification issue that could result in a misstatement of the financial statements. As for the federal grants, this issue also might lead to charging unallowable costs against the federal grants accounts.

Recommendation: The City should periodically review ADP reports to determine if the allocation provided by ADP reflect the City's allocation budget. The City should also have policies and procedures in place that require periodic review of employee cost allocation information contained in the ADP reports to ensure all updates are accounted for.

This addresses COSO's Control Activities, Principle 12: deploys through policies & procedures.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation.

Corrective Action Plan: The City hired two Deputy Controllers. One is in charge of payroll and ADP, and the other is in charge of the general ledger. The deputies are working closely with staff and ADP to correct all general ledger postings and to ensure all account numbers being used by ADP and uploaded to the general ledger are accurate. The City will also establish and document policies and procedures designed to serve as a system of internal controls required by OMB's Uniform Guidance (2 CFR 200). In the meantime, the City Controller department will continue to take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2019

Responsible Person: Rafaela King, Controller

2014-026 – Payroll Accrued Liabilities (BP)

Criteria: The City should limit its liability by having defined rules regarding maximum sick time accruals.

Condition: The City allows employees to accrue unlimited sick time, for which the City records accrued liabilities.

Cause: Per City policy, employees can accrue 12 days of sick time per year, which may be accumulated indefinitely and without limit.

Effect or Potential Effect: The City could be restricting City funds for liabilities for which it has no legal obligation to accrue.

Repeat of a Prior-Year Finding: No

Recommendation: The City should revise its policies to establish a maximum sick time accrual to limit the City's liabilities.

This addresses COSO's Control Activities, Principle 12: deploys through policies & procedures.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation.

Corrective Action Plan: All City MOA have stipulations on the maximum payout allowed based on years of service and which bargaining group. The City has a policy in place by each bargaining unit. The City will also establish and document policies and procedures designed to serve as a system of internal controls required by OMB's Uniform Guidance (2 CFR 200).

Planned Implementation Date: June 30, 2019

Responsible Person: Rafaela King, Controller

2014-027 – Employee Change Forms – Timely Changes in Pay Rates in System (MW)

Criteria: Labor union enforced and scheduled pay increases should be processed in a timely manner or programmed to occur automatically per schedule.

Condition: Changes in pay rates are not processed and updated timely in the system, resulting in complex calculations for retroactive pay and benefits.

Repeat of a Prior-Year Finding: No

Cause: The Payroll Department is waiting for seemingly unrelated evaluation reports prior to retroactively applying the labor union determined increase.

Effect or Potential Effect: Payroll expenditures and City financial statements could be materially misstated.

Recommendation: Changes in employee pay rates for step or merit increases should be timely documented and updated in the payroll system by HR. The Payroll Department should be notified of the change so that they can verify and reconcile any differences before issuance of the payroll checks. Retroactive pay and benefit contributions should be processed and reviewed timely by the appropriate levels.

This addresses COSO's Control Activities, Principle 12: deploys through policies & procedures.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation.

Corrective Action Plan: The Payroll Department is currently auditing and fixing all errors in the system to ensure the retro payments can be paid through the system when possible. Changes in rates are monitored through HR and are not processed in Payroll without properly executed documentation. The City will also establish and document policies and procedures designed to serve as a system of internal controls required by OMB's Uniform Guidance (2 CFR 200). In the meantime, the Human Resources and City Controller department will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2020

Responsible Person: Jesenia Sanchez, Human Resources Analyst and Rafaela King, Controller

2014-028 – Employee Change Forms – Missing (SD)

Criteria: The human resources and payroll department should maintain employee change forms in their respective employee files for documentation retention and subsequent review.

Condition: PA101 (employee change forms) forms were missing, and therefore current employee pay rates could not be verified.

Repeat of a Prior-Year Finding: No

Cause: Neither the human resources nor the payroll department in the City Controller's office were able to locate the requested PA101.

Effect or Potential Effect: Unauthorized pay rate increases could be processed, which would result in misappropriation of City funds.

Recommendation: The City should ensure that policies and procedures are in place that define the proper flow of HR files to other departments. The HR as well as the City Controller's office should also establish filing procedures to ensure that all PA101 forms are filed away in an easily retrievable fashion.

This addresses COSO's Control Activities, Principle 12: deploys through policies & procedures.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation.

Corrective Action Plan: The City has hired additional HR staff to handle the paperwork associated with hiring new staff. The Controller's Office is reviewing and filing all HR-related documents received from HR for all employees. Employee files are kept in the Payroll Department files under lock and key. The City will also establish and document policies and procedures designed to serve as a system of internal controls required by OMB's Uniform Guidance (2 CFR 200).

Planned Implementation Date: June 30, 2019

Responsible Person: Jesenia Sanchez, Human Resources Analyst and Rafaela King, Controller

2014-029 – HR Forms – I-9 (BP, NC)

Criteria: Per immigration law, all employers must complete and retain I-9 forms for every person they hire within three business days after the employee begins work for pay for employment after November 6, 1986. The forms have to be retained for three years after the date of hire, or one year after the date of employment ends – whichever is later.

Condition: I-9 forms were not available in the employee files for some selected City employees.

Repeat of a Prior-Year Finding: No

Cause: Current HR personnel was unable to locate requested I-9 forms.

Effect or Potential Effect: Failure to complete and retain I-9 forms for every employee is considered a violation of federal law.

Recommendation: The City should ensure that all HR documents are available prior to having a new City employee start and maintain such documents in the employee files for documentation purposes. For City employees that are still employed by the City to date, the City should work on getting these files completed and filed.

This addresses COSO's Control Activities, Principle 12: deploys through policies & procedures.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation.

Corrective Action Plan: The City has hired additional HR staff to handle the paperwork associated with hiring new staff. The City will also establish and document policies and procedures designed to serve as a system of internal controls required by OMB's Uniform Guidance (2 CFR 200). In the meantime, the Human Resources and City Controller department will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2019

Responsible Person: Jesenia Sanchez, Human Resources Analyst and Rafaela King, Controller

2014-030 – HR Forms – I-9 Review of Information (BP, NC)

Criteria: Per immigration law, all employers must complete and retain I-9 forms for every person they hire within three business days after the employee begins work for pay for employment after November 6, 1986. The forms have to be retained for three years after the date of hire, or one year after the date of employment ends – whichever is later.

Condition: There are instances where I-9 forms are present, but there is no documentation of City staff reviewing and verifying information.

Repeat of a Prior-Year Finding: No

Cause: Current HR personnel was not present during period being audited and could not provide an explanation as to why Section 2 of the form was not completed.

Effect or Potential Effect: Failure to complete and retain I-9 forms for every employee is considered a violation of federal law.

Recommendation: The City should ensure that there are policies and procedures in place that define how HR documents should be processed during the hiring process. Consequently, the City should also ensure that such policies are actually being followed by the HR Department. For City employees that are still employed by the City to date, the City should work on getting these files completed and filed.

This addresses COSO's Control Activities, Principle 12: deploys through policies & procedures and Monitoring Activities, Principle 16: conducts ongoing and/or separate evaluations.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation.

Corrective Action Plan: The City has hired additional HR staff to handle the paperwork associated with hiring new staff. The City will also establish and document policies and procedures designed to serve as a system of internal controls required by OMB's Uniform Guidance (2 CFR 200). In the meantime, the Human Resources and City Controller department will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2019

Responsible Person: Jesenia Sanchez, Human Resources Analyst and Rafaela King, Controller

2014-031 – Internal Control over Cash Disbursements – Payment Processed from Statement (SD)

Criteria: City policy requires that all payments be supported by original invoices.

Condition: Per City policy, payments can only be made from original invoices. We identified that a payment was supported only by a statement instead of an original invoice.

Cause: City policy was not properly enforced and payment was still processed on a statement.

Effect or Potential Effect: Duplicate payments could be made for the same service or product.

Repeat of a Prior-Year Finding: No

Recommendation: The City should implement monitoring procedures to ensure that daily operations are conducted according to City Policies. In instances where deviations from City policies are necessary, properly documented support, including approval of such deviation from the department manager should be attached.

This addresses COSO's Control Activities, Principle 12: deploys through policies & procedures and Monitoring Activities, Principle 16: conducts ongoing and/or separate evaluations.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation.

Corrective Action Plan: The Controller's staff now reviews requisitions and warrant requests prior to submitting to accounts payable staff for input. The checks are further reviewed by the Budget Officer, and Controller (or Deputy) prior to the Controller signing the checks. The City will also establish and document policies and procedures designed to serve as the system of internal controls required by OMB's Uniform Guidance (2 CFR 200). In the meantime, the City Controller department will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2019

Responsible Person: Rafaela King, Controller

2014-032 – Internal Control over Cash Disbursements – Successor Agency Checks (MW)

Criteria: The City should account for all checks cut from its bank accounts by properly entering them in its accounting system.

Condition: Successor Agency checks were not accounted for in the system. The City Controller's Office accounted for them for by first issuing a City general bank account check in the system and then cutting and printing another check for the same amount on Successor Agency check stock. The updated check information was not recorded in the system. The checks issued by the City Controller's office from the general account were not properly voided and still show as outstanding checks in the accounting system.

Cause: The City wasn't entering Successor Agency checks in the accounting system and resulted in entering a "void" general checking account check instead. However, these "voided" checks still show as outstanding in the system.

Effect or Potential Effect: Expenses could be materially understated if additional Successor Agency checks were cut, but were not entered in the system. Also, due to the general checks never getting voided or cleared, the City cannot rely on its outstanding checks report for bank reconciliation purposes. Potential misstatement of cash balances due to improper journal entries to clear City checks.

Repeat of a Prior-Year Finding: No

Recommendation: All checks cut from City managed bank accounts should be accounted for in the accounting system. The City should establish a policy defining the necessity to use the appropriate check stock for the related expenditures and have each accounted for in the accounting system as is. The City should also review and correct any outstanding checks related to Successor Agency checks.

This addresses COSO's Control Activities, Principle 12: deploys through policies & procedures.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation.

Corrective Action Plan: The City is reviewing all capabilities of the financial software system including the ability to manage multiple check stocks for various accounts in order to eliminate the manual check process for the Successor Agency. The City will also establish and document policies and procedures designed to serve as a system of internal controls required by OMB's Uniform Guidance (2 CFR 200). In the meantime, the City Controller department will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2019

Responsible Person: Rafaela King, Controller

2014-033 – Internal Control over Cash Disbursements – Signor of Checks (SD)

Criteria: Check signing authorization should take proper segregation of duties into consideration.

Condition: There were instances when a check was signed by an accountant instead of the (Deputy) Controller or other supervisory level personnel.

Cause: Due to the key vacancies within the department, a resolution was passed that authorized the Accountant I to sign checks.

Effect or Potential Effect: Misappropriation of assets through unauthorized cash disbursements caused by lack of segregation of duties.

Repeat of a Prior-Year Finding: No

Recommendation: The City should establish appropriate alternate signers in the absence of the Controller. In instances where the appropriate alternate signer is also not available, a comprehensive explanation and proper documentation of support authorizing and validating another City staff's signature should be attached.

This addresses COSO's Control Activities, Principle 12: deploys through policies & procedures.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation.

Corrective Action Plan: All check signers are authorized by City Council via resolution. Heavy turnover of the management in the Controller's Office required a third signer with consistency. The Accountant I would only sign checks in the absence of the Controller and the Deputy Controller. The City will establish and document policies and procedures designed to serve as a system of internal controls required by OMB's Uniform Guidance (2 CFR 200).

Planned Implementation Date: June 30, 2019

Responsible Person: Rafaela King, Controller

2014-034 – Internal Control over Procurement (MW)

Criteria: Per City policy, bids and proposals are required for transactions of an estimated cost of \$7,500 or over and the selection of consultants and contractors.

Condition: Bidding package and requested quotes were not available for review for samples selected for testing. The City Controller's office does not get a copy of the comparative quotes or bidding results that are used to verify that proper purchasing procedures set by City policy were followed.

Cause: Bidding information are maintained in the requesting department and there are no copies available in the City Clerk's office.

Effect or Potential Effect: Lack of policy enforcement could result in opportunity for favoritism, corruption, and fraud.

Repeat of a Prior-Year Finding: No

Recommendation: City should have procedures, controls, and personnel in place that ensure purchasing procedures being conducted are per City Policy.

This addresses COSO's Control Activities, Principle 12: deploys through policies & procedures.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation.

Corrective Action Plan: The City is centralizing the Purchasing Department within the Controller's Office. All bids will be maintained in the Purchasing Division. Other procedures will be written as the department gets staff hired as the centralization takes place. The City will also establish and document policies and procedures designed to serve as a system of internal controls required by OMB's Uniform Guidance (2 CFR 200).

Planned Implementation Date: June 30, 2020

Responsible Person: Rafaela King, Controller

2014-035 – Internal Control over Cash Disbursements – Lack of Documented Approvals (SD)

Criteria: City policy and good internal controls require that invoices be approved prior to payment.

Condition: Our testing identified instances where invoices without properly documented approval have been processed for payment.

Cause: The Department heads do not appear to be following the City's approval process for certain reoccurring payments.

Effect or Potential Effect: Unauthorized expenditures could be paid resulting in misuse of City funds.

Repeat of a Prior-Year Finding: No

Recommendation: The City should implement procedures that help prevent cash disbursements for unauthorized expenditures. Adequate review procedures by the requesting department managers and approving officials should be documented by signature or initials. In instances such as reoccurring bills for utilities, communication, etc., proper language should be added to the City Policy for proper documentation.

This addresses COSO's Control Activities, Principle 12: deploys through policies & procedures.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation.

Corrective Action Plan: The City has stopped using Council warrants to pay unauthorized bills. All payments that are issued now require multiple signatures. In the event an invoice is created and received, authorizing action is obtained from City Council via staff report and resolution. In the meantime, the City Controller department will continue to take steps to address the specific finding noted above. The City will also establish and document policies and procedures designed to serve as a system of internal controls required by OMB's Uniform Guidance (2 CFR 200).

Planned Implementation Date: June 30, 2019

Responsible Person: Rafaela King, Controller

2014-036 – Internal Control over Cash Disbursements – Verification of Remittance Addresses (SD)

Criteria: Payments should only be sent to verified remittance addresses.

Condition: The remittance address on the statement received differed from what is on the purchase requisition and purchase order. The check was sent to the address noted on the purchase requisition and purchase order without further explanation.

Cause: There are no procedures in place that defines the need to verify conflicting remittance addresses.

Effect or Potential Effect: Late payment fees due to delayed remittance or misappropriation of public funds due to illegitimate vendors.

Repeat of a Prior-Year Finding: No

Recommendation: The City should have policies and procedures addressing the proper handling of situations like this to prevent late payments due to incorrect remittance addresses or misappropriation of City funds due to illegitimate vendors. Documentation of support verifying the used address should be attached.

This addresses COSO's Control Activities, Principle 12: deploys through policies & procedures.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation.

Corrective Action Plan: The City is assessing the current financial policies and procedures manual and will include the process on verifying and updating remittance addresses to ensure the correct vendor is paid timely. The City will also establish and document policies and procedures designed to serve as a system of internal controls required by OMB's Uniform Guidance (2 CFR 200). In the meantime, the City Controller department will take steps to address the specific finding noted above. In the meantime, the City Controller department will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2019

Responsible Person: Rafaela King, Controller

2014-037 – Internal Control over Expenditures – Processing of Duplicate Invoices (SD)

Criteria: The accounting system should not allow the input of duplicate invoice numbers.

Condition: The accounting system warns users if a duplicate entry of an invoice from a vendor is about to be entered. However, the user has the ability to override the warning and proceed with the input of the transaction.

Cause: City staff has the ability to ignore warning and proceed with the input of duplicate invoice numbers.

Effect or Potential Effect: Risk of duplicate payment of an invoice and overstatement of expenses.

Repeat of a Prior-Year Finding: No

Recommendation: The City should eliminate override capabilities from City staff to mitigate the risk of double payment of invoices. In instances where the account numbers are used as invoice references, which causes them to be identical each month, the date of the invoice could be added to allow for a unique invoice reference.

This addresses COSO's Control Activities, Principle 12: deploys through policies & procedures.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation.

Corrective Action Plan: The City is setting up training for all Controller's Office staff in operating the accounting system. Any and all instances where staff has the ability to override, cancel, delete, or skip key functions will be corrected to ensure only a supervisor has those responsibilities and only when necessary. The City will also establish and document policies and procedures designed to serve as a system of internal controls required by OMB's Uniform Guidance (2 CFR 200). In the meantime, the City Controller department will continue to take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2019

Responsible Person: Rafaela King, Controller

2014-038 – Internal Control over Cash Disbursements – Segregation of Duties (MW)

Criteria: There should be proper segregation of duties in the cash disbursement cycle to reduce the opportunity of fraudulent activities.

Condition: The City staff who is responsible for posting and preparing the checks is the also the one responsible for mailing the checks out.

Cause: Lack of segregation of duties allow one employee to post invoices, prepare checks, and mail out checks.

Effect or Potential Effect: The combination of incompatible responsibilities could result in clerical errors and fraudulent activities.

Repeat of a Prior-Year Finding: No

Recommendation: The City should have one City staff post the disbursements and another prepare and mail the checks. Segregation of authorizing, recording, and custody duties of transactions allows the City to ensure oversight and review to catch errors and to prevent fraud or theft.

This addresses COSO's Control Activities, Principle 10: selects and develops control activities.

Management Response and Corrective Action Plan

City's Response: Checks are now mailed out by the Treasurer's Office.

Planned Implementation Date: June 30, 2019

Responsible Person: Rafaela King, Controller

2014-039 – Internal Control over Accounts Payable – Maintenance of Accounts Payable Aging (MW)

Criteria: Per City policies, invoices are to be paid on time to avoid delinquency fees.

Condition: The City does not maintain accounts payable during the fiscal year. Accounts payable is a manual process at fiscal year-end during which the Accountant II goes through subsequent cash disbursements made during the first 90 days of the new fiscal year and determines which expenses belong to the previous fiscal year's accounts payable. Therefore, there is no periodic review and reconciliation of their accounts payable aging report.

Cause: City does not maintain an accounts payable aging. Invoices are usually entered for immediate payment.

Effect or Potential Effect: High risk of error during year end process, which could result in material misstatement of financial statements. Also, expenditures and accounts payable could be understated if payment of the invoice is held up for any reason such as obtaining City Council approval.

Repeat of a Prior-Year Finding: No

Recommendation: The City should utilize its accounting system's accounts payable module. It will allow the City to review, reconcile, and monitor its accounts payable balances throughout the fiscal year for financial reporting and budgeting purposes.

This addresses COSO's Control Activities, Principle 11: selects and develops general controls over technology.

Management Response and Corrective Action Plan

City's Response: The City disagrees with the recommendation because the financial software is not capable of producing an accounts payable aging report.

Corrective Action Plan: The City will establish and document policies and procedures to implement fundamental elements of the Internal Control Integrated Framework (ICIF) and to create policies for major transaction systems and for business processes to establish control standards. These policies and procedures will be designed to serve as the system of internal controls required by OMB's Uniform Guidance (2 CFR 200). The policies and procedures will include expectations for segregation of duties assignment of authority and responsibility, reconciliation, information and communication, and monitoring for persons with responsibility for systems of processes. In the meantime, the City Controller department will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2020

Responsible Person: Rafaela King, Controller

2014-040 – Deposit Supporting Documents (MW)

Criteria: The City Controller's Office should be able to reconcile the cash receipts report to each of the supporting documentation.

Condition: The City Treasurer department submits incomplete supporting documentation to the City Controller's office for daily deposits. Supporting documentation should reconcile to the total deposit made.

Cause: Cash receipt supporting documentation are not centrally filed. For example, water payment receipts are kept in the water department and never reach it to the City Controller's office.

Effect or Potential Effect: City Controller's office unable to verify accuracy of posted cash receipt. Also, retrieval of supporting documentation is more challenging due to decentralized filing system.

Repeat of a Prior-Year Finding: No

Recommendation: The City should strengthen its internal control over cash receipts and maintain adequate supporting documentation. This should include centralized filing of supporting documentation by the City's Controller's office so documents can be readily available when needed. The City Controller's office should be able to trace all deposits to invoices and/or other documentation.

This addresses COSO's Control Activities, Principle 12: deploys through policies & procedures.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation.

Corrective Action Plan: The City's Controller's Office has assigned one staff member to reconcile the cash receipts document received from the Treasurer's Office to the bank account posted amounts on a daily basis to ensure all transactions are recorded in both the bank and general ledger. The City will also establish and document policies and procedures designed to serve as the system of internal controls required by OMB's Uniform Guidance (2 CFR 200).

Planned Implementation Date: June 30, 2019

Responsible Person: Douglas Sanders, City Treasurer and Rafaela King, Controller

2014-041 – Deposit Reconciliation (MW)

Criteria: Deposit slips should be traced to the bank account to confirm the intact deposit of the deposits.

Condition: The City Controller's Office doesn't reconcile the deposit slips from the City Treasurer's office to the bank statements while processing the daily cash receipts for recording into the GL.

Cause: The City Controller's office was solely reconciling the deposit slip to the general ledger, while the City Treasurer's office was unknowingly reconciling a forged deposit slip to the daily bank statements.

Effect or Potential Effect: Cash deposited into the City's bank accounts were less than what was indicated on the deposit slips. However, the discrepancies remained undetected for years and amounted to roughly 3.7 million total due to the weak controls and poor procedures.

Repeat of a Prior-Year Finding: No

Recommendation: The City Controller's office should include reconciliation of the daily cash receipt to the bank account in the cash receipt posting procedures and communicate any discrepancies with the City Treasurer's office.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation.

Corrective Action Plan: The City's Controller's Office has assigned one staff member to reconcile the cash receipts document received from the Treasurer's Office to the bank account posted amounts on a daily basis to ensure all transactions are recorded in both the bank and general ledger. The City will also establish and document policies and procedures designed to serve as the system of internal controls required by OMB's Uniform Guidance (2 CFR 200).

Planned Implementation Date: June 30, 2019

Responsible Person: Rafaela King, Controller

2014-042 – Cash Receipt Segregation of Duties (MW)

Criteria: There should be a segregation of incompatible responsibilities.

Condition: We noted a lack of segregation of duties in the City Treasurer's department as the same individual counted cash, prepared the deposit slip, and reconciled the Springbrook daily deposit reports, which can lead to misappropriation of City funds.

Cause: One individual was performing incompatible responsibilities without any mitigating controls.

Effect or Potential Effect: City was subject to multiple years of embezzlement.

Repeat of a Prior-Year Finding: No

Recommendation: The City Treasurer's department should strengthen its controls over cash receipts by segregating the cash counting process from cash reconciliation by having a different employee count the cash and another employee reconcile it to the daily reports. Policies and procedures need to be updated to reflect the responsibilities by position.

This recommendation addresses COSO's Control Environment, Principle 5: enforces accountability and Control Activities, Principle 10: selects and develops control activities.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation.

Corrective Action Plan: The City has revised its cash handling policy to ensure segregation of duties. The City will also establish and document policies and procedures designed to serve as the system of internal controls required by OMB's Uniform Guidance (2 CFR 200).

Planned Implementation Date: June 30, 2019

Responsible Person: Douglas Sanders, City Treasurer and Rafaela King, Controller

2014-043 – Cash Receipt Support (SD)

Criteria: City Controller's office should maintain adequate supporting documentation of its transactions.

Condition: City Controller's Office was unable to locate cash receipt packages selected as part of the sample.

Cause: There is no consistent filing and storing system in place.

Effect or Potential Effect: City is unable to locate supporting documentation for subsequent review.

Repeat of a Prior-Year Finding: No

Recommendation: The City should strengthen its internal control over cash receipts and maintain adequate supporting documentation. This should include centralize filing of supporting documentation by the City's Controller's office so documents can be readily available when needed. The City Controller's office should be able to trace all deposits to invoices and/or other documentation. Controller's office should establish and document a filing and storing system that enables (new) City staff to locate (older) supporting documentation related to their assigned day-to-day responsibilities as needed.

This addresses COSO's Control Activities, Principle 12: deploys through policies & procedures.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation.

Corrective Action Plan: The City's Controller's Office is creating a tracking log to identify the storage location of all boxes of supporting documentation of cash receipts. The current and immediate past fiscal year files will be housed within the Controller's Office. All other years' records will be in off-site storage locations. The City will also establish and document policies and procedures designed to serve as the system of internal controls required by OMB's Uniform Guidance (2 CFR 200). In the meantime, the City Controller department will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2019

Responsible Person: Rafaela King, Controller

2014-044 – Internal Controls over Cash Receipts (MW)

Criteria: Cash receipts should be kept in a secure location until deposited.

Condition: Cash receipts are not deposited intact promptly or stored in a secure location.

Cause: Cash is only deposited once a day and the lack of surveillance during lunch breaks or the absence of supervisory position creates an opportunity for theft.

Effect or Potential Effect: Unsupervised cash could easily be misappropriated.

Repeat of a Prior-Year Finding: No

Recommendation: The City should have procedures and security equipment (i.e. security cameras) in place to ensure that cash within the City Treasurer's department are constantly under surveillance. The City should also restrict access to and increase security in the location where cash is stored while waiting for the daily pickup for deposit.

This addresses COSO's Control Activities, Principle 10: selects and develops control activities.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation.

Corrective Action Plan: The City has revised its cash handling policy to ensure segregation of duties. The City will also establish and document policies and procedures designed to serve as the system of internal controls required by OMB's Uniform Guidance (2 CFR 200).

Planned Implementation Date: June 30, 2019

Responsible Person: Douglas Sanders, City Treasurer and Rafaela King, Controller

2014-045 – Bank Reconciliations (MW)

Criteria: Bank reconciliations should be prepared and review in a timely manner.

Condition: Bank reconciliations are not prepared and reviewed in a timely manner.

Cause: Due to the vacancies in key positions in the City Controller’s office, staff fell behind on the monthly reconciliations of the over 30 bank accounts.

Effect or Potential Effect: An embezzlement remained undetected for years. Also, cash could be materially misstated.

Repeat of a Prior-Year Finding: No

Recommendation: The City should have City employees trained to perform monthly bank reconciliations for all City bank accounts. Subsequently, a documented review and approval of the bank reconciliations should be performed in a timely manner to ensure that any discrepancies are discovered and addressed appropriately.

This addresses COSO’s Control Environment, Principle 4: demonstrates commitment to competency, and Principle 5: enforce accountability.

Management Response and Corrective Action Plan

City’s Response: The City concurs with the recommendation.

Corrective Action Plan: The Controller’s Office has hired additional staff and senior level accountants and assigned them to bring current all bank reconciliations and other accounting functions. This higher level of experience is expected to help in assuring the day to day operations of the department occur timely and are more accurate. As the process moves along, new policies & procedures are being implemented. The City will document these policies and procedures which will be designed to serve as a system of internal controls required by OMB’s Uniform Guidance (2 CFR 200). In the meantime, the City will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2019

Responsible Person: Rafaela King, Controller

2014-046 – Cash Account Adjustments (MW)

Criteria: The cash general ledger accounts should only reflect actual cash transactions and transfers.

Condition: Adjustments of cash accounts are not approved and documented by the appropriate level of management or another appropriate person.

Cause: The City prepared journals against the cash accounts for miscellaneous adjustments.

Effect or Potential Effect: Journals against cash increases the complexity of bank reconciliations. Journal entries should always be associated with actual cash movements, otherwise, the general ledger may be materially misstated.

Repeat of a Prior-Year Finding: No

Recommendation: The City should not be posting journals to cash accounts unless absolutely necessary for specifically approved standardized transactions per City policy. Furthermore, journal entries to cash accounts should be reviewed and approved by the appropriate level before posting. Documentation for support in compliance with policy should be attached to the entry.

This addresses COSO's Control Activities, Principle 12: deploys through policies & procedures.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation.

Corrective Action Plan: The City has hired a Deputy City Controller who is assigned to review all journal entries created by staff. The Deputy Controller is also responsible for making sure there is adequate support documentation and posting all journal entries. The City will also establish and document policies and procedures designed to serve as the system of internal controls required by OMB's Uniform Guidance (2 CFR 200).

Planned Implementation Date: June 30, 2019

Responsible Person: Rafaela King, Controller

2014-047 – Bank Reconciliations (BP)

Criteria: The City should utilize its accounting information system to become more efficient and effective in preparing timely monthly bank reconciliations.

Condition: The City does not properly utilize ONESolution Accounting System's bank reconciliation function to minimize any calculation or reconciliation errors.

Cause: The City has over 30 bank accounts that it manually reconciles on Excel spreadsheets.

Effect or Potential Effect: Manual bank reconciliation are more time consuming and more susceptible to clerical errors. Also, due to the time constraint and high volume in bank accounts it's easy to fall behind.

Repeat of a Prior-Year Finding: No

Recommendation: The City should take full advantage of the City's accounting system's (ONESolution) capabilities to increase efficiency and reduce human error in the process of preparing bank reconciliations.

This addresses COSO's Control Activities, Principle 11: selects and develops general controls over technology.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation.

Corrective Action Plan: The City is setting up training with One Solution for all current and new staff to learn all the functionality of One Solution in order to take advantage of all modules purchased. We will also be looking into purchasing other modules that make the accounting of various functions, including bank reconciliations, more efficient and timely. The City will also establish and document policies and procedures designed to serve as the system of internal controls required by OMB's Uniform Guidance (2 CFR 200). In the meantime, the City Controller department will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2020

Responsible Person: Rafaela King, Controller

2014-048– Internal Control over Accounts Receivable (SD)

Criteria: Accounts receivable should be periodically reviewed and analyzed.

Condition: The City does not maintain accounts receivable during the fiscal year. Accounts receivable is a manual process at fiscal year-end during which the Accountant II goes through subsequent cash receipts during the first 90 days of the new fiscal year and determines which revenues belong to the previous fiscal year's accounts receivable. There is no review and reconciliation of accounts receivable and/or receivable aging reports to ensure timely collections.

Cause: The City backs into accounts receivable at YE by going through subsequent cash receipts.

Effect or Potential Effect: Weak controls and procedures increases the chance of error, which could result in a material misstatement of the financial statements and potential loss of City funds due to under collection of receipts.

Repeat of a Prior-Year Finding: No

Recommendation: The City should track business licenses, rents and leases, and other miscellaneous reoccurring revenue to ensure timely collection. The City should also utilize its accounting system's accounts receivable module. It will allow the City to review, reconcile, and monitor its accounts receivable balances throughout the fiscal year for financial reporting and budgeting purposes.

This addresses COSO's Control Activities, Principle 11: selects and develops general controls over technology.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation.

Corrective Action Plan: The City's Controller's Office intends to centralize all accounts receivable functions into the Controller's Office in order to maintain adequate records. The City will also establish and document policies and procedures designed to serve as the system of internal controls required by OMB's Uniform Guidance (2 CFR 200). In the meantime, the City Controller department will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2021

Responsible Person: Rafaela King, Controller

**SCHEDULE OF SCO ADMINISTRATIVE AND INTERNAL ACCOUNTING CONTROLS FINDINGS
FOR THE PERIODS OF JULY 1, 2013 THROUGH JUNE 30, 2016**

2014-049A – General Fund Deficit Balance (MW)

SCO Finding 1 – There is a deficit fund balance in the General Fund

Condition: For the period of July 1, 2009 through June 30, 2016, the City operated with a material deficit amount in its General Fund – an indication that the City's general operations include significant deficit spending.

According to the City Council minutes, beginning in April 12, 2011, the City Council faced scrutiny from citizens for reckless overspending of its General Fund revenues within a period of four years. The General Fund surplus of \$22.4 million at the beginning of FY 2007-08 was totally exhausted, and had become a deficit of \$42. 7 million by FY 2010-11 through overspending an average of \$16.3 million per year. The General Fund shortages for subsequent years were routinely covered by borrowing from other fund accounts, resulting in an estimated deficit of \$38.5 million for the fiscal year ended June 30, 2016. The successive years of operating deficits have caused financial hardship for the City.

The surpluses/deficits in the General Fund balance, as reported in the City's financial records, are as follows:

Fiscal Year (FY)	Beginning Fund Balance	Net Change in Fund Balance	Ending Fund Balance	
FY 2007-08	\$ 22,418,586	\$ (10,638,544)	\$ 11,780,042	Surplus
FY 2008-09	11,780,042	(14,366,552)	(2,586,510)	Deficit
FY 2009-10	(2,586,510)	(12,021,192)	(14,607,702)	Deficit
FY 2010-11	(14,607,702)	(28,117,112)	(42,724,814)	Deficit
FY 2011-12	(42,724,814)	4,813,408	(37,911,406)	Deficit
FY 2012-13	(37,911,406)	1,530,265	(36,381,141)	Deficit
FY 2013-14	(36,381,141)	(106,983)	(36,488,124)	Deficit
FY 2014-15 ¹	(36,488,124)	(6,375,204)	(42,863,328)	Deficit
FY 2015-16 ¹	(42,863,328)	4,366,306	(38,497,022)	Deficit

¹Amounts were calculated from unadjusted trial balances.

As shown above, the City operated with deficit General Fund balances beginning in FY 2008-09, which may suggest that it cannot meet the burden of its current government expenditures. It is essential that the City maintain an adequate General Fund balance to mitigate current and future risks, such as revenue shortfalls and unanticipated expenditures. Fund balances are a crucial consideration in long-term financial planning.

On December 20, 2011, City officials acknowledged that immediate steps were necessary to address the City's General Fund deficit. The City appeared to have slowly reduced the deficit beginning in FY 2011-12; however, the deficit materially increased again in FY 2014-15. On June 17, 2014, the City Council adopted Resolution No. 23,970 to implement a 15-year repayment plan to resolve the deficit. Our review of the City's financial records for FY 2014-15 reflected an estimated deficit increase of \$6.4 million in the City's General Fund, to \$42.9 million.

The Government Finance Officers Association has developed Fund Balance Guidelines for the General Fund, which state that governments should establish a formal policy on the level of unrestricted fund balance that is to be maintained in the General Fund. It further recommends that, at a minimum, general-purpose governments, regardless of size, maintain unrestricted fund balance in their General Fund of no less than two months of regular General Fund operating revenues or regular General Fund operating expenditures.

Recommendation: Although the City has taken certain steps to address its deficit issues, the SCO recommended that it continue these efforts to address its deficit; adhere to its long-term plan to eliminate fund deficits and inter-fund borrowing; and create an appropriate level of General Fund reserves for the future.

Additionally, the City Council should be more disciplined in controlling the City's operational spending. The City should also review all funds with deficit fund balances and determine an appropriate action plan.

E+P concurs with the SCO finding and recommendation.

This addresses COSO's Control Activities, Principle 10: selects and develops control activities. It requires a long-term strategic plan of living within its means supported by revenues and funding options exceeding operating expenses and capital expenditures while meeting loan covenants.

Management Response and Corrective Action Plan

City's Response: The City of Compton disagrees with the State's assertion that the FY 2010-11 deficit of \$42.7 million occurred as a result of overspending an average of \$16.3 million per year. The City's June 30, 2007 Annual Financial Report does reflect a \$22.4 million dollar surplus as the State indicated. However, the City's Internal Service Funds listed a deficit of \$31 million dollars. In contrast, the City's June 30, 2011 Annual Financial Report reflected a \$41.2 million dollar deficit while the City's Internal Service Funds reflected a positive cash balance of \$21.3 million dollars. It is our position that this data highlights the end of the City's practice that occurred over prior decades of carrying forward deficit accounts in the Internal Service Fund but does not represent overspending of actual cash during this time period as indicated by the State.

Furthermore, in 2012, the City sought and obtained with the assistance of Los Angeles County, Tax and Revenue Anticipation Notes (TRANS) financing to cover the City's annual cash flow shortages; thereby ending the need for internal service fund borrowing. TRANS financing continued through June 30, 2016.

The City will diligently continue to reduce its current general fund deficit by adhering to a long-term plan to eliminate fund deficits.

Planned Implementation Date: June 30, 2021

Responsible Person: Cecil W. Rhambo, Jr., City Manager and Rafaela King, Controller

2014-050A – Council Member Salary Compensation (MW)

SCO Finding 2 – The City may have paid its Council Members salary compensation in excess of the amount allowed by its Charter

Condition: The SCO’s review of the accounting and reporting of salary costs revealed that the City may have overpaid salaries to its City Council Members. The SCO extracted salary costs for Council Members for the period of January 1, 2010, through July 31, 2017 from the City's payroll records. The SCO’s review disclosed that during this period, Council Members were compensated a total of \$1.56 million. Section 504 of the City's Charter provides for monthly compensation of \$600 to City Council Members and the Mayor. Our evaluation of the extracted payroll records suggests that the City may have paid its Council Members \$ 1.29 million in excess of the amount allowed by the City Charter. The following schedule shows the breakdown of questionable compensation paid to these Council Members:

Calendar Year	Regular Salary	Car Allowance	Phone Allowance	Total	Allowed Per Charter	Overpayment
2010	\$ 226,000	\$ 35,750	\$ -	\$ 261,750	\$ 36,000	\$ 225,750
2011	239,050	33,800	375	273,225	36,000	237,225
2012	218,350	32,856	2,632	253,838	36,000	217,838
2013	237,800	38,645	4,568	281,013	36,000	245,013
2014	186,350	32,500	4,900	223,750	36,000	187,750
2015	130,350	15,275	3,600	149,225	36,000	113,225
2016	35,075	38,675	3,600	77,350	36,000	41,350
2017 ¹	18,000	19,500	1,800	39,300	18,000	21,300
	<u>\$ 1,290,975</u>	<u>\$247,001</u>	<u>\$ 21,475</u>	<u>\$ 1,559,451</u>	<u>\$270,000</u>	<u>\$ 1,289,451</u>

¹ January 1, 2017, through June 30, 2017

According to the City, the salaries noted above consist of the \$600 allowed by the City Charter and additional amounts of approximately \$4,000 a month for the Council Members' memberships in various boards and commissions. Per the City, the additional payment structure, which has been in place since 1975, “is in conformance to a legally-recognized method of interpretation of the City Charter and case law.” In a letter to the City dated July 17, 2015, the Los Angeles County District Attorney's Office (DA) stated that “there is no legal authority in the Compton City Charter that allows the mayor or council member to pay themselves money over and above” the \$600 salary. The Compton City Attorney disagreed with the DA's interpretation in his letter dated August 17, 2015, which states:

“Your letter contends that Section 504 of the Charter “is controlling as to the compensation” of the Mayor and Council Members, and that “[a]ny increase in salary must be specifically stated within, and authorized by” the charter. In my opinion, this position is contrary to case law. The courts have consistently rejected the notion that City Charter must affirmatively authorize a City Council to act on matter that is a municipal affair”

The City Council minutes from September 1, 2015, note that the City Attorney and the County District Attorney had a meeting wherein they exchanged legal viewpoints on these issues and ultimately agreed to disagree.

On September 15, 2015, the Mayor adjusted her salary. On October 15, 2015, the rest of the Council Members reduced their salaries to \$600 to comply with the Charter. However, City Council Members continued to receive their monthly car and phone allowances, increasing their total compensation over the amount allowed by the City Charter. We also noted that on December 31, 2015, City Council Members received additional salaries of \$7,475 labeled as "Other Earnings". The City was not able to provide documentation to justify these other earnings.

Recommendation: The SCO recommended that the City follow up on the legal issue related to compensation paid to its elected government board officials in excess of the \$600 salary per member, per month, to ensure that amounts paid are in compliance with the City Charter. Furthermore, the SCO recommended that the City seek refunds on any potential overpayments.

E+P concurs with the SCO finding and recommendation.

This addresses COSO's Control Environment, Principle 1: demonstrates commitment to integrity and ethical values.

Management Response and Corrective Action Plan

City's Response: The City acknowledges the State's recommendation and will continue to review the City's practice of compensation and expense reimbursements that had been in effect since 1975 for ongoing compliance with its City Charter.

It is important to note that the City's Urban Community Development Commission (UCDC) which governs the City's Local Housing Authority still meets on an as needed basis. Its compensation is set by state law at \$75 per meeting attended and a maximum of \$150 a month. Our financial department will continue to research the State's "Other Earnings" notation.

Planned Implementation Date: June 30, 2019

Responsible Person: Cecil W. Rhambo, Jr., City Manager

2014-051A – Material Weaknesses in Internal Control (MW)

SCO Finding 3 – Material weaknesses in internal control resulted in the City’s losing \$3.72 million

Condition: On November 3, 2017, the former Deputy Treasurer of the City was sentenced to six and a half years in federal prison on charges stemming from his embezzlement of more than \$3.72 million of City funds from May 2010 through December 2016. The former Deputy Treasurer held his position for more than 20 years; his primary responsibilities included the verification of daily collections to the Cashier Count Report and completion of the bank deposit process.

According to a forensic audit report, dated March 2017, the City's former Deputy Treasurer was able to obscure his embezzlement scheme for over six years. This was partly because: (1) he embezzled small amounts on a daily basis by duplicating and otherwise falsifying bank deposit slips, while presenting accurate documents for recording in the City's accounting system; and (2) internal controls were insufficient to allow the theft to be detected, as City Management failed to closely monitor bank accounts.

Given the City's continuing budget deficit, City Management should have maintained rigorous internal controls over cash handling and reconciliation processes. Instead, the City failed to implement basic internal controls in its cash receipt process, resulting in a loss of millions of dollars badly needed by the City.

Some basic internal control deficiencies are as follows:

- Failure to implement proper segregation of duties, which is key to protecting assets such as cash. The former Deputy Treasurer was allowed to perform the first cash count and reconcile count by himself, and also to complete all necessary paperwork for the deposit process. This internal control deficiency provided him with the opportunity to embezzle cash;
- Failure to complete monthly bank reconciliations in a timely manner (see Finding SCO Finding 8); and
- Failure to implement read-only access for online monitoring of bank activity in the City Controller's Office. An employee assigned to monitor the City's banking activity might have been able to quickly identify discrepancies between the total cash deposited and the total cash amount stated in the Cashier Count Reports.

Recommendation: Although the City stated that it has implemented several new procedures within the Treasurer's Office, and that the City Controller's Office has implemented read-only access for monitoring bank activity, these procedures have yet to be incorporated in its formal Policy and Procedures manual. The SCO recommended that the City update its formal Policy and Procedures manual to incorporate the recently implemented internal control procedures, and complete these updates as soon as possible.

E+P concurs with the SCO finding and recommendation.

This addresses COSO's Risk Assessment, Principle 8: assesses fraud risk, and Control Activities, Principle 11: selects and develops general controls over technology.

Management Response and Corrective Action Plan

City's Response: The City acknowledges the State's finding to update our formal Policy and Procedures manual to incorporate the recently implemented financial internal control procedures as soon as possible.

Planned Implementation Date: June 30, 2019

Responsible Person: Douglas Sanders, City Treasurer and Rafaela King, Controller

2014-052A – City Council Excessive Expenditures (MW)

SCO Finding 4 – City Council expenditures are substantially higher than those of comparable charter cities within the Los Angeles area

Condition: The expenditures are substantially higher when compared to those of other charter cities of comparable size in area and population within Los Angeles County. For FY 2013-14, FY 2014-15, and FY 2015-16, The SCO’s review of the City’s budget for its City Council revealed that it is approximately 300 percent greater than the average budget of comparable charter cities as shown in the table below:

City	Population	Area (Square Miles)	Budget		
			FY 2014	FY 2015	FY 2016
Alhambra	83,089	7.63	\$ 332,059	\$ 341,945	\$ 345,634
Burbank	103,340	17.39	515,208	520,059	642,424
Downey	111,772	12.57	325,907	287,412	267,859
Whittier	85,331	14.66	32,967	32,967	32,967
Total			\$ 1,206,141	\$ 1,182,383	\$ 1,288,884
Average			\$ 301,535	\$ 295,596	\$ 322,221
Compton	97,550	10.2	\$ 1,166,376	\$ 1,290,671	\$ 1,345,611
Difference from Other Cities Average Budget			\$ 864,841	\$ 995,075	\$ 1,023,390
Percentage of Difference to Average Budget			286.81%	336.63%	317.60%

Aside from excessive salaries paid to Council Members (see Finding 2014-050A), the largest contributing factor to the City’s higher expense for City Council is compensation paid to Council Assistants. Unlike other charter cities, the City has created five Council Assistants – one for each Council Member and one for the Mayor.

The total compensation paid to these Council Assistants for the calendar years 2014, 2015, and 2016 is presented below:

Calendar Year	Regular Earnings	Other Pay and Allowances	Total Pay	Total Benefits	Total Pay and Benefits
2014	\$ 226,567	\$ 21,359	\$ 247,926	\$ -	\$ 247,926
2015	226,565	12,266	238,831	-	238,831
2016	267,284	-	267,284	133,992	401,276
Total	\$ 720,416	\$ 33,625	\$ 754,041	\$ 133,992	\$ 888,033

The Council Assistant is an unclassified hourly employee (part-time) position according to the City Charter. These Council Assistants work under the general direction of the City Manager or designated management official, with the general purpose of performing administrative support functions for the City Council Members. However, the City Manager does not provide general direction to the Council Assistants. Instead, each Council Assistant works under the general direction of their designated City Council Member and performs tasks for specific programs of that Council Member. These programs are most often specific to the Council Member’s own district, and are very seldom, if ever, City-wide. Council Assistants’ work hours should be limited to, at most, 36 hours per week. However, in most instances, they work and are paid for 40 hours a week and are occasionally paid for overtime hours.

From the SCO's review of available documents, the SCO cannot determine how the City benefits from the work performed by Council Assistants for its Council Members.

Recommendation: The SCO recommended that the City evaluate the City Council's expenses, including the Council Assistant positions and their relevance and importance to the overall purpose and operation of the City.

E+P concurs with the SCO finding and recommendation.

This addresses COSO's Risk Assessments, Principle 7: identifies and analyzes risk.

Management Response and Corrective Action Plan

City's Response: As cited in the audit, the City lacks the staffing to address all of the constituent concerns that occur in the City. The role of the Council Liaison is critical to service delivery in that it provides a conduit between the Mayor and Council District constituents to the various departments via the City Manager's Office. Their roles are an extension of each City Department's ability to deliver services and assist the City Manager's Office in that delivery. Additionally, the liaisons must be allowed to work flexible schedules to ensure that Mayor and Council Town Halls, special events, and meetings are coordinated with the proper departments.

The City acknowledges that the positions should not work over their 36 hour work week. To address the number of hours worked by the liaisons, administration has been closely monitoring the actual hours worked by the liaisons and have informed the Mayor and Council that the Liaison positions are not to be assigned work in excess of their 36 hour work week and that no overtime will be paid for this position.

Planned Implementation Date: June 30, 2021

Responsible Person: Cecil W. Rhambo, Jr., City Manager

2014-053A – City Council Excessive Expenditures (MW)

SCO Finding 5 – City Council spending of City funds on special projects and events exceeds the approved budget

Condition: Based on the SCO’s review of City Council expenses, they determined that the City Council not only received compensation in excess of allowed amounts (see Finding 2014-050A) and incurred additional costs for Council Assistants (see Finding 2014-052A), but it also has incurred expenses for special projects and events in excess of the amounts approved in its budget. During FY 2015-16 and FY 2016-17, the City Council spent a total of \$403,734 on special projects and events, with the breakdown as follows:

Special Projects and Events - Council Expenses

Council Member	FY 2015-16	FY 2016-17	Total
A	\$ 110,478	\$ 36,017	\$ 146,495
B	68,060	46,761	114,821
C	2,776	42,852	45,628
D	4,493	19,751	24,244
E	25,354	32,549	57,903
Joint Program	9,479	-	9,479
City-wide Program	1,505	-	1,505
Other Expenses	3,659	-	3,659
Total	\$ 225,804	\$ 177,930	\$ 403,734
Approved Budget	55,000	125,000	180,000
Expenses in Excess of the Approved Budget	\$ 170,804	\$ 52,930	\$ 223,734
Percentage of Expenses Over Budget Amount	310.55%	42.34%	124.30%

A budget is perhaps the most important managerial tool available to a local government. Because a budget reflects almost all of a local government's activities, it acts as an effective management tool at various stages of governmental activity. However, the City Council appears to ignore its established budgets. As shown above, the City Council spent over the approved budget by \$223,734 during FY 2015-16 and FY 2016-17. This failure to control spending further increases the City's General Fund deficit.

Recommendation: The SCO recommended that the City Council and City Management limit their spending to adopted budget amounts. In addition, the SCO recommended that the City Council regularly request reports from City Management showing a comparison of budgeted to actual expenditures to ensure that the City does not spend in excess of approved budgets.

E+P concurs with the SCO finding and recommendation.

This addresses COSO’s Risk Assessments, Principle 7: identifies and analyzes risk, and Information & Communication, Principle 14: communicates internally.

Management Response and Corrective Action Plan

City's Response: The City acknowledges the State's recommendation to limit spending to adopted budget amounts. To that end, the City's administration will propose greater use of line itemization in the upcoming FY 2018-2019 budget for greater detail. The City will also continue its recent practice of quarterly budgetary updates at City Council meetings where a comparison between budget and actual expenditures are presented.

Planned Implementation Date: June 30, 2021

Responsible Person: Cecil W. Rhambo, Jr., City Manager

2014-054A – Purchasing Procedures and Contracting Requirements (MW)

SCO Finding 6 – City officials failed to comply with purchasing procedures and contracting requirements

Condition: During the SCO’s review of the City’s contracting process from July 1, 2013, through June 30, 2016, the SCO noted that neither City officials nor the City Council complied with the City contracting requirements. Purchases and contracts for supplies, services, and equipment that exceed \$25,000 must be made with a written contract and a written purchase order to the lowest responsible bidder. City officials made numerous questionable decisions by not following the contract process. The SCO identified numerous contracts and transactions that raised questions about the reasonableness and proper usage of public funds, as follows:

- Contracted services were not subjected to competitive bidding – Ron’s Maintenance, Inc:
On October 27, 2015, the City Council adopted Resolution No. 24,248 authorizing the City Manager to enter into a multi-year agreement with Ron’s Maintenance, Inc., for City-wide catch basin cleaning services. The City Manager entered into a new two-year contract agreement with Ron’s Maintenance, Inc., at \$154,836 per fiscal year. The new contract extended a contract that ended June 30, 2015, to June 30, 2017. The City has consecutively renewed its contract with Ron’s Maintenance, Inc., since January 23, 2010, and paid a total of \$946, 178 between July 1, 2011 and June 30, 2017.

The City’s initial contract with Ron’s Maintenance, Inc. shows that the proposal and contract negotiating process excluded other contractors from bidding on the project. Additionally, the SCO’s review of documents suggests that the City did not consider exploring other options or seek bids from other companies. As such, the City failed to comply with the open bidding process as mandated by its contracting requirements.

In addition, during the SCO’s review the SCO noted that the City failed to obtain competitive bids for the following contracts:

Vendor Name	Description	Resolution		Contract Amount
		No.	Approval Date	
All-Star Interpreting Services	Interpreting Services	23,984	June 8, 2014	\$ 35,000
	Interpreting Services	24,197	July 28, 2015	35,000
Evan Brooks Associates	Consultant - Grant application	24,072	January 13, 2015	56,100
	Consultant - Traffic engineering services	24,214	September 1, 2015	40,000
New West Landscaping	Landscaping	23,759	May 21, 2013	25,000
	Landscaping	23,759	October 14, 2014	18,000
Urban Graffiti Enterprises, Inc.	Graffiti Removal	23,759	May 21, 2013	25,000
Willdan Financial Services	Comprehensive schedule of fees study	23,908	February 25, 2014	62,260
Total				<u>\$296,360</u>

- The City extended existing contracts without completing a competitive bidding process – Trimming Land Company, Inc.:
On May 18, 2014, the City Council adopted Resolution No. 23,916 to amend an existing contract by increasing the scope of work and compensation by \$454,980, to a total amount of \$654,980 – an increase of 227%. In addition, the City Council adopted Resolution No. 23,856 on November 16, 2015, to extend the contract for another year.

The City amended this contract without completing the competitive bidding process. None of the documents the SCO reviewed provided evidence that City officials conducted a competitive bidding process or considered exploring any other options. Accordingly, this contract extension is not fair and equitable to the City and its residents. As such, City officials violated the City's contracting requirements.

- The City approved contract change orders in violation of the California Public Contract Code. The City approved a change order in the amount of \$1,747,782 to cover additional work for a City-wide traffic signal upgrade project. The change order expanded the scope of work to include additional "potholing" repairs as a result of an underground utility survey. This change order represents a 36% increase over the original contract amount of \$4,922,469. The change order was approved by the City on March 17, 2015; however, work was completed before the change order was approved.

The City adopted the California Public Contract Code as its law governing contract awards relating to street works, and also adopted the Green Book's Standard Specifications for Public Works Construction (Green Book) for construction standard practices, which are widely accepted. City Management asserted that the 36% increase of the contract through a change order was legal and had been approved by the City Manager. City Management further explained that the change order included major "potholing" repairs because the original contract had not included that work.

A change order should only cover increased costs within the original project scope. These additional improvements were not within the scope of the original contract.

These change order practices raise serious concerns and issues relative to the City's compliance with the California Public Contract Code:

- The City failed to comply with its contracting requirements when it approved the change order. The change order increased the contract by \$ 1,747,782. The City's Financial Policies and Procedures Manual (Section 9.6) references the California Public Contract Code, section 20455, which states that changes to the original contract should not exceed \$150,000.
- By extending project scope through change orders, the City repeatedly circumvented the bidding process. Change orders that alter project scope or exceed \$150,000 should only be awarded after competitive bidding. Contracts not competitively bid as required by Public Contracts Code are void as a matter of law. Moreover, Public Contract Code section 20163 states that "[e]very person who willfully violates the provision of this section is guilty of a misdemeanor."
- The City did not perform a detailed review and analysis of the change order and, therefore, failed to properly exercise its oversight responsibilities. It appears that the City approved change orders by relying on staff recommendations, without independently performing due diligence review of the approval process. All responsible parties appeared to rely on the Public Works Director's recommendations without seeking any input from legal counsel.

As a result of the City's violation of the Public Contract Code, reimbursement of its state and federal projects may be disallowed.

Recommendation: The SCO recommended that the City Council fulfill its fiduciary responsibility by exercising meaningful oversight over the City's affairs. The City also should develop and implement policies and procedures to ensure that its management performs a detailed review and gains full understanding before entering into any type of legally-binding agreement. This is especially critical when approving long-term extensions to existing contracts. All proposed agreements should be presented to the City Council, with full explanations of the services to be provided and the benefits to the City, prior to approval and formal execution.

In future, the City should consult with its legal counsel to ensure that it complies with the Green Book, the Public Contract Code, and all other applicable laws, rules, and regulations. It is imperative that City officials perform due diligence when overseeing and approving City contracts and projects.

E+P concurs with the SCO finding and recommendation.

This addresses COSO's Risk Assessments, Principle 7: identifies and analyzes risk, and Control Activities, Principle 12: deploys through policies and procedures.

Management Response and Corrective Action Plan

City's Response: The City acknowledges the State's recommendation to uphold its obligation to contract within our purchasing regulations. To that end, the City's administration will propose including a Centralized Purchasing Officer and Contract Compliance Officer to ensure the City is meeting its purchasing and contracting obligations.

Planned Implementation Date: June 30, 2019

Responsible Person: Craig J Cornwell, City Attorney and Rafaela King, Controller

2014-055A – Lack of Oversight over Operational Activities Relating to Contracted Services (MW)

SCO Finding 7 – The City failed to exercise oversight over its financial and operational activities relating to contracted services

Condition: During the SCO’s review, the SCO noted that payments for goods and services were readily approved by the City Council and other City officials without detailed review or analysis of the reasonableness of these costs. During several City Council meetings, payments of warrants were approved without review or evaluation of payment. The SCO identified the following contracts and transactions that raise questions regarding reasonableness and proper use of public funds:

- Unallowable payments were made for professional services due to lack of approved contracts. During the SCO’s review, the City failed to provide approved contract agreements between itself and several service providers. In addition, there was no evidence from the City Council minutes that the Council had approved a resolution for these professional services. As a result, the City made unauthorized payments of \$291,537, as presented below:

<u>Contractor</u>	<u>FY 2013-14</u>	<u>FY 2014-15</u>	<u>FY 2015-16</u>	<u>Total</u>
The Hutt Group	\$ -	\$ 15,033	\$ 15,034	\$ 30,067
Joe's Sweeping	-	-	25,000	25,000
Calmat	26,534	23,862	25,000	75,396
Chamber of Commerce	11,074	25,000	50,000	86,074
CA Citites of Self Reliance	-	25,000	25,000	50,000
Foddrill Construction Corp	-	25,000	-	25,000
Total	\$ 37,608	\$ 113,895	\$ 140,034	\$ 291,537

- Payments were made for auditing services that were incomplete and/or not provided.

On November 20, 2015, the City and Macias Gini & O'Connell, LLC (MGO) entered into a contract for professional auditing services for FY 2013-14 and FY 2014-15. The total approved contract was \$648,879, prorated at \$324,439 for each fiscal year. Completion of the Single Audit Report for FY 2013-14 and FY 2014-15 was included in this contracted work.

The City was billed for single audit work for FY 2013-14 in the amount of \$70,483, of which the City paid \$56,822. However, there is no evidence that the Single Audit Report was ever completed. The City could not provide a completed Single Audit Report for FY 2013-14. Additionally, the SCO has no record of receiving a completed Single Audit Report for FY 2013-14.

Furthermore, the City was billed for work related to the completion of the audited financial statements for FY 2013-14. The total amount billed for this work was \$396,430, of which the City paid MGO \$249,098. Although the SCO was able to obtain a copy of an MGO completed FY 2013-14 financial audit report dated November 17, 2016, the City informed the SCO that this report had not been officially issued to the City. The City also advised the SCO that the audited financial statements for FY 2013-14 have been retracted by MGO, and should not be relied upon.

The total amount billed relating to these auditing services is \$466,913. The total amount of the contract was \$324,440. Accordingly, the City was billed \$ 142,472 in excess of the contract amount.

- Payment was made for professional services without detailed review of invoices.

The City was billed by, and paid, MGO in the amount of \$46,145 for services related to the completion of the FY 2014-15 Single Audit Report. However, on November 6, 2017, the City Controller's Office informed the SCO that the City was still in the process of preparing its Schedule of Expenses for Federal Award-the basis for preparation of Single Audit Report. Accordingly, only minimal work related to the single audit could have been completed at that point. The City should have performed a detailed review of the invoices for work completed before paying this amount.

Recommendation: The SCO recommended that the City ensure that payments do not exceed contract amounts; and that payments are for contracted services and work that is properly completed, and in accordance with contract terms.

E+P concurs with the SCO finding and recommendation.

This addresses COSO's Control Activities, Principle 12: deploys through policies and procedures.

Management Response and Corrective Action Plan

City's Response: The City acknowledges the State's concern regarding the City's use of our warrant system. Consequently, the City will undertake review and updating of our Policies and Procedures regarding our warrant system.

Also, the City administration believes that the increased use of budget line itemization will also serve to minimize the need to use our warrant system.

Finally, the City will review its expenditures to Macias Gini & O'Connell, LLC (MGO) for possible reimbursement of overpaid monies.

Planned Implementation Date: June 30, 2019

Responsible Person: Rafaela King, Controller

2014-056A – Lack of Adequate Control Over Expenditures Charged to City-issued Credit Cards (MW)

SCO Finding 8 – The City failed to exercise adequate control over expenditures charged to City-issued credit cards

Criteria: Chapter 4, Section 11, of the City's Municipal Code states, in part:

“(1) All purchases made on behalf of the City shall be by purchase order only issued by the City Manager. (2) No purchase order shall be issued by the City Manager except upon a requisition upon which the City Controller shall endorse that there exists an unencumbered appropriation in the fund account against which such purchase is to be charged.

Condition: During the SCO's review, the SCO noted that City Management did not enforce a strict policy for governing City-issued credit cards. From July 1, 2013, through June 30, 2016, City Management charged a total of \$51,695 in expenditures on City-issued credit cards. We reviewed all \$51,695 of the charges, and we found all charges to be questionable.

The City did not provide any policies and procedures governing City-issued credit cards and business-related travel. In addition, the City failed to follow established procedures for making purchases; nor did the City maintain proper documentation to support the charges. The SCO's review found that charges were incurred before purchase orders and purchase requisitions had been fully approved.

The SCO's review found that most of the charges were not supported by original receipts, nor was any justification or reason for the expenditure included to support most of the charges. The questionable expenditures included travel charges, late fees, and miscellaneous charges.

Travel Charges

Questionable expenditures for travel totaled \$24,404, or approximately 47% of total charges to City-issued credit cards. We noted that the purpose for these travel expenses was missing, unclear, excessive, or not properly documented. Some of the questionable charges are as follows:

- On February 10, 2015, \$ 1,193 was charged for airfare to Washington, D.C.; the purpose of the charge was missing and unsupported.
- On May 22, 2015, \$1,028 was charged for lodging in Hartford, Connecticut; it was unclear whether the charge was for City business and no supporting documentation was provided.
- On June 24, 2015, a total of \$1,494 was charged for round-trip airfare to Miami, Florida, and an unknown period of lodging there; there was no record to justify the trip and no supporting documentation.
- On December 12, 2015, \$1,492 was charged for one night of lodging in New York, New York; the charge was unsupported and excessive.
- On June 11, 2016, \$708 was charged for one night of lodging in Las Vegas, Nevada; the charge was unsupported and excessive.

Late Payment Charges

For the period of October 29, 2014, through June 30, 2016, the SCO noted that several late payment and delinquency fees were charged to City-issued credit cards. Late payments and delinquency fees occur when payments are made after the due date. Although late payments and delinquency fees are immaterial within the amount we reviewed, they remain cause for concern if monitoring is not implemented to ensure that invoices are paid in a timely manner.

- The City was charged \$130 on January 28, 2015, and \$305 on July 28, 2015, for late fees. Both charges include additional higher fees incurred because the payments were more than 60 days late.

Miscellaneous

Other miscellaneous expenses totaled \$16,334, or 32%. These expenses lacked documentation – either they were unsupported by expense reports, or there was no documentation of the reasons for the charges – and, in some cases, even receipts were missing. For example:

- On April 29, 2015, charges of \$1,990 to an online office supply warehouse for certificate holders for the City Council; the charges were unsupported.
- On May 30, 2015, charges of \$1,975 for supplies; the SCO could not determine the purpose or type of supplies.
- On December 3, 2015, charges of \$1,274 to an electronics store for a camera; there was no record to justify that this purchase was for City business.

Recommendation: The SCO recommended that the City implement appropriate control measures to ensure proper review and approval of all charges related to meals, lodging, and incidental expenses involving City-issued credit cards. These measures should include:

- A comprehensive travel policy that establishes clear guidance for travel, including the allowable purposes for travel and documentation requirements, and sets limits on the maximum amounts allowable for lodging, meals, and other travel expenses;
- A policy governing circumstances under which business meals are authorized, including documentation requirements, and limits on the maximum amount allowable for business meals; and
- An expedited payment process to avoid late charges. The SCO also recommended that the City review the questionable charges noted above, and determine whether the City officials and employees responsible for these charges should be required to refund the City for all or part of them. Furthermore, the SCO recommended that the City consider performing a review of travel and meal expenses for the period of the SCO’s review to determine whether additional refunds should be sought.

E+P concurs with the SCO finding and recommendation.

This addresses COSO’s Control Activities, Principle 12: deploys through policies and procedures.

Management Response and Corrective Action Plan

City's Response: The City has an authorized written travel policy consistent with state law and updated as recently as 2016. That being stated, the City will review the State’s findings regarding travel and credit card expenses and update/revise our internal control policy as applicable.

Planned Implementation Date: June 30, 2021

Responsible Person: Rafaela King, Controller

2014-057A – Bank Reconciliations (MW)

SCO Finding 9 – Bank reconciliations were not performed, reviewed, or approved in a timely manner

Condition: As of November 29, 2017, the City had failed to complete bank reconciliations for the period of July 1, 2014, through June 30, 2017.

Bank reconciliations are effective tools to detect mistakes, errors, and embezzlement if they are prepared in a timely manner, reviewed in detail, and approved by a second person (see Finding 2014-051A). Bank reconciliations also assist in regular monitoring of a City's cash flows, and assure accuracy and timeliness of expenses and deposits.

Recommendation: The SCO recommended that the City establish and implement procedures to ensure that bank reconciliations are completed, reviewed, and approved in a timely manner. In addition, the SCO recommended that the City evaluate its 37 different bank accounts and consider combining some of the less active accounts to shorten the reconciliation process.

The SCO acknowledged that the new management team in the City Controller's Office has been working diligently to process a backlog of bank reconciliations.

E+P concurs with the SCO finding and recommendation.

This addresses COSO's Control Activities, Principle 10: selects and deploys control activities.

Management Response and Corrective Action Plan

City's Response: The City will review the State's recommendation to establish and implement procedures to ensure that bank reconciliations are completed, reviewed and approved in a timely manner. We will also review combining less active bank accounts to shorten the reconciliation process.

Planned Implementation Date: June 30, 2020

Responsible Person: Rafaela King, Controller

2014-058A – Segregation of Duties (MW)

SCO Finding 10 – There is lack of segregation of duties

Condition: Proper segregation of duties helps ensure that funds and assets are properly recorded, protected, and appropriated. During the SCO's review of City employee duties for the period of July 1, 2013, through June 30, 2016, the SCO noted that several employees performed incompatible functions, including cash counting, timesheet reporting, and accounts payable.

Cash counting

Cash counting functions were not properly segregated. The initial cash count was not safeguarded from loss through watchful and accountable processes. The former Deputy Treasurer counted cash, prepared daily deposit slips, and performed end-of-day reconciliations. These are incompatible duties; one person should not be responsible for all of them. The cash counting procedure, deposit slip preparation, and reconciliation to computerized total cash receipts generated by the Springbrook System should be executed under close supervision and in full view of two people.

Timesheet reporting

Staff performing time-keeping functions are able to adjust employee timecards without management approval, which leaves timesheet reporting susceptible to abuse. Employees performing the time-keeping function should not be allowed to make changes. This practice may result in inaccurate records for payroll purposes, which decreases the reliability of the financial records.

Any necessary changes to the time attendance record should be completed by a supervisor or manager, to ensure control and proper authorization.

Accounts payable

The City's current process is for the operating departments to assume responsibility for many of the fiscal management functions related to their purchases. The departments' account payable clerks prepare Purchase Requisitions and request Purchase Orders. On some occasions, the clerks were allowed to request payments for billing invoices and to mail warrants for payments, which are incompatible functions. There should be proper separation of duties among the various types of transaction processes (e.g., procurement, accounts payable, and disbursements).

Recommendation: The SCO recommended that the City assess its current processes and implement policies and procedures to segregate incompatible functions.

E+P concurs with the SCO finding and recommendation.

This addresses COSO's Control Activities, Principle 10: selects and deploys control activities.

Management Response and Corrective Action Plan

City's Response: The City Treasurer's Office has undertaken the task of assessing its current processes and has implemented policies and procedures to segregate incompatible functions. The City will ensure that these financial processes are reflected within the City's written policies and procedures.

Planned Implementation Date: June 30, 2019

Responsible Person: Douglas Sanders, City Treasurer and Rafaela King, Controller

2014-059A – Petty Cash Fund (MW)

SCO Finding 11 – There is a lack of control over the City's Petty Cash Fund

Condition: During the SCO's review, the SCO noted that cash advances granted to City departments, totaling \$15,950, had been recorded in the City's accounting record as Petty Cash Fund. The amount recorded as advanced to City departments exceeded the actual amount available in the Petty Cash Fund. On July 27, 2017, the City Controller's Office conducted a cash count and confirmed that the total petty cash amount was only \$2,497. The City does not have an explanation for the difference of \$13,453.

In addition, the SCO noted several instances in which City employees circumvented the petty cash reimbursement policy. The reimbursement claim form clearly states that petty cash may only be used for items up to \$100. However, the SCO found evidence of purchases in excess of \$100 that had been split into amounts less than \$100, so that employees could be reimbursed from the Petty Cash Fund.

Recommendation: The SCO recommended that the City ensure that policies and procedures relating to petty cash controls are consistently enforced. In addition, the SCO recommended that the City investigate and seek recourse to recover the cash missing from the Petty Cash Fund, and ensure that records are accurate.

E+P concurs with the SCO finding and recommendation.

This addresses COSO's Control Activities, Principle 12: deploys through policies and procedures.

Management Response and Corrective Action Plan

City's Response: The City Controller's Office will continue to research the difference in petty cash amount and the amount of receipts to come to a conclusion regarding writing off the difference as a loss. The Controller's Office will also upgrade the petty cash policy to include preventative methods to ensure the policy is not circumvented by splitting reimbursement claim forms and adding a routine to do a physical count of the cash fund as often as quarterly.

Planned Implementation Date: June 30, 2019

Responsible Person: Rafaela King, Controller

2014-060A – Fixed Assets (MW)

SCO Finding 12 – The City’s fixed assets were not properly and accurately accounted for

Condition: During the SCO’s review and inquiry with different City personnel, the SCO was informed that physical inventories of City assets were conducted annually. However, after several requests, the City was unable to provide records of when the last physical inventory had been conducted.

All fixed assets owned and purchased by the City should be properly recorded and accounted for in its listing of fixed assets, and included in its Comprehensive Annual Financial Reports (CAFR) and its annual Financial Transaction Reports submitted to the SCO.

An accurate and complete listing of fixed assets is important to City governance and management because it provides information that is essential to:

- Safeguarding fixed assets, for ensuring that assets are properly recorded so that they can be easily located and maintained;
- Financial and managerial reporting, for determining capitalized cost and depreciation;
- Insurance coverage, for recording replacement and insurance values;
- Facilities and administration rate proposals, for recording use, location, funding source, and depreciation; and
- Compliance with reporting requirements, for assuring accountability.

Recommendation: The SCO recommended that the City establish City-wide procedures for fixed asset accounting, management, control, and accountability including:

- Proper financial accounting and reporting in accordance with Generally Accepted Accounting Principles, the Governmental Accounting Standards Board, and other applicable government accounting standards;
- A complete and accurate listing of fixed assets of significant value;
- A description of the responsibilities of stewardship of valuable assets; and
- Maintenance of fixed asset records for the life of each asset, which should be retained in accordance with the City's records retention program.

E+P concurs with the SCO finding and recommendation.

This addresses COSO’s Control Activities, Principle 12: deploys through policies and procedures.

Management Response and Corrective Action Plan

City’s Response: The City Controller’s Office is working to update the City’s procedures for fixed asset accounting, management, & control process. These processes will be reflected within the City’s written policies and procedures.

Planned Implementation Date: June 30, 2021

Responsible Person: Rafaela King, Controller

2014-061A – Administrative Policies and Procedures Manuals (MW)

SCO Finding 13 – The City’s Administrative Policies and Procedures manuals were incomplete and outdated

Condition: During the SCO’s review and inquiry with City Management and several City employees, the SCO noted that the City does not have a process in place to routinely review and update its Administrative Policies and Procedures manuals. Therefore, documentation for completeness, accuracy, and consistency with existing processes is lacking. Specific deficiencies related to the City's Administrative Policies and Procedures manuals are as follows:

- The Personnel Rules and Regulations Manual, setting forth the policies and procedures related to the City's employment practices, was last revised in November 1979.
- The Financial Policies and Procedures Manual, last updated on June 30, 2009, was incomplete. The accounting policies did not include a number of important procedures relating to:
 - Financial reporting
 - Information Systems and Technology
 - Reimbursement policies

In addition, although most employees had information on the procedures and processes for their particular assignments, these procedures and processes are outdated. Also, the City does not have comprehensive documentation of the overall procedures and processes for its accounting system. Therefore, most staff members only have an understanding of the accounting system as it relates to their assigned duties.

A well-designed and properly maintained system of accounting policies and procedures enhances both accountability and consistency. The resulting documentation can also serve as a useful training tool for staff. Undocumented and outdated policies and related internal controls result in unclear roles and responsibilities, and lead to improper handling of transactions. Monitoring is an essential element of internal control; this includes verification by management that policies and procedures are regularly updated to adequately address new challenges identified by ongoing risk assessments.

Recommendation: The SCO recommended that the City continue to review and update its Administrative Policies and Procedures manuals to ensure consistency with current processes and organizational structure; and perform periodic and ongoing reviews to ensure proper documentation, accuracy, and completeness in its financial transactions and records. When completed, the updated Administrative Policies and Procedures manuals should be readily available to all responsible employees. The manuals should clearly state the authority and responsibility of all employees, especially the authority to authorize transactions and the responsibility for the safekeeping of assets and records.

E+P concurs with the SCO finding and recommendation.

This addresses COSO’s Control Activities, Principle 12: deploys through policies and procedures.

Management Response and Corrective Action Plan

City's Response: The City's administration has prepared an update to the City's Personnel Rules and Regulations. In order to roll out this comprehensive revision of the Rules, the City will introduce changes to the Rules one chapter at a time to the applicable employee union for input and discussion. Subsequently, the proposal will be presented to the City's Personnel Commission for further discussion and implementation.

The City Controller's Office is reviewing the City's Financial Policies and Procedures Manual and will update the document accordingly.

Planned Implementation Date: June 30, 2021

Responsible Person: Jesenia Sanchez, Human Resources Analyst, Cecil W. Rhambo, Jr., City Manager and Rafaela King, Controller

2014-062A – Turnover and Lack of Consistent Leadership (MW)

SCO Finding 14 – Turnover and lack of consistent leadership have hindered operational stability

Condition: During the SCO's review, the SCO noted that the City experienced a high degree of management turnover, which can result in a lack of consistent leadership, lack of operational stability, and inefficient provision of services to its citizens. Between January 1, 2010, and January 18, 2017, nine different individuals served as City Manager. In addition, the City did not have a permanent Controller for the nine months before it hired a permanent Controller on March 20, 2017.

The high turnover has contributed to a lack of leadership and, in some cases, a lack of management oversight. For example, the SCO's review of available documents showed no adjustment of the City's master fee schedule since January 1, 2010. Although there was a public hearing on July 12, 2016, the City did not adjust its master fee schedule until October 10, 2017. Other cities in the area annually adjust their master fee schedule to the Consumer Price Index for the Los Angeles region; however, the City of Compton has not followed suit. The City has not adjusted its master fee schedule in over seven years, resulting in noncollection of badly-needed additional revenue that could potentially have improved the City's financial condition.

The City plans to fill some vacant management positions; however, the position of the City's Human Resources Director has been vacant for over three years, significantly delaying the hiring process for critical positions within several City departments. The City Controller's Office, especially, needs to fill its vacant positions to perform critical functions (e.g., bank reconciliation has not been completed since June 30, 2014); and audited financial statements have not been completed for FY 2014-15, FY 2015-16, and FY 2016-17.

Recommendation: The SCO recommended that the City evaluate its hiring practices for its upper management positions. In addition, the SCO recommended that the City develop a succession plan that will help it to ensure continued leadership even during management turnover.

E+P concurs with the SCO finding and recommendation.

This addresses COSO's Control Environment, Principle 4: demonstrates commitment to competency including succession planning, and Control Environment, Principle 5: enforces accountability.

Management Response and Corrective Action Plan

City's Response: Turnover and lack of Consistent Leadership have hindered Operational Stability.

The current administration quickly identified the concerns with the high turnover in upper management. The need to recruit high quality, committed managers was identified as critical in addressing the challenges facing the City. As a result, all upper level positions are recruited both internally and externally [nationwide] for the most qualified candidate(s).

Additionally, a professional development program is being put in place to identify and mentor middle and upper management personnel to fill in voids when (if) the need arises. The training will consist of personnel management, leadership skills, documentation, ethics, etc. among other topics. Shadowing will also be part of the professional development program.

Planned Implementation Date: June 30, 2020

Responsible Person: Cecil W. Rhambo, Jr., City Manager and Rafaela King, Controller

2014-063A – Financial Statements (MW)

SCO Finding 15 – The City was unable to produce financial statements on a timely basis

Condition: The City has not produced required financial statements in a timely manner, delaying information needed to assess the City's financial condition. City Management is responsible for the timeliness and accuracy of its financial statements, including disclosures. The following table lists past due reports as of November 29, 2017:

<u>Report Name</u>	<u>Due Date</u>	<u>Number of Months Past Due</u>
FY 2013-14 CAFR ¹	December 31, 2014	44 months
FY 2014-15 CAFR	December 31, 2015	32 months
FY 2015-16 CAFR	December 31, 2016	20 months
FY 2013-14 Single Audit Report	March 31, 2015	41 months
FY 2014-15 Single Audit Report	March 31, 2016	29 months
FY 2015-16 Single Audit Report	March 31, 2017	17 months

¹There was a completed CAFR for FY 2013-14, dated November 17, 2016; however, the external auditors retracted this report and have not reissued it as of November 29, 2017.

For FY 2013-14, FY 2014- 15, and FY 2015-16, the City failed to submit its Single Audit Report package (audited financial statements and Single Audit Report) within nine months after the end of fiscal period. Failure to submit the required Single Audit Report package in a timely manner will result in the City not qualifying for low risk status for the following year's single audit.

Furthermore, the City's financial records for FY 2014-15, FY 2015-16, and FY 2016-17 were not yet closed as of November 29, 2017, the last day of our fieldwork.

The lack of timely annual financial reports is troubling, because these reports provide critical information that can be used by the City Council and City Management to identify upcoming issues and take prompt action to address them. Timely and complete financial reporting is especially important for the City given its continued financial challenges.

Recommendation: The SCO recommended that the City assign a higher priority to, and direct more resources towards completing, its audited financial statements by the deadline of no later than six months after fiscal year-end.

This addresses COSO's Information & Communication, Principle 13: uses relevant, quality information, Principle 14: communicates internally, and Principle 15: communicates externally.

Management Response and Corrective Action Plan

City's Response: City Council and Management have placed audit completion as the number one financial priority of the City.

The City of Compton has taken steps in the 2017-18 Adopted Budget to expedite completion of the outstanding audited financial statements. These actions include:

- Providing funds to pay for outstanding audits for Fiscal Years 2013- 2017 in the City Controller's Budget. A contract was executed with the Accounting firm of Eadie + Payne for \$850,000 to complete all outstanding financial audits including the 2013-14 Single Audit; the 2014-15 CAFR and Single Audit; 2015-16 CAFR and Single Audit; and 2016-17 CAFR and Single Audit.
- Providing two (2) additional management positions in the Controller's Office to increase the capacity of the audit functions. These positions are a second Deputy Controller and an Accounting Supervisor.
- Funds have been budgeted for "contract resources" to assist with audit preparation.

Following the unexpected resignation of the City Controller hired in March 2017, the City Council moved swiftly to hire a permanent City Controller with a Certified Public Accountant designation and extensive municipal auditing experience. The new Controller was hired to begin her term the next day after the effective date of the former Controller's resignation. This prompt action demonstrates the seriousness and urgency the City places on bringing current all audit responsibilities of the City.

The new City Controller expects to hire two (2) Deputy City Controllers, an Accounting Specialist, an Accountant II and contract for Accounting supervision and audit preparation services within thirty (30) days of her employment, which was February 13, 2018.

Note: *Management disagrees with the ability of the 2013-14 completed CAFR to be withdrawn by MGO. MGO submitted the completed CAFR to the City of Compton on November 17, 2016. The completed 2013-14 CAFR was subsequently placed on the City Council Agenda for the February 28, 2017 City Council Meeting. The City Clerk of the City of Compton subsequently advertised via the City of Compton website and posted the City Council agenda at Compton City Hall on Friday, February 24, 2017, providing Public Notice of the completed Audit Report for the City Council to adopt pursuant to the State of California Open Meeting Laws. The City Council subsequently received and filed the completed 2013-14 CAFR at the February 28, 2017 City Council Meeting per its Agenda. The City's position is that the completed 2013-14 CAFR is a lawfully received document, pursuant to a contract for performance with MGO; and that in every legal respect, the 2013-14 CAFR for the City of Compton has been lawfully submitted by MGO and received by the City of Compton as its official 2013-14 CAFR.*

Planned Implementation Date: June 30, 2020

Responsible Person: Rafaela King, Controller

2014-064A – Lack of Adequate Staff Performing Critical Functions (MW)

SCO Finding 16 – The City lacks adequate staff performing critical functions

Condition: The City implemented personnel layoffs and a furlough schedule to control spending. On May 24, 2011, the City Council approved Resolution No. 23,329, declaring the City's revenue shortfall and workforce reduction for FY 2011-12. On June 12, 2012, Resolution No. 23,558 was approved, establishing the FY 2012-13 furlough schedule for City employees. On August 23, 2013, Resolution No. 23,813 was approved further declaring the City's revenue shortfall and workforce reduction for FY 2013-14.

City Management implemented workforce reductions in FY 2011 -12, established a furlough schedule in FY 2012-13, and implemented additional workforce reductions in FY 2013-14. Due to these workforce reductions, some employees were assigned new positions in which they lacked experience and training. In addition, the furlough schedule did not prove effective to operations of City departments. These workforce reductions and furloughs created a deficiency in the internal control due to lack of knowledgeable and experienced staff performing critical functions.

For example:

- For the period of July 1, 2014, through June 30, 2017, the City Controller's Office was not adequately staffed, impeding its ability to carry out its basic accounting functions. As of November 29, 2017, the City Controller's Office has seven vacant positions. The City is far behind schedule in processing transactions, balancing accounts, ensuring that significant accounts are supported by detailed records and ledgers, and preparing annual financial reports. For example, monthly bank reconciliations have not been completed since June 30, 2014 (see Finding 2014-057A).

Additionally, accounting staff did not thoroughly and periodically analyze and reconcile the City's account balances to supporting records. In FY 2013-14, the external auditor made a material correction to errors in the restatement of the beginning balances of the financial statements. For example, the beginning net positions in governmental activities was reduced from \$73.69 million to \$41.54 million, a decrease of \$32.15 million due to correction of errors.

- The Human Resources Department has been operating with vacancies in critical positions, including the Human Resources Director, which has impeded the department's ability to make timely decisions. For example, both hiring new employees and rehiring of previously laid off employees appear to be extremely slow processes.
- The business license fee section of the Building and Safety Department is understaffed, which has led to a loss of substantial revenue from business license fees. Based on the SCO's inquiry, this section is currently staffed with two officers; it was previously staffed by four officers.

Recommendation: The SCO recommended that the City implement a remedial action plan to adequately staff the noted departments. Most importantly, the City Controller's Office should be staffed with qualified and experienced individuals who can contribute immediately to the performance of its accounting functions. In addition, the SCO recommended that the City implement policies to address the importance of experience and proper training of back-up staff when regular staff members are not available. Inexperienced staff may cause material impact in the City's operations in terms of incurring additional costs, delaying the processing of financial transactions, and failing to keep City Management and the City Council updated with accurate information.

This addresses COSO's Control Environment, Principle 4: demonstrates commitment to competency including succession planning, and Control Environment, Principle 5: enforces accountability.

Management Response and Corrective Action Plan

City's Response: City Council and Management have adopted a balanced Budget in FY 2017-18 that provides resources to finance key departmental operations and personnel.

The City of Compton adopted its 2017-18 City Budget with approximately \$1.4 million in additional funds allocated to the City Controller's Office. These actions include:

- Providing \$850,000 in funds to pay for outstanding audits for Fiscal Years 2013-2017 in the City Controller's Budget. The City Council adopted a resolution on January 9, 2018 and a contract was executed on January 24, 2018 with the Accounting firm of Eadie + Payne for \$850,000 to complete all outstanding financial audits including the 2013-14 Single Audit; the 2014-15 CAFR and Single Audit; 2015- 16 CAFR and Single Audit; and 2016-17 CAFR and Single Audit. Funds have been budgeted for "contract resources" to assist with audit preparation.
- Providing five (5) additional management positions in the City Controller's Office to increase the capacity of audit functions, internal financial controls; and fiscal management of the City. These positions include a second Deputy Controller; an Accounting Supervisor; a Contract & Compliance Analyst/Officer; a Budget Analyst; and permanent salary contingency to upgrade an existing staff position (possibly Payroll Supervisor) to Payroll and Accounts Payable Supervisor to oversee Payroll and Accounts Payable.
- Accounting Supervision. The Accounting Supervision is supplemented with a newly adopted Accounting Supervisor. Contract funds have been allocated to supplement City staff in Audit preparation duties.
- Contract Management. The Contract and Compliance Analyst/Officer was added to provide pre-audit contract compliance milestones and to enhance monitoring of contract bidding to ensure compliance with City, state & federal procurement guidelines. The Contract and Compliance Analyst/Officer will assist with Grants & Intergovernmental Funds Oversight & Compliance, minimizing post-program review adverse findings.
- Centralized Purchasing. The City Manager's Budget Message for 2017-18 calls for the creation of Centralized Purchasing. It is contemplated that centralizing purchasing will eliminate most procurement errors by removing this function from decentralized departmental control.

Following the unexpected resignation of the City Controller hired in March 2017, the City Council moved swiftly to hire a permanent City Controller with a Certified Public Accountant designation and extensive municipal auditing experience. The new Controller was hired to begin her term the next day after the effective date of the former Controller's resignation. This prompt action demonstrates the seriousness and urgency the City places on bringing current all audit responsibilities of the City.

The new City Controller expects to hire two (2) Deputy City Controllers and contract for Accounting supervision and audit preparation services within thirty (30) days of her employment, which was February 13, 2018.

- In the area of Human Resources, the City expects a new Human Resources Director to begin serving on February 21, 2018. Since May 2017, City Management hired a new Assistant City Manager with oversight of Administrative Services including Human Resources.

- Management has filled a Human Resources Analyst position to expedite recruitment and has hired a contract Human Resources Analyst to expedite classification of new positions and create new class specifications necessary to the proper functioning of the City government. The City has recently completed recruitment of the Human Resources Specialist and will have added one permanent member of this classification on February 15, 2018 and anticipates a second Human Resources Specialist will begin employment with the City of Compton on March 5, 2018.

Planned Implementation Date: June 30, 2020

Responsible Person: Cecil W. Rhambo, Jr., City Manager

2014-065A – Prior-Year Audit Findings (MW)

SCO Finding 17 – The City failed to implement correcting procedures to prior-year audit findings

Condition: The City Management failed to address auditor-significant issues. In the Single Audit Report for the year ended June 30, 2010, none of the 14 recommendations to resolve audit issues had been implemented by June 30, 2011. Accordingly, these unresolved issues were presented again as current audit issues in the following year. Additionally, the Single Audit Report for the fiscal year ended June 30, 2013, noted that 20 of the 24 recommendations in the prior report had not been fully implemented.

As no Single Audit Report was issued for FY 2013-14, FY 2014-15, and FY 2015-16, the SCO followed up on some of the issues noted in the Single Audit Report for FY 2011-12 that were repeated again in FY 2012-13. The SCO reviewed issues relating to information technology internal controls, because these controls are a critical mechanism for ensuring the integrity of information systems and the reporting of the City's financial information. There are ten recommendations for correcting noted deficiencies; seven had not yet been implemented as of November 29, 2017 – over three years after the issuance of the FY 2011-12 Single Audit Report.

The issues noted above suggest significant shortcomings in the operations and activities of the City that resulted from inadequate oversight and poor management.

Recommendation: The SCO recommend that the City adopt formal governance processes and procedures to provide appropriate oversight of internal audit functions and activities, and respond in a timely manner to recommendations. In addition, the SCO recommend that the City consider establishing an audit committee (see SCO Finding 18).

E+P concurs with the SCO finding and recommendation.

This addresses COSO's Control Environment, Principle 2: exercises oversight responsibilities; and Monitoring Activities, Principle 16: conducts ongoing and/or separate evaluations and Principle 17: evaluates and communicates deficiencies.

Management Response and Corrective Action Plan

City's Response: The City hired a new Certified Public Accountant with extensive Audit expertise as its new City Controller on February 13, 2018. Our new Controller will lead the revision of policies & procedures to address this matter. The City is committed to implementation of all necessary and appropriate corrective procedures as advised in prior audits.

Planned Implementation Date: June 30, 2021

Responsible Person: Cecil W. Rhambo, Jr., City Manager and Rafaela King, Controller

2014-066A – Lack of Audit Committee (MW)

SCO Finding 18 – The City lacks an established audit committee

Condition: On June 30, 2012, the Los Angeles County Civil Grand Jury (Grand Jury) issued a final report of its findings and recommendations pertaining to county government matters during FY 2011-12. In its report, the Grand Jury recommended to 24 charter cities within Los Angeles County – Compton included – that they establish formal audit committees to provide independent review and oversight for the cities' financial reporting processes, internal controls, and independent auditors.

On November 26, 2012, the City responded to the Grand Jury report regarding the audit committee issue, stating that this recommendation would require further analysis by the City's management, as the City Charter has a built-in mechanism to ensure independence between the Chief Executive and the City Controller. The City has yet to establish a formal audit committee. The purpose of an audit committee is to oversee all aspects of the financial reporting process, including preparation and filing of financial statements, internal control over financial reporting, and related risks. Some of an audit committee's major areas of responsibility include oversight of the internal control system, oversight of the internal audit function and external auditors, review of financial filings, and establishment and oversight of a "whistleblower" process.

As noted in previous findings of this report, the City is not timely in the preparation of needed reports (see SCO Finding 15) and failed to correct prior audit findings (see SCO Finding 17). An audit committee could address most of these issues.

Recommendation: The SCO recommended that the City formally establish an audit committee that will be directly responsible for the appointment, compensation, retention, and oversight of independent auditors engaged for the purpose of issuing audit reports or other independent audit or review services. The audit committee should be formally established through a City resolution.

E+P concurs with the SCO finding and recommendation.

This addresses COSO's Control Environment, Principle 2: exercises oversight responsibilities, and Monitoring Activities, Principle 16: conducts ongoing and/or separate evaluations.

Management Response and Corrective Action Plan

City's Response: The City lacks an established Audit Committee.

City administration is reviewing the 2012 Los Angeles County Grand Jury report, which is the origin of this recommendation. Additionally, staff is working with other Charter cities that were cited in that report as having such an audit committee for best practices.

Planned Implementation Date: June 30, 2021

Responsible Person: Cecil W. Rhambo, Jr., City Manager

2014-067B – Integrity and Ethical Values (MW)

Criteria: Codes of conduct and other policies regarding acceptable business practices, conflicts of interest, or expected standards to ethical and moral behavior are established and communicated to all City Management and employees.

Condition: Deputy Treasurer admitted to embezzling money from the City's cash receipts on 12/15/16. The Mayer Hoffman McCann CPA firm reported that it was unable to reach an opinion on whether the City's FY 2010-11 June financial statements were free of material misstatements, due to their inability to obtain sufficient evidence from the Mayor or the City with respect to the Mayor's concerns of fraud on 7/24/12. Governance practices recommended by the FY 2011-12 Civil Grand Jury Report were not implemented, such as: develop a strategic plan, develop and report on performance measures, develop specific goals for the City's executive and conduct annual evaluation of City's executive. The City Council failed to exercise oversight over the City's financial and operational activities. Prior years' audit and review finding and recommendation were not implemented.

Related Finding(s): SCO Finding 3, 7, 17

Recommendation: We recommend that the City update its formal Policy and Procedures manual to incorporate the recently implemented internal control procedures, and complete these updates as soon as possible.

This addresses COSO's Control Environment, Principle 1: demonstrates commitment to integrity and ethical values.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation.

Corrective Action Plan: The City will establish and document policies and procedures to implement fundamental elements of the Internal Control Integrated Framework (ICIF) and to create policies for major transaction systems and for business processes to establish control standards. These policies and procedures will be designed to serve as the system of internal controls required by OMB's Uniform Guidance (2 CFR 200). The policies and procedures will include expectations for segregation of duties assignment of authority and responsibility, reconciliation, information and communication, and monitoring for persons with responsibility for systems of processes. In the meantime, the City Manager department will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2021

Responsible Person: Cecil W. Rhambo, Jr., City Manager

2014-068B – Integrity and Ethical Values (MW)

Criteria: There shall be reasonable management attitude of "Tone at the Top" established and communicated to City Management and staff.

Condition: Deputy Treasurer admitted to embezzling money from the City's cash receipts on 12/15/16. The Mayer Hoffman McCann CPA firm reported that it was unable to reach an opinion on whether the City's FY 2010-11 June financial statements were free of material misstatements, due to their inability to obtain sufficient evidence from the Mayor or the City with respect to the Mayor's concerns of fraud on 7/24/12. Governance practices recommended by the FY 2011 -12 Civil Grand Jury Report were not implemented, such as: develop a strategic plan, develop and report on performance measures, develop specific goals for the City's executive and conduct annual evaluation of City's executive. The City Council failed to exercise oversight over the City's financial and operational activities. Prior years' audit and review finding and recommendation were not implemented.

Related Finding(s): SCO Finding 3, 7, 17

Recommendation: We recommend that the City adopt formal governance processes and procedures to provide appropriate oversight of internal audit functions and activities, and respond in a timely manner to recommendations.

This addresses COSO's Control Environment, Principle 1: demonstrates commitment to integrity and ethical values.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation.

Corrective Action Plan: The City will establish and document policies and procedures to implement fundamental elements of the Internal Control Integrated Framework (ICIF) and to create policies for major transaction systems and for business processes to establish control standards. These policies and procedures will be designed to serve as the system of internal controls required by OMB's Uniform Guidance (2 CFR 200). The policies and procedures will include expectations for segregation of duties assignment of authority and responsibility, reconciliation, information and communication, and monitoring for persons with responsibility for systems of processes. In the meantime, the City Manager department will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2021

Responsible Person: Cecil W. Rhambo, Jr., City Manager

2014-069B – Integrity and Ethical Values (MW)

Criteria: Everyday interaction with vendors, clients, auditors, and other parties is based on honesty and fairness.

Condition: Questionable payments were made to contractors. The City's staff circumvented the petty cash reimbursement policy. Deputy Treasurer admitted to embezzling money from the City's cash receipts on 12/15/16. The Mayer Hoffman McCann CPA firm reported that it was unable to reach an opinion on whether the City's FY 2010-11 June financial statements were free of material misstatements, due to their inability to obtain sufficient evidence from the Mayor or the City with respect to the Mayor's concerns of fraud on 7/24/12. Governance practices recommended by the FY 2011 -12 Civil Grand Jury Report were not implemented, such as: develop a strategic plan, develop and report on performance measures, develop specific goals for the City's executive and conduct annual evaluation of City's executive. The City Council failed to exercise oversight over the City's financial and operational activities. Prior years' audit and review finding and recommendation were not implemented.

Related Finding(s): SCO Finding 1, 4, 6, 7, 17

Recommendation: We recommend that the City Council fulfill its fiduciary responsibility by exercising meaningful oversight over the City's affairs. The City also should develop and implement policies and procedures to ensure that its management performs a detailed review and gains full understanding before entering into any type of legally-binding agreement.

This addresses COSO's Control Environment, Principle 1: demonstrates commitment to integrity and ethical values.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation.

Corrective Action Plan: The City will establish and document policies and procedures to implement fundamental elements of the Internal Control Integrated Framework (ICIF) and to create policies for major transaction systems and for business processes to establish control standards. These policies and procedures will be designed to serve as the system of internal controls required by OMB's Uniform Guidance (2 CFR 200). The policies and procedures will include expectations for segregation of duties assignment of authority and responsibility, reconciliation, information and communication, and monitoring for persons with responsibility for systems of processes. In the meantime, the City Controller department will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2021

Responsible Person: Rafaela King, Controller

2014-070B – Integrity and Ethical Values (MW)

Criteria: Appropriate remedial action is taken in response to non-compliance.

Condition: Deputy Treasurer admitted to embezzling money from the City's cash receipts on 12/15/16. The Mayer Hoffman McCann CPA firm reported that it was unable to reach an opinion on whether the City's FY 2010-11 June financial statements were free of material misstatements, due to their inability to obtain sufficient evidence from the Mayor or the City with respect to the Mayor's concerns of fraud on 7/24/12. Governance practices recommended by the FY 2011 -12 Civil Grand Jury Report were not implemented, such as: develop a strategic plan, develop and report on performance measures, develop specific goals for the City's executive and conduct annual evaluation of City's executive. The City Council failed to exercise oversight over the City's financial and operational activities. Prior years' audit and review finding and recommendation were not implemented.

Related Finding(s): SCO Finding 3, 7, 17

Recommendation: We recommend that the City update its formal Policy and Procedures manual to incorporate the recently implemented internal control procedures, and complete these updates as soon as possible.

This addresses COSO's Control Environment, Principle 2: exercises oversight responsibilities, and Control Activities, Principle 12: deploys through policies and procedures.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation.

Corrective Action Plan: The City will establish and document policies and procedures to implement fundamental elements of the Internal Control Integrated Framework (ICIF) and to create policies for major transaction systems and for business processes to establish control standards. These policies and procedures will be designed to serve as the system of internal controls required by OMB's Uniform Guidance (2 CFR 200). The policies and procedures will include expectations for segregation of duties assignment of authority and responsibility, reconciliation, information and communication, and monitoring for persons with responsibility for systems of processes. In the meantime, the City Manager and City Controller department will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2021

Responsible Person: Cecil W. Rhambo, Jr., City Manager and Rafaela King, Controller

2014-071B – Integrity and Ethical Values (MW)

Criteria: Management is appropriately addressing intervention or overriding established controls.

Condition: Deputy Treasurer admitted to embezzling money from the City's cash receipts on 12/15/16. The Mayer Hoffman McCann CPA firm reported that it was unable to reach an opinion on whether the City's FY 2010-11 June financial statements were free of material misstatements, due to their inability to obtain sufficient evidence from the Mayor or the City with respect to the Mayor's concerns of fraud on 7/24/12. Governance practices recommended by the FY 2011 -12 Civil Grand Jury Report were not implemented, such as: develop a strategic plan, develop and report on performance measures, develop specific goals for the City's executive and conduct annual evaluation of City's executive. The City Council failed to exercise oversight over the City's financial and operational activities. Prior years' audit and review finding and recommendation were not implemented.

Related Finding(s): SCO Finding 3, 7, 16, 17

Recommendation: We recommend that the City implement a remedial action plan to adequately staff the departments that are short on staff. In addition, we recommend that the City implement policies to address the importance of experience and proper training of back-up staff when regular staff members are not available.

This addresses COSO's Control Environment, Principle 4: demonstrates commitment to competency including succession planning, and Control Environment Principle 5: enforces accountability.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation.

Corrective Action Plan: The City will establish and document policies and procedures to implement fundamental elements of the Internal Control Integrated Framework (ICIF) and to create policies for major transaction systems and for business processes to establish control standards. These policies and procedures will be designed to serve as the system of internal controls required by OMB's Uniform Guidance (2 CFR 200). The policies and procedures will include expectations for segregation of duties assignment of authority and responsibility, reconciliation, information and communication, and monitoring for persons with responsibility for systems of processes. In the meantime, the City Manager and City Controller department will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2020

Responsible Person: Cecil W. Rhambo, Jr., City Manager and Rafaela King, Controller

2014-072B– Commitment to Competence (SD)

Criteria: Management identifies and defines the tasks required to accomplish particular jobs and fill various positions.

Condition: The City failed to develop specific goals for its executive, and failed to evaluate performance of key City Management. Pertinent key positions were not properly filled due to staff reductions and furloughs that the City implemented in FY2011-12, FY 2012-13, and FY 2013-14.

Related Finding(s): SCO Finding 16

Recommendation: We recommend that the City implement a remedial action plan to adequately staff the departments that are short on staff. In addition, we recommend that the City implement policies to address the importance of experience and proper training of back-up staff when regular staff members are not available.

This addresses COSO's Control Environment, Principle 4: demonstrates commitment to competency including succession planning, and Control Environment Principle 5: enforces accountability.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation.

Corrective Action Plan: The City will establish and document policies and procedures to implement fundamental elements of the Internal Control Integrated Framework (ICIF) and to create policies for major transaction systems and for business processes to establish control standards. These policies and procedures will be designed to serve as the system of internal controls required by OMB's Uniform Guidance (2 CFR 200). The policies and procedures will include expectations for segregation of duties assignment of authority and responsibility, reconciliation, information and communication, and monitoring for persons with responsibility for systems of processes. In the meantime, the City Manager department will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2021

Responsible Person: Cecil W. Rhambo, Jr., City Manager

2014-073B – Commitment to Competence (SD)

Criteria: The City conducts appropriate analysis of the knowledge, skills, and abilities needed to perform job assignments.

Condition: The City failed to develop specific goals for its executive, and failed to evaluate performance of key City Management. Pertinent key positions were not properly filled due to staff reductions and furloughs that the City implemented in FY2011-12, FY 2012-13, and FY 2013-14.

Related Finding(s): SCO Finding 16

Recommendation: We recommend that the City implement a remedial action plan to adequately staff departments that were affected by furloughs and reductions in the previous years. In addition, we recommend that the City implement policies to address the importance of experience and proper training of back-up staff when regular staff members are not available.

This addresses COSO's Control Environment, Principle 4: demonstrates commitment to competency including succession planning, and Control Environment Principle 5: enforces accountability.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation.

Corrective Action Plan: The City will establish and document policies and procedures to implement fundamental elements of the Internal Control Integrated Framework (ICIF) and to create policies for major transaction systems and for business processes to establish control standards. These policies and procedures will be designed to serve as the system of internal controls required by OMB's Uniform Guidance (2 CFR 200). The policies and procedures will include expectations for segregation of duties assignment of authority and responsibility, reconciliation, information and communication, and monitoring for persons with responsibility for systems of processes. In the meantime, the City Manager department will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2019

Responsible Person: Cecil W. Rhambo, Jr., City Manager

2014-074B – Commitment to Competence (SD)

Criteria: The City is providing training and counseling in order to help employees maintain and improve their job competence.

Condition: Newly hired City employees learn their specific job tasks through on-the-job training. No City-wide training was offered to City employees for the purpose of improving job performance.

Recommendation: We recommend that the City implement a remedial action plan to adequately staff the departments. Most importantly, the City Controller's Office should be staffed with qualified and experienced individuals who can contribute immediately to the performance of its accounting functions. In addition, we recommend that the City implement policies to address the importance of experience and proper training of back-up staff when regular staff member are not available. Inexperienced staff may cause material impact in the City's operations in terms of incurring additional costs, delaying the processing of financial transactions, and failing to keep City Management and the City Council updated with accurate information.

This addresses COSO's Control Environment, Principle 4: demonstrates commitment to competency including succession planning, and Control Environment Principle 5: enforces accountability.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation.

Corrective Action Plan: The City will establish and document policies and procedures to implement fundamental elements of the Internal Control Integrated Framework (ICIF) and to create policies for major transaction systems and for business processes to establish control standards. These policies and procedures will be designed to serve as the system of internal controls required by OMB's Uniform Guidance (2 CFR 200). The policies and procedures will include expectations for segregation of duties assignment of authority and responsibility, reconciliation, information and communication, and monitoring for persons with responsibility for systems of processes. In the meantime, the City Manager department will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2019

Responsible Person: Cecil W. Rhambo, Jr., City Manager

2014-075B – Audit Committee (MW)

Criteria: The City has an audit committee that is appropriate for the size and nature of the entity.

Condition: The Los Angeles County Grand Jury Report for Fiscal Year 2011-12 recommended that the City of Compton establish an audit committee. The City failed to implement this Grand Jury recommendation as of November 29, 2017.

Related Finding(s): SCO Finding 18

Recommendation: We recommend that the City formally establish an audit committee that will directly be responsible for the appointment, compensation, retention and oversight of independent auditors engaged for the purpose of issuing audit reports or other independent audit or review services. The audit committee should be formally established through a City resolution.

This addresses COSO's Control Environment, Principle 2: exercises oversight responsibilities, and Monitoring Activities, Principle 16: conducts ongoing and/or separate evaluations.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation.

Corrective Action Plan: The City will establish and document policies and procedures to implement fundamental elements of the Internal Control Integrated Framework (ICIF) and to create policies for major transaction systems and for business processes to establish control standards. These policies and procedures will be designed to serve as the system of internal controls required by OMB's Uniform Guidance (2 CFR 200). The policies and procedures will include expectations for segregation of duties assignment of authority and responsibility, reconciliation, information and communication, and monitoring for persons with responsibility for systems of processes. In the meantime, the City Manager and City Controller department will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2021

Responsible Person: Cecil W. Rhambo, Jr., City Manager and Rafaela King, Controller

2014-076B – Audit Committee (SD)

Criteria: Members of the audit committee are independent from the City Management.

Condition: The Los Angeles County Grand Jury Report for Fiscal Year 2011-12 recommended that the City of Compton establish an audit committee. The City failed to implement this Grand Jury recommendation as of November 29, 2017.

Related Finding(s): SCO Finding 18

Recommendation: We recommend that once the City formally establishes an audit committee, management ensures that its members are independent from City Management.

This addresses COSO's Control Environment, Principle 2: exercises oversight responsibilities, and Monitoring Activities, Principle 16: conducts ongoing and/or separate evaluations.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation.

Corrective Action Plan: The City will establish and document policies and procedures to implement fundamental elements of the Internal Control Integrated Framework (ICIF) and to create policies for major transaction systems and for business processes to establish control standards. These policies and procedures will be designed to serve as the system of internal controls required by OMB's Uniform Guidance (2 CFR 200). The policies and procedures will include expectations for segregation of duties assignment of authority and responsibility, reconciliation, information and communication, and monitoring for persons with responsibility for systems of processes. In the meantime, the City Manager and City Controller department will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2021

Responsible Person: Cecil W. Rhambo, Jr., City Manager and Rafaela King, Controller

2014-077B – Audit Committee (SD)

Criteria: Audit committee members have sufficient knowledge, experience, and time to serve effectively.

Condition: The Los Angeles County Grand Jury Report for Fiscal Year 2011-12 recommended that the City of Compton establish an audit committee. The City failed to implement this Grand Jury recommendation as of November 29, 2017.

Related Finding(s): SCO Finding 18

Recommendation: We recommend that once the City formally establishes an audit committee, management ensures that the committee members have sufficient knowledge, experience, and time to serve effectively.

This addresses COSO's Control Environment, Principle 2: exercises oversight responsibilities, and Monitoring Activities, Principle 16: conducts ongoing and/or separate evaluations.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation.

Corrective Action Plan: The City will establish and document policies and procedures to implement fundamental elements of the Internal Control Integrated Framework (ICIF) and to create policies for major transaction systems and for business processes to establish control standards. These policies and procedures will be designed to serve as the system of internal controls required by OMB's Uniform Guidance (2 CFR 200). The policies and procedures will include expectations for segregation of duties assignment of authority and responsibility, reconciliation, information and communication, and monitoring for persons with responsibility for systems of processes. In the meantime, the City Manager and City Controller department will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2021

Responsible Person: Cecil W. Rhambo, Jr., City Manager and Rafaela King, Controller

2014-078B – Audit Committee (SD)

Criteria: The audit committee meet regularly to set policies and objectives, review the City's performance, and take appropriate actions; and minutes of such meetings are prepared and signed on a timely basis.

Condition: The Los Angeles County Grand Jury Report for Fiscal Year 2011-12 recommended that the City of Compton establish an audit committee. The City failed to implement this Grand Jury recommendation as of November 29, 2017.

Related Finding(s): SCO Finding 18

Recommendation: We recommend that the City formally establish an audit committee that will be directly responsible for the appointment, compensation retention, and oversight of independent auditors engaged for the purpose of issuing audit reports or other independent audit or review services.

This addresses COSO's Control Environment, Principle 2: exercises oversight responsibilities, and Monitoring Activities, Principle 16: conducts ongoing and/or separate evaluations.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation.

Corrective Action Plan: The City will establish and document policies and procedures to implement fundamental elements of the Internal Control Integrated Framework (ICIF) and to create policies for major transaction systems and for business processes to establish control standards. These policies and procedures will be designed to serve as the system of internal controls required by OMB's Uniform Guidance (2 CFR 200). The policies and procedures will include expectations for segregation of duties assignment of authority and responsibility, reconciliation, information and communication, and monitoring for persons with responsibility for systems of processes. In the meantime, the City Manager and City Controller department will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2021

Responsible Person: Cecil W. Rhambo, Jr., City Manager and Rafaela King, Controller

2014-079B – Audit Committee (SD)

Criteria: The members of the audit committee regularly receive the information they need to monitor management's objectives and strategies.

Condition: The Los Angeles County Grand Jury Report for Fiscal Year 2011-12 recommended that the City of Compton establish an audit committee. The City failed to implement this Grand Jury recommendation as of November 29, 2017.

Related Finding(s): SCO Finding 18

Recommendation: We recommend that the City formally establish an audit committee that will be directly responsible for the appointment, compensation retention, and oversight of independent auditors engaged for the purpose of issuing audit reports or other independent audit or review services.

This addresses COSO's Control Environment, Principle 2: exercises oversight responsibilities, and Monitoring Activities, Principle 16: conducts ongoing and/or separate evaluations.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation.

Corrective Action Plan: The City will establish and document policies and procedures to implement fundamental elements of the Internal Control Integrated Framework (ICIF) and to create policies for major transaction systems and for business processes to establish control standards. These policies and procedures will be designed to serve as the system of internal controls required by OMB's Uniform Guidance (2 CFR 200). The policies and procedures will include expectations for segregation of duties assignment of authority and responsibility, reconciliation, information and communication, and monitoring for persons with responsibility for systems of processes. In the meantime, the City Manager and City Controller department will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2021

Responsible Person: Cecil W. Rhambo, Jr., City Manager and Rafaela King, Controller

2014-080B – Audit Committee (SD)

Criteria: The audit committee reviews the scope and activities of the internal and external auditors.

Condition: The Los Angeles County Grand Jury Report for Fiscal Year 2011-12 recommended that the City of Compton establish an audit committee. The City failed to implement this Grand Jury recommendation as of November 29, 2017.

Related Finding(s): SCO Finding 18

Recommendation: We recommend that the City formally establish an audit committee that will be directly responsible for the appointment, compensation retention, and oversight of independent auditors engaged for the purpose of issuing audit reports or other independent audit or review services.

This addresses COSO’s Control Environment, Principle 2: exercises oversight responsibilities, and Monitoring Activities, Principle 16: conducts ongoing and/or separate evaluations.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation.

Corrective Action Plan: The City will establish and document policies and procedures to implement fundamental elements of the Internal Control Integrated Framework (ICIF) and to create policies for major transaction systems and for business processes to establish control standards. These policies and procedures will be designed to serve as the system of internal controls required by OMB’s Uniform Guidance (2 CFR 200). The policies and procedures will include expectations for segregation of duties assignment of authority and responsibility, reconciliation, information and communication, and monitoring for persons with responsibility for systems of processes. In the meantime, the City Manager and City Controller department will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2021

Responsible Person: Cecil W. Rhambo, Jr., City Manager and Rafaela King, Controller

2014-081B – Audit Committee (SD)

Criteria: The audit committee meets privately with the CFO and or accounting officers, internal auditors, and external auditors to discuss the reasonableness of the financial reporting process, the system of internal control, significant comments or recommendations, and management performance.

Condition: The Los Angeles County Grand Jury Report for Fiscal Year 2011-12 recommended that the City of Compton establish an audit committee. The City failed to implement this Grand Jury recommendation as of November 29, 2017.

Related Finding(s): SCO Finding 18

Recommendation: We recommend that the City formally establish an audit committee that will be directly responsible for the appointment, compensation retention, and oversight of independent auditors engaged for the purpose of issuing audit reports or other independent audit or review services.

This addresses COSO's Control Environment, Principle 2: exercises oversight responsibilities, and Monitoring Activities, Principle 16: conducts ongoing and/or separate evaluations.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation.

Corrective Action Plan: The City will establish and document policies and procedures to implement fundamental elements of the Internal Control Integrated Framework (ICIF) and to create policies for major transaction systems and for business processes to establish control standards. These policies and procedures will be designed to serve as the system of internal controls required by OMB's Uniform Guidance (2 CFR 200). The policies and procedures will include expectations for segregation of duties assignment of authority and responsibility, reconciliation, information and communication, and monitoring for persons with responsibility for systems of processes. In the meantime, the City Manager and City Controller department will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2021

Responsible Person: Cecil W. Rhambo, Jr., City Manager and Rafaela King, Controller

2014-082B – Audit Committee (SD)

Criteria: The audit committee takes actions as a result of its audit findings.

Condition: The Los Angeles County Grand Jury Report for Fiscal Year 2011-12 recommended that the City of Compton establish an audit committee. The City failed to implement this Grand Jury recommendation as of November 29, 2017.

Related Finding(s): SCO Finding 18

Recommendation: We recommend that the City formally establish an audit committee that will be directly responsible for the appointment, compensation retention, and oversight of independent auditors engaged for the purpose of issuing audit reports or other independent audit or review services.

This addresses COSO's Control Environment, Principle 2: exercises oversight responsibilities, and Monitoring Activities, Principle 16: conducts ongoing and/or separate evaluations.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation.

Corrective Action Plan: The City will establish and document policies and procedures to implement fundamental elements of the Internal Control Integrated Framework (ICIF) and to create policies for major transaction systems and for business processes to establish control standards. These policies and procedures will be designed to serve as the system of internal controls required by OMB's Uniform Guidance (2 CFR 200). The policies and procedures will include expectations for segregation of duties assignment of authority and responsibility, reconciliation, information and communication, and monitoring for persons with responsibility for systems of processes. In the meantime, the City Manager and City Controller department will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2021

Responsible Person: Cecil W. Rhambo, Jr., City Manager and Rafaela King, Controller

2014-083B – Management Philosophy and Operating Style (SD)

Criteria: Management is conservative in accepting risks, and management moves carefully, and proceeds only after careful evaluation.

Condition: The City experienced a high degree of management turnover, which can result in a lack of consistent leadership, operational stability, and efficiency. Between January 1, 2010 and January 18, 2017, nine different individuals served as City Manager. Audit issues noted in prior years' review and audit reports were not corrected. Likewise, recommendations to address the noted issues were not implemented.

Related Finding(s): SCO Finding 14

Recommendation: The SCO recommends that the City evaluate its hiring practices for its upper management positions. In addition, we recommend that the City develop a succession plan that will help it to ensure continued leadership even during management turnover.

This addresses COSO's Control Environment, Principle 4: demonstrates commitment to competency including succession planning, and Control Environment, Principle 5: enforces accountability.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation.

Corrective Action Plan: The City will establish and document policies and procedures to implement fundamental elements of the Internal Control Integrated Framework (ICIF) and to create policies for major transaction systems and for business processes to establish control standards. These policies and procedures will be designed to serve as the system of internal controls required by OMB's Uniform Guidance (2 CFR 200). The policies and procedures will include expectations for segregation of duties assignment of authority and responsibility, reconciliation, information and communication, and monitoring for persons with responsibility for systems of processes. In the meantime, the City Manager department will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2021

Responsible Person: Cecil W. Rhambo, Jr., City Manager

2014-084B – Management Philosophy and Operating Style (SD)

Criteria: Procedures or activities are in place to regularly educate and communicate to management and employees the importance of internal controls and to raise the level of understanding control.

Condition: The City experienced a high degree of management turnover, which can result in a lack of consistent leadership, operational stability, and efficiency. Between January 1, 2010 and January 18, 2017, nine different individuals served as City Manager. Audit issues noted in prior years' review and audit reports were not corrected. Likewise, recommendations to address the noted issues were not implemented.

Related Finding(s): SCO Finding 14

Recommendation: We recommend that the City evaluate its hiring practices for its upper management position. In addition, we recommend that the City develop a succession plan that will help it to ensure continued leadership even during management turnover.

This addresses COSO's Control Environment, Principle 4: demonstrates commitment to competency including succession planning, and Control Environment, Principle 5: enforces accountability.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation.

Corrective Action Plan: The City will establish and document policies and procedures to implement fundamental elements of the Internal Control Integrated Framework (ICIF) and to create policies for major transaction systems and for business processes to establish control standards. These policies and procedures will be designed to serve as the system of internal controls required by OMB's Uniform Guidance (2 CFR 200). The policies and procedures will include expectations for segregation of duties assignment of authority and responsibility, reconciliation, information and communication, and monitoring for persons with responsibility for systems of processes. In the meantime, the City Manager department will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2021

Responsible Person: Cecil W. Rhambo, Jr., City Manager

2014-085B – Management Philosophy and Operating Style (SD)

Criteria: Personnel turnover in key functions is at an acceptable level.

Condition: Due to implemented layoffs, "bumping rights" were exercised by some employees, resulting in the assignment of several employees to new positions in which they lacked experience and training. In addition, the implemented furlough schedule did not prove effective to the operations of the various City departments.

Related Finding(s): SCO Finding 14, 16

Recommendation: We recommend that the City implement a remedial action plan to adequately staff departments. Most importantly, the City Controller's Office should be staffed with qualified and experienced individuals who can contribute immediately to the performance of its accounting functions. In addition, we recommend that the City implement policies to address the importance of experience and proper training of back-up staff when regular staff members are not available. Inexperienced staff may cause material impact in the City's operations in terms of incurring additional costs, delaying the processing of financial transactions, and failing to keep City Management and the City Council updated with accurate information.

This addresses COSO's Control Environment, Principle 4: demonstrates commitment to competency including succession planning, and Control Environment, Principle 5: enforces accountability.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation.

Corrective Action Plan: The City will establish and document policies and procedures to implement fundamental elements of the Internal Control Integrated Framework (ICIF) and to create policies for major transaction systems and for business processes to establish control standards. These policies and procedures will be designed to serve as the system of internal controls required by OMB's Uniform Guidance (2 CFR 200). The policies and procedures will include expectations for segregation of duties assignment of authority and responsibility, reconciliation, information and communication, and monitoring for persons with responsibility for systems of processes. In the meantime, the City Manager department will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2021

Responsible Person: Cecil W. Rhambo, Jr., City Manager

2014-086B – Management Philosophy and Operating Style (SD)

Criteria: Management has a positive and supportive attitude towards internal control and audit functions.

Condition: Deputy Treasurer admitted to embezzling money from the City's cash receipts on 12/15/16. The Mayer Hoffman McCann CPA firm reported that it was unable to reach an opinion on whether the City's FY 2010-11 June financial statements were free of material misstatements, due to their inability to obtain sufficient evidence from the Mayor or the City with respect to the Mayor's concerns of fraud on 7/24/12. Governance practices recommended by the FY 2011 -12 Civil Grand Jury Report were not implemented, such as: develop a strategic plan, develop and report on performance measures, develop specific goals for the City's executive and conduct annual evaluation of City's executive. The City Council failed to exercise oversight over the City's financial and operational activities. Prior years' audit and review finding and recommendation were not implemented.

The City experienced a high degree of management turnover, which can result in a lack of consistent leadership, operational stability, and efficiency. Between January 1, 2010 and January 18, 2017, nine different individuals served as City Manager. Audit issues noted in prior years' review and audit reports were not corrected. Likewise, recommendations to address the noted issues were not implemented.

Related Finding(s): SCO Finding 3, 17, 14, 17

Recommendation: We recommend that the City adopt formal governance processes and procedures to provide appropriate oversight of internal audit functions and activities, and respond in a timely manner to recommendations. In addition, we recommend that the City consider establishing an audit committee.

This addresses COSO's Control Environment, Principle 2: exercises oversight responsibilities, and Monitoring Activities, Principle 16: conducts ongoing and/or separate evaluations.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation.

Corrective Action Plan: The City will establish and document policies and procedures to implement fundamental elements of the Internal Control Integrated Framework (ICIF) and to create policies for major transaction systems and for business processes to establish control standards. These policies and procedures will be designed to serve as the system of internal controls required by OMB's Uniform Guidance (2 CFR 200). The policies and procedures will include expectations for segregation of duties assignment of authority and responsibility, reconciliation, information and communication, and monitoring for persons with responsibility for systems of processes. In the meantime, the City Manager and City Controller department will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2019

Responsible Person: Cecil W. Rhambo, Jr., City Manager and Rafaela King, Controller

2014-087B – Management Philosophy and Operating Style (MW)

Criteria: Valuable assets and information are safeguarded from unauthorized access or use.

Condition: The City failed to exercise adequate control over expenses charged to City-issued credit cards. The City failed to provide records of its annual inventory of capital assets. As a result, all fixed assets owned and purchased by the City were not accurately listed in its listing of fixed assets.

Related Finding(s): SCO Finding 8, 12

Recommendation: We recommend that the City establish City-Wide procedures for fixed asset accounting, management, control and accountability. Procedures should also be established for proper financial accounting and reporting in accordance with GAAP, GASB, and other applicable government accounting standards; A complete and accurate listing of fixed assets of significant value; and maintenance of fixed asset records for the life of each asset, which should be retained in accordance with the City's records retention program.

This addresses COSO's Control Environment, Principle 3: establishes structure, authority, and responsibility; and Control Activities, Principle 12: deploys through policies and procedures.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation.

Corrective Action Plan: The City will establish and document policies and procedures to implement fundamental elements of the Internal Control Integrated Framework (ICIF) and to create policies for major transaction systems and for business processes to establish control standards. These policies and procedures will be designed to serve as the system of internal controls required by OMB's Uniform Guidance (2 CFR 200). The policies and procedures will include expectations for segregation of duties assignment of authority and responsibility, reconciliation, information and communication, and monitoring for persons with responsibility for systems of processes. In the meantime, the City Manager, City Treasurer and City Controller department will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2021

Responsible Person: Cecil W. Rhambo, Jr., City Manager, Douglas Sanders, City Treasurer and Rafaela King, Controller

2014-088B – Management Philosophy and Operating Style (SD)

Criteria: Management attitude is appropriate towards financial, budgetary, and other operational reporting.

Condition: The SCO noted that some recommended steps in the County Grand Jury Report pertaining to governance practices and financial management were not fully implemented. Likewise, recommendations to correct noted deficiencies in prior audit reports have not been put into effect.

Related Finding(s): SCO Finding 18

Recommendation: We recommend that the City gradually evaluate and address recommendations from the County Grand Jury, SCO, NRN, and external auditors.

This addresses COSO's Control Environment, Principle 2: exercises oversight responsibilities, and Monitoring Activities, Principle 17: evaluates and communicates deficiencies.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation.

Corrective Action Plan: The City will establish and document policies and procedures to implement fundamental elements of the Internal Control Integrated Framework (ICIF) and to create policies for major transaction systems and for business processes to establish control standards. These policies and procedures will be designed to serve as the system of internal controls required by OMB's Uniform Guidance (2 CFR 200). The policies and procedures will include expectations for segregation of duties assignment of authority and responsibility, reconciliation, information and communication, and monitoring for persons with responsibility for systems of processes. In the meantime, the City Manager and City Controller department will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2021

Responsible Person: Cecil W. Rhambo, Jr., City Manager and Rafaela King, Controller

2014-089B – Organizational Structure (MW)

Criteria: The City's organizational structure is appropriate for its size and the nature of its operation.

Condition: Some key management positions remain vacant, which is affecting the City's operational efficiency in delivering services to its citizens. In addition, the City Controller's Office is so understaffed that some of its basic functions have not been accomplished.

Related Finding(s): SCO Finding 16

Recommendation: We recommend that the City implement a remedial action plan to adequately staff departments that were affected by furloughs and reductions in the previous years. In addition, we recommend that the City implement policies to address the importance of experience and proper training of back-up staff when regular staff members are not available.

This addresses COSO's Control Environment, Principle 4: demonstrates commitment to competency including succession planning, and Control Environment, Principle 5: enforces accountability.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation.

Corrective Action Plan: The City will establish and document policies and procedures to implement fundamental elements of the Internal Control Integrated Framework (ICIF) and to create policies for major transaction systems and for business processes to establish control standards. These policies and procedures will be designed to serve as the system of internal controls required by OMB's Uniform Guidance (2 CFR 200). The policies and procedures will include expectations for segregation of duties assignment of authority and responsibility, reconciliation, information and communication, and monitoring for persons with responsibility for systems of processes. In the meantime, the City Manager department will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2021

Responsible Person: Cecil W. Rhambo, Jr., City Manager

2014-090B – Organizational Structure (SD)

Criteria: Management periodically evaluates the organization's structure and make changes as necessary in fluctuating conditions?

Condition: The City experienced a high degree of management turnover, which can result in a lack of consistent leadership, operational stability, and efficiency. Between January 1, 2010 and January 18, 2017, nine different individuals served as City Manager. Audit issues noted in prior years' review and audit reports were not corrected. Likewise, recommendations to address the noted issues were not implemented.

Related Finding(s): SCO Finding 14

Recommendation: We recommend that the City evaluate its hiring practices for its upper management positions. In addition, we recommend that the City develop a succession plan that will help it to ensure continued leadership even during management turnover.

This addresses COSO's Control Environment, Principle 4: demonstrates commitment to competency including succession planning, and Control Environment, Principle 5: enforces accountability, and Risk Assessment, Principle 9: identifies and analyzes significant change.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation.

Corrective Action Plan: The City will establish and document policies and procedures to implement fundamental elements of the Internal Control Integrated Framework (ICIF) and to create policies for major transaction systems and for business processes to establish control standards. These policies and procedures will be designed to serve as the system of internal controls required by OMB's Uniform Guidance (2 CFR 200). The policies and procedures will include expectations for segregation of duties assignment of authority and responsibility, reconciliation, information and communication, and monitoring for persons with responsibility for systems of processes. In the meantime, the City Manager department will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2021

Responsible Person: Cecil W. Rhambo, Jr., City Manager

2014-091B – Organizational Structure (MW)

Criteria: The City employs an appropriate number of employees, particularly in managerial positions.

Condition: Some key management positions remain vacant, which is affecting the City's operational efficiency in delivering services to its citizens. In addition, the City Controller's Office is so understaffed that some of its basic functions have not been accomplished.

Related Finding(s): SCO Finding 16

Recommendation: We recommend that the City implement a remedial action plan to adequately staff departments that were affected by furloughs and reductions in the previous years. In addition, we recommend that the City implement policies to address the importance of experience and proper training of back-up staff when regular staff members are not available.

This addresses COSO's Control Environment, Principle 4: demonstrates commitment to competency including succession planning, and Control Environment, Principle 5: enforces accountability.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation.

Corrective Action Plan: The City will establish and document policies and procedures to implement fundamental elements of the Internal Control Integrated Framework (ICIF) and to create policies for major transaction systems and for business processes to establish control standards. These policies and procedures will be designed to serve as the system of internal controls required by OMB's Uniform Guidance (2 CFR 200). The policies and procedures will include expectations for segregation of duties assignment of authority and responsibility, reconciliation, information and communication, and monitoring for persons with responsibility for systems of processes. In the meantime, the City Manager department will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2020

Responsible Person: Cecil W. Rhambo, Jr., City Manager

2014-092B – Assignment of Authority and Responsibility (SD)

Criteria: The City appropriately is assigning authority and delegating responsibility to the proper personnel to deal with organizational goals and objectives.

Condition: Several upper management positions remain unfilled.

Related Finding(s): SCO Finding 16

Recommendation: We recommend that the City makes filling and retaining upper management positions a priority to ensure that organizational goals and objectives are continuously worked towards.

This addresses COSO's Control Environment, Principle 3: establishes structure, authority, and responsibility, Principle 4: demonstrates commitment to competency including succession planning, and Control Environment, Principle 5: enforces accountability.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation.

Corrective Action Plan: The City will establish and document policies and procedures to implement fundamental elements of the Internal Control Integrated Framework (ICIF) and to create policies for major transaction systems and for business processes to establish control standards. These policies and procedures will be designed to serve as the system of internal controls required by OMB's Uniform Guidance (2 CFR 200). The policies and procedures will include expectations for segregation of duties assignment of authority and responsibility, reconciliation, information and communication, and monitoring for persons with responsibility for systems of processes. In the meantime, the City Manager department will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2021

Responsible Person: Cecil W. Rhambo, Jr., City Manager

2014-093B – Assignment of Authority and Responsibility (MW)

Criteria: Does each employee know how his or her work interrelates to others in the way in which authority and responsibility are assigned, and how duties are related concerning internal control?

Condition: There is a lack of segregation of duties relating to some critical functions.

Related Finding(s): SCO Finding 10

Recommendation: We recommend that the City assess its current processes and implement policies and procedures to segregate incompatible functions.

This addresses COSO's Control Activities, Principle 10: selects and develops control activities.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation.

Corrective Action Plan: The City will establish and document policies and procedures to implement fundamental elements of the Internal Control Integrated Framework (ICIF) and to create policies for major transaction systems and for business processes to establish control standards. These policies and procedures will be designed to serve as the system of internal controls required by OMB's Uniform Guidance (2 CFR 200). The policies and procedures will include expectations for segregation of duties assignment of authority and responsibility, reconciliation, information and communication, and monitoring for persons with responsibility for systems of processes. In the meantime, the City Manager and City Controller department will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2021

Responsible Person: Cecil W. Rhambo, Jr., City Manager and Rafaela King, Controller

2014-094B – Human Resources Policies and Practices (BP)

Criteria: Background checks conducted on candidates for employment.

Condition: The Personnel Rules and Regulations were last updated in November 1979, and do not state the requirements for conducting background checks of new employees.

Related Finding(s): SCO Finding 13

Recommendation: We recommend that the City continue to review and update its Administrative Policies and Procedures manuals to ensure consistency with current processes and organizational structure; and perform periodic and ongoing reviews to ensure proper documentation, accuracy, and completeness in its financial transaction and records.

This addresses COSO's Control Environment, Principle 3: establishes structure, authority, and responsibility, and Control Activities, Principle 12: deploys through policies and procedures.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation.

Corrective Action Plan: The City will establish and document policies and procedures to implement fundamental elements of the Internal Control Integrated Framework (ICIF) and to create policies for major transaction systems and for business processes to establish control standards. These policies and procedures will be designed to serve as the system of internal controls required by OMB's Uniform Guidance (2 CFR 200). The policies and procedures will include expectations for segregation of duties assignment of authority and responsibility, reconciliation, information and communication, and monitoring for persons with responsibility for systems of processes. In the meantime, the Human Resources and City Manager department will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2019

Responsible Person: Jesenia Sanchez, Human Resources Analyst and Cecil W. Rhambo, Jr, City Manager

2014-095B – Human Resources Policies and Practices (SD)

Criteria: Employees are provided the proper amount of supervision.

Condition: Generally, City departments have assigned adequate management supervision to staff, except for Human Resources (the Director of Human Resources position has been vacant for over three years). In addition, adequate supervision relating to cash receipts was lacking the Treasurer's Office.

Related Finding(s): SCO Finding 17

Recommendation: We recommend that the City assess its current processes and implement policies and procedures to segregate incompatible functions.

This addresses COSO's Control Environment, Principle 3: establishes structure, authority, and responsibility, and Control Activities, Principle 10: selects and develops control activities, and Principle 12: deploys through policies and procedures.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation.

Corrective Action Plan: The City will establish and document policies and procedures to implement fundamental elements of the Internal Control Integrated Framework (ICIF) and to create policies for major transaction systems and for business processes to establish control standards. These policies and procedures will be designed to serve as the system of internal controls required by OMB's Uniform Guidance (2 CFR 200). The policies and procedures will include expectations for segregation of duties assignment of authority and responsibility, reconciliation, information and communication, and monitoring for persons with responsibility for systems of processes. In the meantime, the City Manager and City Controller department will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2020

Responsible Person: Cecil W. Rhambo, Jr., City Manager and Rafaela King, Controller

2014-096B – Establishment of Entity-wide Objectives (BP)

Criteria: There are entity-wide objectives that were established by management.

Condition: The County of Los Angeles Civil Grand Jury Report for FY 2011-12 recommended that charter cities, including the City of Compton, develop and adopt a strategic plan that articulates the mission, vision, core values, and priorities for the City. In its response, the City stated that it will implement its plan in the near future.

Related Finding(s): SCO Finding 18

Recommendation: We recommend that the City establish an entity-wide strategic plan that articulates the mission, vision, core values, and priorities of the City.

This addresses COSO's Risk Assessment, Principle 6: specifies suitable objectives.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation.

Corrective Action Plan: The City will establish and document policies and procedures to implement fundamental elements of the Internal Control Integrated Framework (ICIF) and to create policies for major transaction systems and for business processes to establish control standards. These policies and procedures will be designed to serve as the system of internal controls required by OMB's Uniform Guidance (2 CFR 200). The policies and procedures will include expectations for segregation of duties assignment of authority and responsibility, reconciliation, information and communication, and monitoring for persons with responsibility for systems of processes. In the meantime, the City Treasurer, City Manager, and City Controller department will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2020

Responsible Person: Douglas Sanders, City Treasurer, Cecil W. Rhambo, Jr., City Manager and Rafaela King, Controller

2014-097B – Establishment of Entity-wide Objectives (BP)

Criteria: City-wide objectives are clearly communicated to all employees, and management obtains feedback signifying that communication has been effective.

Condition: Most of the staff the SCO interviewed were not aware of the City-wide goals and objectives.

Recommendation: We recommend that once the City has established an entity-wide strategic plan to develop and implement a communication medium to clearly communicate this to all employees.

This addresses COSO's Risk Assessment, Principle 6: specifies suitable objectives.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation.

Corrective Action Plan: The City will establish and document policies and procedures to implement fundamental elements of the Internal Control Integrated Framework (ICIF) and to create policies for major transaction systems and for business processes to establish control standards. These policies and procedures will be designed to serve as the system of internal controls required by OMB's Uniform Guidance (2 CFR 200). The policies and procedures will include expectations for segregation of duties assignment of authority and responsibility, reconciliation, information and communication, and monitoring for persons with responsibility for systems of processes. In the meantime, the City Manager department will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2020

Responsible Person: Cecil W. Rhambo, Jr., City Manager

2014-098B – Establishment of Entity-wide Objectives (BP)

Criteria: There is a relationship and consistency between the department's operational strategies and the City-wide objectives.

Condition: The County of Los Angeles Civil Grand Jury Report for FY 2011-12 recommended that charter cities, including the City of Compton, develop and adopt a strategic plan that articulates the mission, vision, core values, and priorities for the City. In its response, the City stated that it will implement its plan in the near future.

Related Finding(s): SCO Finding 18

Recommendation: We recommend that the City establish a relationship and consistency between the departments' operational strategies and the City-wide objectives.

This addresses COSO's Risk Assessment, Principle 6: specifies suitable objectives.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation.

Corrective Action Plan: The City will establish and document policies and procedures to implement fundamental elements of the Internal Control Integrated Framework (ICIF) and to create policies for major transaction systems and for business processes to establish control standards. These policies and procedures will be designed to serve as the system of internal controls required by OMB's Uniform Guidance (2 CFR 200). The policies and procedures will include expectations for segregation of duties assignment of authority and responsibility, reconciliation, information and communication, and monitoring for persons with responsibility for systems of processes. In the meantime, the City Manager department will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2020

Responsible Person: Cecil W. Rhambo, Jr., City Manager

2014-009B – Establishment of Entity-wide Objectives (BP)

Criteria: There is an integrated management strategy and risk assessment plan that considers the City-wide objectives and the relevant sources of risk from internal management factors and external sources, and that establishes a control structure to address those risks.

Condition: The County of Los Angeles Civil Grand Jury Report for FY 2011-12 recommended that charter cities, including the City of Compton, develop and adopt a strategic plan that articulates the mission, vision, core values, and priorities for the City. In its response, the City stated that it will implement its plan in the near future.

The City experienced a high degree of management turnover, which can result in a lack of consistent leadership, operational stability, and efficiency. Between January 1, 2010 and January 18, 2017, nine different individuals served as City Manager. Audit issues noted in prior years' review and audit reports were not corrected. Likewise, recommendations to address the noted issues were not implemented.

Related Finding(s): SCO Finding 14, 18

Recommendation: We recommend that the City establish an integrated strategy and risk assessment plan to continuously monitor the City's progress.

This addresses COSO's Risk Assessment, Principle 6: specifies suitable objectives.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation.

Corrective Action Plan: The City will establish and document policies and procedures to implement fundamental elements of the Internal Control Integrated Framework (ICIF) and to create policies for major transaction systems and for business processes to establish control standards. These policies and procedures will be designed to serve as the system of internal controls required by OMB's Uniform Guidance (2 CFR 200). The policies and procedures will include expectations for segregation of duties assignment of authority and responsibility, reconciliation, information and communication, and monitoring for persons with responsibility for systems of processes. In the meantime, the City Manager department will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2020

Responsible Person: Cecil W. Rhambo, Jr., City Manager

2014-100B – Risk Identification (MW)

Criteria: Management is appropriately and comprehensively identifying risk using various methodologies.

Condition: No risk assessment, evaluation, or risk prioritization was completed during the SCO's review period.

Recommendation: We recommend that the City start doing risk assessments to be able to identify and properly address risks.

This addresses COSO's Risk Assessment, Principle 6: specifies suitable objectives, and Principle 7: identifies and analyzes risk.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation.

Corrective Action Plan: The City will establish and document policies and procedures to implement fundamental elements of the Internal Control Integrated Framework (ICIF) and to create policies for major transaction systems and for business processes to establish control standards. These policies and procedures will be designed to serve as the system of internal controls required by OMB's Uniform Guidance (2 CFR 200). The policies and procedures will include expectations for segregation of duties assignment of authority and responsibility, reconciliation, information and communication, and monitoring for persons with responsibility for systems of processes. In the meantime, the City Manager and City Controller department will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2021

Responsible Person: Cecil W. Rhambo, Jr., City Manager and Rafaela King, Controller

2014-101B – Risk Identification (SD)

Criteria: There are mechanisms in place to anticipate, identify, and react to routine events or acts that affect achievement of objectives.

Condition: The City experienced a high degree of management turnover, which can result in a lack of consistent leadership, operational stability, and efficiency. Between January 1, 2010 and January 18, 2017, nine different individuals served as City Manager. Audit issues noted in prior years' review and audit reports were not corrected. Likewise, recommendations to address the noted issues were not implemented.

No risk assessment, evaluation, or risk prioritization was completed during the SCO's review period.

Related Finding(s): SCO Finding 14

Recommendation: We recommend that the City put mechanisms in place to aid in anticipating, identifying, and reacting to routine events that affect the achievement of objectives.

This addresses COSO's Risk Assessment, Principle 6: specifies suitable objectives, and Principle 7: identifies and analyzes risk.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation.

Corrective Action Plan: The City will establish and document policies and procedures to implement fundamental elements of the Internal Control Integrated Framework (ICIF) and to create policies for major transaction systems and for business processes to establish control standards. These policies and procedures will be designed to serve as the system of internal controls required by OMB's Uniform Guidance (2 CFR 200). The policies and procedures will include expectations for segregation of duties assignment of authority and responsibility, reconciliation, information and communication, and monitoring for persons with responsibility for systems of processes. In the meantime, the City Manager department will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2021

Responsible Person: Cecil W. Rhambo, Jr., City Manager

2014-102B – Risk Identification (SD)

Criteria: Adequate mechanisms exists to identify risks to the City arising from external factors.

Condition: The City experienced a high degree of management turnover, which can result in a lack of consistent leadership, operational stability, and efficiency. Between January 1, 2010 and January 18, 2017, nine different individuals served as City Manager. Audit issues noted in prior years' review and audit reports were not corrected. Likewise, recommendations to address the noted issues were not implemented.

No risk assessment, evaluation, or risk prioritization was completed during our review period.

Related Finding(s): SCO Finding 14

Recommendation: We recommend that the City put mechanisms in place to aid in identifying external factors that affect the achievement of objectives.

This addresses COSO's Risk Assessment, Principle 6: specifies suitable objectives, and Principle 7: identifies and analyzes risk, and Monitoring Activities, Principle 16: conducts ongoing and/or separate evaluations, and Principle 17: evaluates and communicates deficiencies.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation.

Corrective Action Plan: The City will establish and document policies and procedures to implement fundamental elements of the Internal Control Integrated Framework (ICIF) and to create policies for major transaction systems and for business processes to establish control standards. These policies and procedures will be designed to serve as the system of internal controls required by OMB's Uniform Guidance (2 CFR 200). The policies and procedures will include expectations for segregation of duties assignment of authority and responsibility, reconciliation, information and communication, and monitoring for persons with responsibility for systems of processes. In the meantime, the City Manager department will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2021

Responsible Person: Cecil W. Rhambo, Jr., City Manager

2014-103B – Risk Identification (SD)

Criteria: Management is assessing other factors that may contribute to or increase the risk to which the City is exposed.

Condition: The City experienced a high degree of management turnover, which can result in a lack of consistent leadership, operational stability, and efficiency. Between January 1, 2010 and January 18, 2017, nine different individuals served as City Manager. Audit issues noted in prior years' review and audit reports were not corrected. Likewise, recommendations to address the noted issues were not implemented.

No risk assessment, evaluation, or risk prioritization was completed during our review period.

Related Finding(s): SCO Finding 14

Recommendation: We recommend that City Management assess other factors that may contribute to or increase the risk of which the City is exposed.

This addresses COSO's Risk Assessment, Principle 6: specifies suitable objectives, and Principle 7: identifies and analyzes risk.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation.

Corrective Action Plan: The City will establish and document policies and procedures to implement fundamental elements of the Internal Control Integrated Framework (ICIF) and to create policies for major transaction systems and for business processes to establish control standards. These policies and procedures will be designed to serve as the system of internal controls required by OMB's Uniform Guidance (2 CFR 200). The policies and procedures will include expectations for segregation of duties assignment of authority and responsibility, reconciliation, information and communication, and monitoring for persons with responsibility for systems of processes. In the meantime, the City Manager department will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2021

Responsible Person: Cecil W. Rhambo, Jr., City Manager

2014-104B – Risk Identification (SD)

Criteria: Management is identifying risks City-wide and for each significant activity level of the City.

Condition: The City experienced a high degree of management turnover, which can result in a lack of consistent leadership, operational stability, and efficiency. Between January 1, 2010 and January 18, 2017, nine different individuals served as City Manager. Audit issues noted in prior years' review and audit reports were not corrected. Likewise, recommendations to address the noted issues were not implemented.

No risk assessment, evaluation, or risk prioritization was completed during our review period.

Related Finding(s): SCO Finding 14

Recommendation: We recommend that City Management identify risks on a City-wide level, as well as for each significant activity level of the City.

This addresses COSO's Risk Assessment, Principle 6: specifies suitable objectives, and Principle 7: identifies and analyzes risk.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation.

Corrective Action Plan: The City will establish and document policies and procedures to implement fundamental elements of the Internal Control Integrated Framework (ICIF) and to create policies for major transaction systems and for business processes to establish control standards. These policies and procedures will be designed to serve as the system of internal controls required by OMB's Uniform Guidance (2 CFR 200). The policies and procedures will include expectations for segregation of duties assignment of authority and responsibility, reconciliation, information and communication, and monitoring for persons with responsibility for systems of processes. In the meantime, the City Manager and City Controller department will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2021

Responsible Person: Cecil W. Rhambo, Jr., City Manager and Rafaela King, Controller

2014-105B – Risk Analysis (MW)

Criteria: After risks to the City have been identified, management undertakes a thorough and complete analysis of the possible effect.

Condition: The City experienced a high degree of management turnover, which can result in a lack of consistent leadership, operational stability, and efficiency. Between January 1, 2010 and January 18, 2017, nine different individuals served as City Manager. Audit issues noted in prior years' review and audit reports were not corrected. Likewise, recommendations to address the noted issues were not implemented.

No risk assessment, evaluation, or risk prioritization was completed during our review period.

Related Finding(s): SCO Finding 14

Recommendation: We recommend that once the City has a proper risk assessment plan in place, City Management should thoroughly and completely analyze the possible effects of the identified risks.

This addresses COSO's Risk Assessment, Principle 6: specifies suitable objectives, and Principle 7: identifies and analyzes risk, and Monitoring Activities, Principle 16: conducts ongoing and/or separate evaluations, and Principle 17: evaluates and communicates deficiencies.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation.

Corrective Action Plan: The City will establish and document policies and procedures to implement fundamental elements of the Internal Control Integrated Framework (ICIF) and to create policies for major transaction systems and for business processes to establish control standards. These policies and procedures will be designed to serve as the system of internal controls required by OMB's Uniform Guidance (2 CFR 200). The policies and procedures will include expectations for segregation of duties assignment of authority and responsibility, reconciliation, information and communication, and monitoring for persons with responsibility for systems of processes. In the meantime, the City Manager and City Controller department will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2021

Responsible Person: Cecil W. Rhambo, Jr., City Manager and Rafaela King, Controller

2014-106B – Risk Analysis (SD)

Criteria: Management has developed an approach for risk management and control based on how much risk can be prudently accepted.

Condition: The City experienced a high degree of management turnover, which can result in a lack of consistent leadership, operational stability, and efficiency. Between January 1, 2010 and January 18, 2017, nine different individuals served as City Manager. Audit issues noted in prior years' review and audit reports were not corrected. Likewise, recommendations to address the noted issues were not implemented.

No risk assessment, evaluation, or risk prioritization was completed during our review period.

Related Finding(s): SCO Finding 14

Recommendation: We recommend that the City develop and establish an approach for risk management and control. The City should also formalize in City Policies how much risk can be prudently accepted.

This addresses COSO's Risk Assessment, Principle 6: specifies suitable objectives, and Principle 7: identifies and analyzes risk, and Monitoring Activities, Principle 16: conducts ongoing and/or separate evaluations, and Principle 17: evaluates and communicates deficiencies.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation.

Corrective Action Plan: The City will establish and document policies and procedures to implement fundamental elements of the Internal Control Integrated Framework (ICIF) and to create policies for major transaction systems and for business processes to establish control standards. These policies and procedures will be designed to serve as the system of internal controls required by OMB's Uniform Guidance (2 CFR 200). The policies and procedures will include expectations for segregation of duties assignment of authority and responsibility, reconciliation, information and communication, and monitoring for persons with responsibility for systems of processes. In the meantime, the City Manager and City Controller department will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2021

Responsible Person: Cecil W. Rhambo, Jr., City Manager and Rafaela King, Controller

2014-107B – Policies and Procedures (General Applications) (MW)

Criteria: The control activities identified as necessary are in place and being applied.

Condition: Outside the City Controller's Office, most of the employees that the SCO interviewed were unaware of control activities in place or how they are being applied.

Recommendation: We recommend that the City update its formal Policy and Procedures manual to incorporate the recently implemented internal control procedures, and complete these updates as soon as possible.

This addresses COSO's Control Environment, Principle 3: establishes structure, authority, and responsibility; and Control Activities, Principle 10: selects and develops control activities, and Principle 12: deploys through policies and procedures.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation.

Corrective Action Plan: The City will establish and document policies and procedures to implement fundamental elements of the Internal Control Integrated Framework (ICIF) and to create policies for major transaction systems and for business processes to establish control standards. These policies and procedures will be designed to serve as the system of internal controls required by OMB's Uniform Guidance (2 CFR 200). The policies and procedures will include expectations for segregation of duties assignment of authority and responsibility, reconciliation, information and communication, and monitoring for persons with responsibility for systems of processes. In the meantime, the City Manager and City Controller department will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2021

Responsible Person: Cecil W. Rhambo, Jr., City Manager and Rafaela King, Controller

2014-108B – Policies and Procedures (General Applications) (MW)

Criteria: Control activities are regularly evaluated to ensure that they are still appropriate and working as intended.

Condition: Outside the City Controller's Office, most of the employees that the SCO interviewed were unaware of control activities in place or how they are being applied.

Recommendation: We recommend that the City continue to review and update its Administrative Policies and Procedures manuals to ensure consistency with current processes and organizational structure; and perform periodic and ongoing reviews to ensure proper documentation, accuracy, and completeness in its financial transactions and records. When completed, the updated Administrative Policies and Procedures manuals should be readily available to all responsible employees. The manuals should clearly state the authority and responsibility of all employees, especially the authority to authorize transactions and the responsibility for the safekeeping of assets and records.

This addresses COSO's Control Environment, Principle 3: establishes structure, authority, and responsibility; and Control Activities, Principle 10: selects and develops control activities, and Principle 12: deploys through policies and procedures.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation.

Corrective Action Plan: The City will establish and document policies and procedures to implement fundamental elements of the Internal Control Integrated Framework (ICIF) and to create policies for major transaction systems and for business processes to establish control standards. These policies and procedures will be designed to serve as the system of internal controls required by OMB's Uniform Guidance (2 CFR 200). The policies and procedures will include expectations for segregation of duties assignment of authority and responsibility, reconciliation, information and communication, and monitoring for persons with responsibility for systems of processes. In the meantime, the City Manager and City Controller department will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2021

Responsible Person: Cecil W. Rhambo, Jr., City Manager and Rafaela King, Controller

2014-109B – Common Categories of Control Activities (MW)

Criteria: Top level reviews are made of actual performance relative to budgets, forecasts, and prior periods.

Condition: There were approvals of budget and budget amendments. However, there were no review of actual to budget costs for FY 2013-14, FY 2014-15, and FY 2015-16. During these fiscal years, audits of the financial statements were not completed.

Recommendation: We recommend that the City Council and City Management limit their spending to adopted budget amounts. In addition, we recommend that the City Council regularly request reports from the City Management showing a comparison of budgeted to actual expenditures to ensure that the City does not spend in excess of approved budgets.

This addresses COSO's Control Environment, Principle 2: exercise oversight responsibilities, and Principle 3: establishes structure, authority, and responsibility.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation.

Corrective Action Plan: The City will establish and document policies and procedures to implement fundamental elements of the Internal Control Integrated Framework (ICIF) and to create policies for major transaction systems and for business processes to establish control standards. These policies and procedures will be designed to serve as the system of internal controls required by OMB's Uniform Guidance (2 CFR 200). The policies and procedures will include expectations for segregation of duties assignment of authority and responsibility, reconciliation, information and communication, and monitoring for persons with responsibility for systems of processes. In the meantime, the City Manager and City Controller department will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2021

Responsible Person: Cecil W. Rhambo, Jr., City Manager and Rafaela King, Controller

2014-110B – Common Categories of Control Activities (SD)

Criteria: Managers review performance reports.

Condition: There were approvals of budget and budget amendments. However, there were no review of actual to budget costs for FY 2013-14, FY 2014-15, and FY 2015-16. During these fiscal years, audits of the financial statements were not completed.

Recommendation: We recommend that City Management review performance reports to gain an understanding where additional training or other corrective actions are necessary.

This addresses COSO's Control Environment, Principle 2: exercise oversight responsibilities, and Principle 3: establishes structure, authority, and responsibility.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation.

Corrective Action Plan: The City will establish and document policies and procedures to implement fundamental elements of the Internal Control Integrated Framework (ICIF) and to create policies for major transaction systems and for business processes to establish control standards. These policies and procedures will be designed to serve as the system of internal controls required by OMB's Uniform Guidance (2 CFR 200). The policies and procedures will include expectations for segregation of duties assignment of authority and responsibility, reconciliation, information and communication, and monitoring for persons with responsibility for systems of processes. In the meantime, the City Manager and City Controller department will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2020

Responsible Person: Cecil W. Rhambo, Jr., City Manager and Rafaela King, Controller

2014-111B – Common Categories of Control Activities (MW)

Criteria: For information processing, a variety of controls are in place for performing check accuracy, completeness, and authorization of transactions.

Condition: During the SCO review period, there were no systems of segregation of duties in place for cash receipts, purchasing, and timesheet recording.

Related Finding(s): SCO Finding 10

Recommendation: We recommend that the City assess its current processes and implement policies and procedures to segregate incompatible functions.

This addresses COSO's Control Environment, Principle 3: establishes structure, authority, and responsibility, and Control Activities, Principle 10: selects and develops control activities.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation.

Corrective Action Plan: The City will establish and document policies and procedures to implement fundamental elements of the Internal Control Integrated Framework (ICIF) and to create policies for major transaction systems and for business processes to establish control standards. These policies and procedures will be designed to serve as the system of internal controls required by OMB's Uniform Guidance (2 CFR 200). The policies and procedures will include expectations for segregation of duties assignment of authority and responsibility, reconciliation, information and communication, and monitoring for persons with responsibility for systems of processes. In the meantime, the City Manager and City Controller department will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2021

Responsible Person: Cecil W. Rhambo, Jr., City Manager and Rafaela King, Controller

2014-112B – Common Categories of Control Activities (SD)

Criteria: Controlled items are periodically counted and compared to amounts shown on control records.

Condition: There were no records to show that counts and comparisons of controlled items had been conducted.

Related Finding(s): SCO Finding 12

Recommendation: We recommend that the City periodically count controlled items and to compare these counts with control records to ensure accuracy and integrity of the recorded amounts.

This addresses COSO's Control Environment, Principle 3: establishes structure, authority, and responsibility, and Control Activities, Principle 10: selects and develops control activities, and Monitoring Activities, Principle 16: conducts ongoing and/or separate evaluations.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation.

Corrective Action Plan: The City will establish and document policies and procedures to implement fundamental elements of the Internal Control Integrated Framework (ICIF) and to create policies for major transaction systems and for business processes to establish control standards. These policies and procedures will be designed to serve as the system of internal controls required by OMB's Uniform Guidance (2 CFR 200). The policies and procedures will include expectations for segregation of duties assignment of authority and responsibility, reconciliation, information and communication, and monitoring for persons with responsibility for systems of processes. In the meantime, the City Manager and City Controller department will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2020

Responsible Person: Cecil W. Rhambo, Jr., City Manager and Rafaela King, Controller

2014-113B – Common Categories of Control Activities (BP)

Criteria: For performance indicators, management compares different sets of data and investigate differences.

Condition: There were no documents to show that management had reviewed and compared different sets of data relating to performance indicators.

Recommendation: We recommend that City Management compare different sets of data and investigate differences relating to performance indicators.

This addresses COSO's Information & Communication, Principle 13: uses relevant, quality information.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation.

Corrective Action Plan: The City will establish and document policies and procedures to implement fundamental elements of the Internal Control Integrated Framework (ICIF) and to create policies for major transaction systems and for business processes to establish control standards. These policies and procedures will be designed to serve as the system of internal controls required by OMB's Uniform Guidance (2 CFR 200). The policies and procedures will include expectations for segregation of duties assignment of authority and responsibility, reconciliation, information and communication, and monitoring for persons with responsibility for systems of processes. In the meantime, the City Manager and City Controller department will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2020

Responsible Person: Cecil W. Rhambo, Jr., City Manager and Rafaela King, Controller

2014-114B – Common Categories of Control Activities (MW)

Criteria: Duties are properly segregated among different people to reduce the risk or error or inappropriate actions

Condition: There is lack of segregation of duties such as employees performed incompatible functions, including cash counting, timesheet report and account payable.

Related Finding(s): SCO Finding 10

Recommendation: We recommend that City Management and department heads evaluate if proper segregation of duties are in place. If not, mitigating controls should be developed and implemented to decrease the risk of error or inappropriate actions.

This addresses COSO's Control Activities, Principle 10: selects and develops control activities.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation.

Corrective Action Plan: The City will establish and document policies and procedures to implement fundamental elements of the Internal Control Integrated Framework (ICIF) and to create policies for major transaction systems and for business processes to establish control standards. These policies and procedures will be designed to serve as the system of internal controls required by OMB's Uniform Guidance (2 CFR 200). The policies and procedures will include expectations for segregation of duties assignment of authority and responsibility, reconciliation, information and communication, and monitoring for persons with responsibility for systems of processes. In the meantime, the City Manager, City Treasurer, and City Controller department will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2019

Responsible Person: Cecil W. Rhambo, Jr., City Manager, Douglas Sanders, City Treasurer, and Rafaela King, Controller

2014-115B – Common Categories of Control Activities (SD)

Criteria: Administrative and operation policies are in writing, current, and do they set clear procedures for compliance.

Condition: There were written administrative and operation policies; however, these policies and procedures have not been updated.

Related Finding(s): SCO Finding 13

Recommendation: We recommend that the City continue to review and update its Administrative Policies and Procedures manuals to ensure consistency with current processes and organizational structure; and perform periodic and ongoing reviews to ensure proper documentation, accuracy, and completeness in its financial transactions and records.

This addresses COSO's Control Activities, Principle 12: deploys through policies and procedures.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation.

Corrective Action Plan: The City will establish and document policies and procedures to implement fundamental elements of the Internal Control Integrated Framework (ICIF) and to create policies for major transaction systems and for business processes to establish control standards. These policies and procedures will be designed to serve as the system of internal controls required by OMB's Uniform Guidance (2 CFR 200). The policies and procedures will include expectations for segregation of duties assignment of authority and responsibility, reconciliation, information and communication, and monitoring for persons with responsibility for systems of processes. In the meantime, the City Manager and City Controller department will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2021

Responsible Person: Cecil W. Rhambo, Jr., City Manager and Rafaela King, Controller

2014-116B – Information (SD)

Criteria: Mechanisms are in place to obtain relevant information on legislative or regulatory developments and program, budget, or economic changes?

Condition: The comparison of budget to actual that is generally presented in the external Comprehensive Annual Financial Report was not available for FY 2013-14, FY 2014-15, and FY 2015-16. The audited financial statements for these fiscal years have not been completed. The City has been understaffed due to layoffs and furloughs. This is not a high priority for the City; accordingly, no staff had been assigned to obtain the relevant information for regulatory programs.

Related Finding(s): SCO Finding 15, 16

Recommendation: We recommend that the City assign a higher priority to, and direct more resources towards completing, its audited financial statements by the deadline of no later than six months after fiscal year-end.

This addresses COSO's Information & Communication, Principle 14: communicates internally, and Principle 15: communicates externally.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation.

Corrective Action Plan: The City will establish and document policies and procedures to implement fundamental elements of the Internal Control Integrated Framework (ICIF) and to create policies for major transaction systems and for business processes to establish control standards. These policies and procedures will be designed to serve as the system of internal controls required by OMB's Uniform Guidance (2 CFR 200). The policies and procedures will include expectations for segregation of duties assignment of authority and responsibility, reconciliation, information and communication, and monitoring for persons with responsibility for systems of processes. In the meantime, the City Manager and City Controller department will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2021

Responsible Person: Cecil W. Rhambo, Jr., City Manager and Rafaela King, Controller

2014-117B – Information (SD)

Criteria: Information is provided to the right people in sufficient detail and on time to enable them to carry out their responsibilities efficiently and effectively.

Condition: The comparison of budget to actual that is presented in the external Comprehensive Annual Financial Report was not available for FY 2013-14, FY 2014-15, and FY 2015-16. The audited financial statements for these fiscal years have not been completed. The City has been understaffed due to layoffs and furloughs. This is not a high priority for the City; accordingly, no staff had been assigned to obtain the relevant information for regulatory programs.

Related Finding(s): SCO Finding 15, 16

Recommendation: We recommend that City Management communicate and manifest the importance of timely communication in the policies and employee manuals.

This addresses COSO's Information & Communication, Principle 14: communicates internally, and Principle 15: communicates externally.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation.

Corrective Action Plan: The City will establish and document policies and procedures to implement fundamental elements of the Internal Control Integrated Framework (ICIF) and to create policies for major transaction systems and for business processes to establish control standards. These policies and procedures will be designed to serve as the system of internal controls required by OMB's Uniform Guidance (2 CFR 200). The policies and procedures will include expectations for segregation of duties assignment of authority and responsibility, reconciliation, information and communication, and monitoring for persons with responsibility for systems of processes. In the meantime, the City Manager and City Controller department will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2021

Responsible Person: Cecil W. Rhambo, Jr., City Manager and Rafaela King, Controller

2014-118B – Information (SD)

Criteria: Development or revision of information systems is based on the strategic plan linked to the entity's overall strategy, and is responsive to achieving City-wide objectives.

Condition: The County of Los Angeles Civil Grand Jury Report for FY 2011-12 recommended that charter cities, including the City of Compton, develop and adopt a strategic plan that articulates the mission, vision, core values, and priorities for the City. In its response, the City stated that it will implement its plan in the near future.

Related Finding(s): SCO Finding 18

Recommendation: We recommend that the City have development or revision of information systems based on the City's overall strategy. These systems should also be responsive to achieving City-wide objectives.

This addresses COSO's Information & Communication, Principle 14: communicates internally, and Principle 15: communicates externally.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation.

Corrective Action Plan: The City will establish and document policies and procedures to implement fundamental elements of the Internal Control Integrated Framework (ICIF) and to create policies for major transaction systems and for business processes to establish control standards. These policies and procedures will be designed to serve as the system of internal controls required by OMB's Uniform Guidance (2 CFR 200). The policies and procedures will include expectations for segregation of duties assignment of authority and responsibility, reconciliation, information and communication, and monitoring for persons with responsibility for systems of processes. In the meantime, the City Manager and City Controller department will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2021

Responsible Person: Cecil W. Rhambo, Jr., City Manager and Rafaela King, Controller

2014-119B – Information (SD)

Criteria: Management supports the development of necessary information systems and show its support by committing appropriate resources.

Condition: The comparison of budget to actual that is presented in the external Comprehensive Annual Financial Report was not available for FY 2013-14, FY 2014-15, and FY 2015-16. The audited financial statements for these fiscal years have not been completed. The City has been understaffed due to layoffs and furloughs. This is not a high priority for the City; accordingly, no staff had been assigned to obtain the relevant information for regulatory programs.

Related Finding(s): SCO Finding 15, 16

Recommendation: We recommend that City Management support the development of necessary information systems, including committing appropriate resources.

This addresses COSO's Control Activities, Principle 11: selects and develops general controls over technology; Information & Communication, Principle 14: communicates internally, and Principle 15: communicates externally.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation.

Corrective Action Plan: The City will establish and document policies and procedures to implement fundamental elements of the Internal Control Integrated Framework (ICIF) and to create policies for major transaction systems and for business processes to establish control standards. These policies and procedures will be designed to serve as the system of internal controls required by OMB's Uniform Guidance (2 CFR 200). The policies and procedures will include expectations for segregation of duties assignment of authority and responsibility, reconciliation, information and communication, and monitoring for persons with responsibility for systems of processes. In the meantime, the City Manager and City Controller department will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2021

Responsible Person: Cecil W. Rhambo, Jr., City Manager and Rafaela King, Controller

2014-120B – Communication (SD)

Criteria: Management ensures that effective internal communications occur.

Condition: The SCO's observation and inquiry suggests that employees receive clear messages from top management; however, management does not receive significant information from employees. For example, billings approved by the City Manager, although questionable due to lack of adequate review and documentation, were never questioned by City employees.

Recommendation: We recommend that the City Council fulfill its fiduciary responsibility by exercising meaningful oversight over the City's affairs. The City should also develop and implement policies and procedures to ensure that its management performs a detailed review and gains full understanding before entering into any type of legally-binding agreement.

This addresses COSO's Information & Communication, Principle 14: communicates internally, and Principle 15: communicates externally.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation.

Corrective Action Plan: The City will establish and document policies and procedures to implement fundamental elements of the Internal Control Integrated Framework (ICIF) and to create policies for major transaction systems and for business processes to establish control standards. These policies and procedures will be designed to serve as the system of internal controls required by OMB's Uniform Guidance (2 CFR 200). The policies and procedures will include expectations for segregation of duties assignment of authority and responsibility, reconciliation, information and communication, and monitoring for persons with responsibility for systems of processes. In the meantime, the City Manager and City Controller department will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2021

Responsible Person: Cecil W. Rhambo, Jr., City Manager and Rafaela King, Controller

2014-121B – Communication (SD)

Criteria: Management ensures that effective external communication occurs regarding issues with serious impact on programs, projects and other activities.

Condition: Recommendations to correct prior years' audit issues were not implemented.

Related Finding(s): SCO Finding 17

Recommendation: We recommend that the City adopt formal governance processes and procedures to provide appropriate oversight of internal audit functions and activities, and respond in a timely manner to recommendations. In addition, we recommend that the City establish an audit committee.

This recommendation addresses COSO's Control Environment, Principle 2: Board exercises oversight responsibilities and Monitoring Activities, Principle 17: evaluates and communicates deficiencies.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation.

Corrective Action Plan: The City will establish and document policies and procedures to implement fundamental elements of the Internal Control Integrated Framework (ICIF) and to create policies for major transaction systems and for business processes to establish control standards. These policies and procedures will be designed to serve as the system of internal controls required by OMB's Uniform Guidance (2 CFR 200). The policies and procedures will include expectations for segregation of duties assignment of authority and responsibility, reconciliation, information and communication, and monitoring for persons with responsibility for systems of processes. In the meantime, the City Manager and City Controller department will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2021

Responsible Person: Cecil W. Rhambo, Jr., City Manager and Rafaela King, Controller

2014-122B – Communication (BP)

Criteria: The City employs various forms and means of communicating important information with employee and others.

Condition: The SCO's observation and inquiry suggests that employees receive clear messages from top management; however, management does not receive significant information from employees. For example, billings approved by the City Manager, although questionable due to lack of adequate review and documentation, were never questioned by City employees.

Recommendation: We recommend that the City has forms and means of communication in place to be able to communicate important information with employees and others.

This recommendation addresses COSO's Information & Communication, Principle 14: communicates internally.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation.

Corrective Action Plan: The City will establish and document policies and procedures to implement fundamental elements of the Internal Control Integrated Framework (ICIF) and to create policies for major transaction systems and for business processes to establish control standards. These policies and procedures will be designed to serve as the system of internal controls required by OMB's Uniform Guidance (2 CFR 200). The policies and procedures will include expectations for segregation of duties assignment of authority and responsibility, reconciliation, information and communication, and monitoring for persons with responsibility for systems of processes. In the meantime, the City Manager and City Controller department will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2019

Responsible Person: Cecil W. Rhambo, Jr., City Manager and Rafaela King, Controller

2014-123B – Communication (SD)

Criteria: The City manages, develops, and revises its information system in an effort to continually improve usefulness and reliability.

Condition: The SCO cannot determine from the review if pertinent information was identified, captured, and communicated in a form and time frame that allowed employees to carry out their responsibilities.

Recommendation: We recommend that the City manage, develop, and revise its information system in an effort to continually improve usefulness and reliability of information.

This recommendation addresses COSO's Information & Communication, Principle 13: uses relevant, quality information and Control Activities, Principle 11: selects and develops general controls over technology.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation.

Corrective Action Plan: The City will establish and document policies and procedures to implement fundamental elements of the Internal Control Integrated Framework (ICIF) and to create policies for major transaction systems and for business processes to establish control standards. These policies and procedures will be designed to serve as the system of internal controls required by OMB's Uniform Guidance (2 CFR 200). The policies and procedures will include expectations for segregation of duties assignment of authority and responsibility, reconciliation, information and communication, and monitoring for persons with responsibility for systems of processes. In the meantime, the City Manager and City Controller department will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2019

Responsible Person: Cecil W. Rhambo, Jr., City Manager and Rafaela King, Controller

2014-124B – On-Going Monitoring (MW)

Criteria: Management has a strategy to ensure that ongoing monitoring is effective and will trigger separate evaluations.

Condition: The City's strategic plan had not yet been implemented during our review. In addition, there is no audit committee to implement on-going monitoring and to take proactive actions relating to audit and internal control issues.

Related Finding(s): SCO Finding 18

Recommendation: We recommend that the City formally establish an audit committee that will be directly responsible for the appointment, compensation, retention, and oversight of independent auditors engaged for the purpose of issuing audit reports or other independent audit review services.

This recommendation addresses COSO's Control Environment, Principle 2: Board exercises oversight responsibility and Monitoring Activities: Principle 16: conducts ongoing and separate evaluations.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation.

Corrective Action Plan: The City will establish and document policies and procedures to implement fundamental elements of the Internal Control Integrated Framework (ICIF) and to create policies for major transaction systems and for business processes to establish control standards. These policies and procedures will be designed to serve as the system of internal controls required by OMB's Uniform Guidance (2 CFR 200). The policies and procedures will include expectations for segregation of duties assignment of authority and responsibility, reconciliation, information and communication, and monitoring for persons with responsibility for systems of processes. In the meantime, the City Manager and City Controller department will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2021

Responsible Person: Cecil W. Rhambo, Jr., City Manager and Rafaela King, Controller

2014-125B – On-Going Monitoring (SD)

Criteria: City personnel, in the process of performing their regular duties, obtain information about whether internal control is functioning properly.

Condition: City Controller's Office staff are aware of internal controls in place; however, other City employees appeared to lack knowledge about internal control functions.

Recommendation: We recommend that the City train and educate City personnel to obtain information and evaluate whether internal control they work with on a daily basis is functioning properly.

This recommendation addresses COSO's Control Environment, Principle 4: demonstrates a commitment to competence, Information & Communication, Principle 13: uses relevant, quality information, and Monitoring Activities, Principle 16: conducts ongoing and separate evaluations.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation.

Corrective Action Plan: The City will establish and document policies and procedures to implement fundamental elements of the Internal Control Integrated Framework (ICIF) and to create policies for major transaction systems and for business processes to establish control standards. These policies and procedures will be designed to serve as the system of internal controls required by OMB's Uniform Guidance (2 CFR 200). The policies and procedures will include expectations for segregation of duties assignment of authority and responsibility, reconciliation, information and communication, and monitoring for persons with responsibility for systems of processes. In the meantime, the City Manager and City Controller department will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2021

Responsible Person: Cecil W. Rhambo, Jr., City Manager and Rafaela King, Controller

2014-126B – On-Going Monitoring (MW)

Criteria: Communications from external parties are corroborated with internally generated data and able to indicate problems with internal control.

Condition: Internal control issues noted in prior years' reviews and audits had not been addressed by management.

Related Finding(s): SCO Finding 14

Recommendation: We recommend that the City adopt formal governance processes and procedures to provide appropriate oversight of internal audit functions and activities, and respond in a timely manner to recommendations.

This recommendation addresses COSO's Control Environment, Principle 2: Board exercises oversight responsibility, Monitoring Activities, Principle 17: evaluates and communicates deficiencies, and Control Activities, Principle 12: deploys controls through policies and procedures.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation.

Corrective Action Plan: The City will establish and document policies and procedures to implement fundamental elements of the Internal Control Integrated Framework (ICIF) and to create policies for major transaction systems and for business processes to establish control standards. These policies and procedures will be designed to serve as the system of internal controls required by OMB's Uniform Guidance (2 CFR 200). The policies and procedures will include expectations for segregation of duties assignment of authority and responsibility, reconciliation, information and communication, and monitoring for persons with responsibility for systems of processes. In the meantime, the City Manager and City Controller department will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2021

Responsible Person: Cecil W. Rhambo, Jr., City Manager and Rafaela King, Controller

2014-127B – On-Going Monitoring (MW)

Criteria: There is appropriate organizational structure and supervision to help provide oversight of internal control functions.

Condition: An Audit Committee has not been established and there has been frequent turnover of the Controller position over the past years.

Related Finding(s): SCO Finding 18

Recommendation: We recommend that the City establish an appropriate organizational structure, such as an audit committee, to have oversight of internal control functions.

This recommendation addresses COSO's Control Environment, Principle 2: Board exercises oversight responsibility, and Control Environment, Principle 3: management establishes structures, authority, and responsibilities.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation.

Corrective Action Plan: The City will establish and document policies and procedures to implement fundamental elements of the Internal Control Integrated Framework (ICIF) and to create policies for major transaction systems and for business processes to establish control standards. These policies and procedures will be designed to serve as the system of internal controls required by OMB's Uniform Guidance (2 CFR 200). The policies and procedures will include expectations for segregation of duties assignment of authority and responsibility, reconciliation, information and communication, and monitoring for persons with responsibility for systems of processes. In the meantime, the City Manager and City Controller department will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2020

Responsible Person: Cecil W. Rhambo, Jr., City Manager and Rafaela King, Controller

2014-128B – On-Going Monitoring (MW)

Criteria: Data recorded by information and financial systems are periodically compared with physical assets and discrepancies are investigated.

Condition: The SCO is not aware of any asset inventory having been conducted by the City.

Related Finding(s): SCO Finding 12

Recommendation: We recommend that the City have periodic physical asset observations to compare to recorded information and financial records.

This recommendation addresses COSO's Control Activities, Principle 10: selects and develops control activities.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation.

Corrective Action Plan: The City will establish and document policies and procedures to implement fundamental elements of the Internal Control Integrated Framework (ICIF) and to create policies for major transaction systems and for business processes to establish control standards. These policies and procedures will be designed to serve as the system of internal controls required by OMB's Uniform Guidance (2 CFR 200). The policies and procedures will include expectations for segregation of duties assignment of authority and responsibility, reconciliation, information and communication, and monitoring for persons with responsibility for systems of processes. In the meantime, the City Controller department will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2021

Responsible Person: Rafaela King, Controller

2014-129B – On-Going Monitoring (MW)

Criteria: The City Auditor's Office and other auditors are regularly providing recommendations for improvements in internal control, and is management taking appropriate follow-up action.

Condition: The City does not have an internal audit unit. There is an internal auditor position, which was vacant at the time of our review; however, the previous internal auditor in office for approximately four years had not completed any audit reports or reviews. Management has not implemented prior external audit recommendations.

Related Finding(s): SCO Finding 16, 17

Recommendation: We recommend that the City fill the internal audit position to allow for periodic internal audit reports to help in improving internal control.

This recommendation addresses COSO's Monitoring Activities, Principle 16: conducts ongoing and separate evaluations, and Control Environment, Principle 4: demonstrates a commitment to competence.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation.

Corrective Action Plan: The City will establish and document policies and procedures to implement fundamental elements of the Internal Control Integrated Framework (ICIF) and to create policies for major transaction systems and for business processes to establish control standards. These policies and procedures will be designed to serve as the system of internal controls required by OMB's Uniform Guidance (2 CFR 200). The policies and procedures will include expectations for segregation of duties assignment of authority and responsibility, reconciliation, information and communication, and monitoring for persons with responsibility for systems of processes. In the meantime, the City Controller department will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2019

Responsible Person: Rafaela King, Controller

2014-130B – On-Going Monitoring (BP)

Criteria: Meetings with employees are used to provide management with feedback on whether internal control is effective.

Condition: City employees cannot remember when the last meeting relating to internal controls was conducted between employees and management.

Recommendation: We recommend that the City have periodic internal control meetings with employees to gain insights of the employees' perspective and get some feedback.

This recommendation addresses COSO's Control Environment, Principle 1: demonstrates commitment to integrity and ethical values, and Control Environment, Principle 2: Board exercises oversight responsibility.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation.

Corrective Action Plan: The City will establish and document policies and procedures to implement fundamental elements of the Internal Control Integrated Framework (ICIF) and to create policies for major transaction systems and for business processes to establish control standards. These policies and procedures will be designed to serve as the system of internal controls required by OMB's Uniform Guidance (2 CFR 200). The policies and procedures will include expectations for segregation of duties assignment of authority and responsibility, reconciliation, information and communication, and monitoring for persons with responsibility for systems of processes. In the meantime, the City Manager and City Controller department will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2019

Responsible Person: Cecil W. Rhambo, Jr., City Manager and Rafaela King, Controller

2014-131B – On-Going Monitoring (BP)

Criteria: Employees are regularly asked to state explicitly whether they comply with the City's code of conduct.

Condition: Some of the City staff that the SCO interviewed did not appear to be well-informed about the City Code of Conduct.

Recommendation: We recommend that the City emphasize the importance of the City's Code of Conduct and the adherence to it.

This recommendation addresses COSO's Control Environment, Principle 1: demonstrates commitment to integrity and ethical values.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation.

Corrective Action Plan: The City will establish and document policies and procedures to implement fundamental elements of the Internal Control Integrated Framework (ICIF) and to create policies for major transaction systems and for business processes to establish control standards. These policies and procedures will be designed to serve as the system of internal controls required by OMB's Uniform Guidance (2 CFR 200). The policies and procedures will include expectations for segregation of duties assignment of authority and responsibility, reconciliation, information and communication, and monitoring for persons with responsibility for systems of processes. In the meantime, the City Manager and City Controller department will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2019

Responsible Person: Cecil W. Rhambo, Jr., City Manager and Rafaela King, Controller

2014-132B – Separate Evaluation (MW)

Criteria: The scope and frequency of separate internal control evaluations are appropriate for the City.

Condition: Annually, as part of the Comprehensive Annual Financial Report. However, these annual reports were not completed for FY 2013-14, FY 2014-15, and FY 2015-16.

Related Finding(s): SCO Finding 15

Recommendation: We recommend that once an internal control unit has been established that the scope and frequency of separate internal control evaluations to be tailored to the City's circumstances and needs.

This recommendation addresses COSO's Monitoring Activities, Principle 16: conducts ongoing and separate evaluations.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation.

Corrective Action Plan: The City will establish and document policies and procedures to implement fundamental elements of the Internal Control Integrated Framework (ICIF) and to create policies for major transaction systems and for business processes to establish control standards. These policies and procedures will be designed to serve as the system of internal controls required by OMB's Uniform Guidance (2 CFR 200). The policies and procedures will include expectations for segregation of duties assignment of authority and responsibility, reconciliation, information and communication, and monitoring for persons with responsibility for systems of processes. In the meantime, the City Manager and City Controller department will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2021

Responsible Person: Cecil W. Rhambo, Jr., City Manager and Rafaela King, Controller

2014-133B – Separate Evaluation (MW)

Criteria: The evaluations are conducted by the City Auditor's Office, who has sufficient resources, ability, and independence.

Condition: The City does not have a City Auditor's Office.

Recommendation: We recommend that once an internal control unit has been established that the City ensures that they have the necessary resources, ability, and independence.

This recommendation addresses COSO's Control Environment, Principle 2: Board exercises oversight responsibility and Monitoring Activities, Principle 16: conducts ongoing and separate evaluations.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation.

Corrective Action Plan: The City will establish and document policies and procedures to implement fundamental elements of the Internal Control Integrated Framework (ICIF) and to create policies for major transaction systems and for business processes to establish control standards. These policies and procedures will be designed to serve as the system of internal controls required by OMB's Uniform Guidance (2 CFR 200). The policies and procedures will include expectations for segregation of duties assignment of authority and responsibility, reconciliation, information and communication, and monitoring for persons with responsibility for systems of processes. In the meantime, the City Controller department will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2021

Responsible Person: Rafaela King, Controller

2014-134B – Separate Evaluation (MW)

Criteria: Deficiencies found during separate evaluations are promptly resolved.

Condition: Deputy Treasurer admitted to embezzling money from the City's cash receipts on 12/15/16. The Mayer Hoffman McCann CPA firm reported that it was unable to reach an opinion on whether the City's FY 2010-11 June financial statements were free of material misstatements, due to their inability to obtain sufficient evidence from the Mayor or the City with respect to the Mayor's concerns of fraud on 7/24/12. Governance practices recommended by the FY 2011 -12 Civil Grand Jury Report were not implemented, such as: develop a strategic plan, develop and report on performance measures, develop specific goals for the City's executive and conduct annual evaluation of City's executive. The City Council failed to exercise oversight over the City's financial and operational activities. Prior years' audit and review finding and recommendation were not implemented.

Related Finding(s): SCO Finding 3, 7, 17

Recommendation: We recommend that any deficiencies found during internal audit evaluations are promptly resolved to reduce the risk of subsequent effects.

This recommendation addresses COSO's Control Environment, Principle 2: Board exercises oversight responsibilities, and Monitoring Activities, Principle 17: evaluates and communicates deficiencies

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation.

Corrective Action Plan: The City will establish and document policies and procedures to implement fundamental elements of the Internal Control Integrated Framework (ICIF) and to create policies for major transaction systems and for business processes to establish control standards. These policies and procedures will be designed to serve as the system of internal controls required by OMB's Uniform Guidance (2 CFR 200). The policies and procedures will include expectations for segregation of duties assignment of authority and responsibility, reconciliation, information and communication, and monitoring for persons with responsibility for systems of processes. In the meantime, the City Manager and City Controller department will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2021

Responsible Person: Cecil W. Rhambo, Jr., City Manager and Rafaela King, Controller

2014-135B – Report Deficiencies (SD)

Criteria: There is ongoing monitoring of internal controls.

Condition: Prior years' audit issues had not been corrected. Some issues noted in the FY 2011-12 Los Angeles County Grand Jury Report were still outstanding as of the end of our field work.

Related Finding(s): SCO Finding 17, 18

Recommendation: We recommend that the City implement ongoing monitoring of internal controls to gain comfort of their functionalities and/or discover any deficiencies that need to be further investigated and addressed.

This recommendation addresses COSO's Monitoring Activities, Principle 16: conducts ongoing and separate evaluates.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation.

Corrective Action Plan: The City will establish and document policies and procedures to implement fundamental elements of the Internal Control Integrated Framework (ICIF) and to create policies for major transaction systems and for business processes to establish control standards. These policies and procedures will be designed to serve as the system of internal controls required by OMB's Uniform Guidance (2 CFR 200). The policies and procedures will include expectations for segregation of duties assignment of authority and responsibility, reconciliation, information and communication, and monitoring for persons with responsibility for systems of processes. In the meantime, the City Manager and City Controller department will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2021

Responsible Person: Cecil W. Rhambo, Jr., City Manager and Rafaela King, Controller

2014-136B – Report Deficiencies (SD)

Criteria: Deficiencies are reported to the person directly responsible and to a person at least one level higher.

Condition: Deputy Treasurer admitted to embezzling money from the City's cash receipts on 12/15/16. The Mayer Hoffman McCann CPA firm reported that it was unable to reach an opinion on whether the City's FY 2010-11 June financial statements were free of material misstatements, due to their inability to obtain sufficient evidence from the Mayor or the City with respect to the Mayor's concerns of fraud on 7/24/12. Governance practices recommended by the FY 2011 -12 Civil Grand Jury Report were not implemented, such as: develop a strategic plan, develop and report on performance measures, develop specific goals for the City's executive and conduct annual evaluation of City's executive. The City Council failed to exercise oversight over the City's financial and operational activities. Prior years' audit and review finding and recommendation were not implemented.

Related Finding(s): SCO Finding 3, 7, 17

Recommendation: We recommend that issues and deficiencies are directly communicated to the responsible personnel and elevated to someone at least a level higher.

This recommendation addresses COSO's Monitoring Activities, Principle 17: evaluates and communicates deficiencies and Control Environment, Principle 3, management establishes structure, authority, and responsibility.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation.

Corrective Action Plan: The City will establish and document policies and procedures to implement fundamental elements of the Internal Control Integrated Framework (ICIF) and to create policies for major transaction systems and for business processes to establish control standards. These policies and procedures will be designed to serve as the system of internal controls required by OMB's Uniform Guidance (2 CFR 200). The policies and procedures will include expectations for segregation of duties assignment of authority and responsibility, reconciliation, information and communication, and monitoring for persons with responsibility for systems of processes. In the meantime, the City Manager and City Controller department will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2020

Responsible Person: Cecil W. Rhambo, Jr., City Manager and Rafaela King, Controller

2014-137B – Report Deficiencies (MW)

Criteria: The identified transactions or events are investigated to determine causes and correct problems.

Condition: Prior years' audit and review issues had not been corrected.

Related Finding(s): SCO Finding 17

Recommendation: We recommend that the City develop a priority schedule of the identified audit findings and establish an estimated completion date to allow the City to focus on the items that need more immediate attention. Going forward, we recommend that an audit committee be responsible overseeing the response to audit findings and the implementation of the City's corrective action plans.

This recommendation addresses COSO's Monitoring Activities, Principle 17: evaluates and communicates deficiencies, Control Environment, Principle 2, Board exercises oversight responsibility, and Control Environment, Principle 3: management establishes structure, authority, and responsibility.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation.

Corrective Action Plan: The City will establish and document policies and procedures to implement fundamental elements of the Internal Control Integrated Framework (ICIF) and to create policies for major transaction systems and for business processes to establish control standards. These policies and procedures will be designed to serve as the system of internal controls required by OMB's Uniform Guidance (2 CFR 200). The policies and procedures will include expectations for segregation of duties assignment of authority and responsibility, reconciliation, information and communication, and monitoring for persons with responsibility for systems of processes. In the meantime, the City Manager and City Controller department will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2021

Responsible Person: Cecil W. Rhambo, Jr., City Manager and Rafaela King, Controller

CITY OF COMPTON
SCHEDULE OF SCO SPECIAL GAS TAX STREET IMPROVEMENT FUND AUDIT FINDINGS
FOR THE PERIODS OF JULY 1, 2007 THROUGH JUNE 30, 2016

2014-138C – Unallowable Borrowing (MW, NC)

Criteria: Streets and Highways Code section 2101 states, in part:

“...all moneys in the Highway Users Tax Account in the Transportation Tax Fund and hereafter received in the account are appropriated for... (a) The research, planning, construction, improvement, maintenance, and operation of public streets and highways...”

Condition: As of June 30, 2016, the City borrowed \$3,024,755 from its HUTA apportionments; this amount was comprised of \$2,260,802 Due from Other Funds and \$763,953 from Advances to the General Fund. HUTA apportionments are restricted to street-related expenditures only; borrowing is an unallowable activity.

On July 1, 2012, the City advanced \$756,446 to the General Fund from its Transportation Investment Fund, in which the City deposits its Section 2103 HUTA apportionments. As of June 30, 2016, the outstanding advance to the General Fund from the HUTA apportionments, including accrued interest of \$7,507, is \$763,953.

On June 30, 2014, the City borrowed HUTA apportionments totaling \$2,260,802 from its Transportation Investment Fund and its Special Gas Tax Street Improvement Fund to cover the negative cash balances of various special revenue funds.

Recommendation: The SCO recommended that the City transfer \$3,024,755 to the Special Gas Tax Street Improvement Fund to replenish the fund for the unallowable borrowing. In addition, the SCO recommended that the City adopt policies and procedures to prevent any future borrowing of HUTA apportionments.

E+P concurs with the SCO’s recommendation; in addition, this recommendation addresses COSO’s Control Activities, Principle 12: deploys controls through policies and procedures.

Management Response and Corrective Action Plan

City's Response: ...the City will comply with the Controller’s direction to...reimburse the indicated funds as recommended by the State Controller’s audit. Finally, the City is in agreement with the State Controller’s recommendation to follow internal control policies and procedures....

Planned Implementation Date: June 30, 2021

Responsible Person: Douglas Sanders, City Treasurer and Rafaela King, Controller

2014-139C – Unsupported Traffic Congestion Relief Fund Allocations Cost (MW, NC)

Criteria: Revenue and Taxation Code section 7104(e) states, in part:

“Funds allocated to a City, County, or City and County under paragraph (4) or (5) of subdivision (c) shall be used only for street and highway maintenance, rehabilitation, reconstruction, and storm damage repair...”

Revenue and Taxation Code section 7104(f)(7) requires a City to expend its Traffic Congestion Relief Fund allocations within the fiscal year following the fiscal year in which the allocations were made. In addition, the code indicates that funds not expended within that period shall be returned to the SCO.

Condition: The City charged \$652,982 of unsupported costs to its Traffic Congestion Relief Fund allocations for FY 2007-08 and FY 2009-10. Therefore, the costs are unallowable.

The City charged \$166,982 of unsupported contract service costs in FY 2007-08 and allocated \$486,000 of equipment rental shortfall in FY 2009-10 to the Transportation Investment Fund. The City did not support these costs with proper documentation.

Recommendation: The SCO recommended that the City return \$652,982 to the SCO, Attention: Departmental Accounting Office – A/R, P.O. Box 942850, Sacramento, California 94250.

E+P concurs with the SCO’s recommendation; in addition, we recommend that the City adopt policies and procedures for proper spending of future Traffic Congestion Relief Fund allocations. This recommendation addresses COSO’s Control Activities, Principle 12: deploys controls through policies and procedures.

Management Response and Corrective Action Plan

City's Response: ...the City will comply with the Controller’s direction to...return requested funds to the State Controller’s Office....

Planned Implementation Date: June 30, 2019

Responsible Person: Rafaela King, Controller

2014-140C – Unsupported Equipment Rental Charges (MW, NC)

Criteria: Streets and Highways Code section 2101 states, in part:

“...all moneys in the Highway Users Tax Account in the Transportation Tax Fund and hereafter received in the account are appropriated for... (a) The research, planning, construction, improvement, maintenance, and operation of public streets and highways...”

Condition: The City charged \$562,208 of unsupported equipment rental charges to its Special Gas Tax Street Improvement Fund for FY 2008-09 through FY 2010-11. Therefore, the costs are unallowable.

The City allocated equipment rental charges at an hourly rate based on usage for each month. The City did not identify how it determined the rates charged for equipment usage, or substantiate that the equipment was used for street-related purposes. The City did not substantiate the allocations made to cover its equipment rental shortage.

Recommendation: The SCO recommended that the City:

- Reimburse the Special Gas Tax Street Improvement Fund \$562,208 for the unsupported costs; and
- Establish procedures to ensure that expenditures charged to the Special Gas Tax Street Improvement Fund are adequately supported.

E+P concurs with the SCO's recommendation; in addition, this recommendation addresses COSO's Control Activities, Principle 12: deploys controls through policies and procedures.

Management Response and Corrective Action Plan

City's Response: ...the City will comply with the Controller's direction to...reimburse the indicated funds as recommended by the State Controller's audit. Finally, the City is in agreement with the State Controller's recommendation to follow internal control policies and procedures....

Planned Implementation Date: June 30, 2021

Responsible Person: Rafaela King, Controller

2014-141C – Ineligible Gas Tax Expenditures (MW, NC)

Criteria: Streets and Highways Code section 2101 states, in part:

“...all moneys in the Highway Users Tax Account in the Transportation Tax Fund and hereafter received in the account are appropriated for... (a) The research, planning, construction, improvement, maintenance, and operation of public streets and highways...”

Condition: The City charged \$532,540 for non-street-related services and supplies to the Special Gas Tax Street Improvement Fund and Transportation Investment Fund (for which the City deposits Section 2103 HUTA apportionments) for FY 2013-14 through FY 2015-16. Therefore, the expenditures are ineligible.

The City charged \$6,879,713 of services and supplies. SCO tested \$4,797,816 and identified \$532,540 of ineligible expenditures.

Recommendation: The SCO recommended that the City:

- Reimburse the Special Gas Tax Street Improvement Fund \$532,540; and
- Establish adequate procedures to ensure that all costs charged to the Special Gas Tax Street Improvement Fund are for street-related purposes.

E+P concurs with the SCO's recommendation; in addition, this recommendation addresses COSO's Control Activities, Principle 12: deploys controls through policies and procedures.

Management Response and Corrective Action Plan

City's Response: ...the City will comply with the Controller's direction to...reimburse the indicated funds as recommended by the State Controller's audit. Finally, the City is in agreement with the State Controller's recommendation to follow internal control policies and procedures....

Planned Implementation Date: June 30, 2021

Responsible Person: Rafaela King, Controller

2014-142C – Ineligible Gas Tax Expenditures (MW, NC)

Criteria: Article 16, section 18, of the California Constitution, states, in part:

“(a) No county, City, town, township, board of education, or school district, shall incur any indebtedness or liability in any manner or for any purpose exceeding in any year the income and revenue provided for such year.”

Condition: The City charged expenditures in excess of available funds to the Special Gas Tax Street Improvement Fund by \$325,950 during FY 2009-10. Therefore, the excess expenditures are unallowable.

Recommendation: The SCO recommended that the City:

- Transfer \$325,950 to the Special Gas Tax Street Improvement Fund to replenish the fund; and
- Establish procedures to verify the existence of available funds prior to charging expenditures to the fund.

E+P concurs with the SCO's recommendation; in addition, this recommendation addresses COSO's Control Activities, Principle 12: deploys controls through policies and procedures.

Management Response and Corrective Action Plan

City's Response: ...the City will comply with the Controller's direction to...reimburse the indicated funds as recommended by the State Controller's audit. Finally, the City is in agreement with the State Controller's recommendation to follow internal control policies and procedures....

Planned Implementation Date: June 30, 2021

Responsible Person: Rafaela King, Controller

2014-143C – Traffic Congestion Relief Fund Expenditure Requirement Not Met (SD, NC)

Criteria: Revenue and Taxation Code section 7104(f)(7) states that Traffic Congestion Relief Fund allocations are to be spent within the fiscal year following the fiscal year in which the allocations were made. It further states that funds not spent within that period are to be returned to the SCO.

Condition: The City did not spend \$130,805 of its FY 2006-07 Traffic Congestion Relief Fund allocations by June 30, 2008. Therefore, the City is required to return the amount to the SCO.

The City received \$721,672 in Traffic Congestion Relief Fund allocations in FY 2006-07; it expended \$423,885 in FY 2006-07 and \$166,982 in FY 2007-08. Therefore, as of June 30, 2008, the unexpended balance was \$130,805.

Recommendation: The SCO recommended that the City return \$130,805 to the SCO, Attention: Departmental Accounting Office – A/R, P.O. Box 942850, Sacramento, California 94250.

E+P concurs with the SCO’s recommendation; in addition, we recommend that the City adopt policies and procedures for proper spending of future Traffic Congestion Relief Fund allocations. This recommendation addresses COSO’s Control Activities, Principle 12: deploys controls through policies and procedures.

Management Response and Corrective Action Plan

City's Response: ...the City will comply with the Controller’s direction to...return requested funds to the State Controller’s Office....

Planned Implementation Date: June 30, 2019

Responsible Person: Rafaela King, Controller

2014-144C – Unsupported Gas Tax Revenue Adjustments (SD, NC)

Condition: The City understated gas tax revenues in FY 2013-14 by \$26,758 and overstated gas tax revenues by \$58,930, for a net overstatement of \$32,172.

The City records Streets and Highways Code Section 2103 apportionments (Section 2103 HUTA) in the Transportation Investment Fund.

For the Special Gas Tax Street Improvement Fund, the City reversed the July 2013 Section 2103 HUTA apportionment of \$85,362 and accrued \$35,180 in unsupported revenues in June 2016, totaling \$58,930 in understated revenues. The City did not support these adjustments.

For the Transportation Investment Fund, the City accrued \$58,604 in unsupported Section 2103 HUTA apportionments in June 2013, and \$23,750 in unsupported Section 2103 HUTA apportionments in June 2016, totaling \$82,354 in overstated revenues. The City did not support these adjustments.

Recommendation: The SCO recommended that the City:

- Reimburse the Special Gas Tax Street Improvement Fund \$50,182 and reduce the Transportation Investment Fund balance by \$82,354 for the unsupported revenue adjustments; and
- Establish procedures to ensure that adjustments to the Special Gas Tax Street Improvement Fund are adequately supported.

E+P concurs with the SCO's recommendation; in addition, this recommendation addresses COSO's Control Activities, Principle 12: deploys controls through policies and procedures.

Management Response and Corrective Action Plan

City's Response: ...the City will comply with the Controller's direction to...reimburse the indicated funds as recommended by the State Controller's audit. Finally, the City is in agreement with the State Controller's recommendation to follow internal control policies and procedures....

Planned Implementation Date: June 30, 2020

Responsible Person: Rafaela King, Controller

2014-145C – Unallocated Interest Income (SD, NC)

Criteria: Streets and Highways Code section 2113 states, in part,
“Interest received by a City from the investment of money in its special gas tax street improvement fund shall be deposited in the fund and shall be used for street purposes.”

Condition: The City did not allocate \$9,967 of interest income earned between FY 2012-13 and FY 2015-16, to the Special Gas Tax Street Improvement Fund. This amount consisted of \$7,582 interest earned on advanced funds and \$2,385 from investment of money in the fund.

As noted in Finding 2014-138C, on July 1, 2012, the City advanced \$756,446 to the General Fund from its HUTA apportionments. Per City Resolution No. 23,970, the City accrued interest income at 0.495%, yielding interest income as shown in the following table. The City credited interest income it earned during FY 2012-13 and FY 2013-14 to the advanced funds; however, it did not credit the interest earnings for FY 2014-15 and FY 2015-16, totaling \$7,582, to the advanced funds.

In addition, the City did not allocate to the Special Gas Tax Street Improvement Fund its share of interest income from the investment of money, from FY 2012-13 through FY 2015-16, totaling \$2,385.

Recommendation: The SCO recommended that the City:

- Transfer \$9,967 to the Special Gas Tax Street Improvement Fund for the unallocated interest income; and
- Establish procedures to ensure that interest income is correctly allocated to the Fund.

E+P concurs with the SCO's recommendation; in addition, this recommendation addresses COSO's Control Activities, Principle 12: deploys controls through policies and procedures.

Management Response and Corrective Action Plan

City's Response: ...the City will comply with the Controller's direction to...reimburse the indicated funds as recommended by the State Controller's audit. Finally, the City is in agreement with the State Controller's recommendation to follow internal control policies and procedures....

Planned Implementation Date: June 30, 2020

Responsible Person: Rafaela King, Controller

2014-146C – Payment on Invoices (SD, NC)

Condition: The City made payments to vendors on invoices that do not agree with the terms of contracts.

Service contracts between the City and vendors indicate that the vendor shall be reimbursed by City upon the receipt of itemized receipts, and that invoices shall detail the work performed on each task, as applicable. However, invoices received by the City lacked itemized, detailed descriptions of work performed.

In addition, while reviewing a catch basin cleaning contract, the SCO noted that the unit price charged and the frequency of services did not agree with the terms stated in the contract.

Although the expenditures for these service contracts were in compliance with applicable code sections, the SCO noted that the invoices for eligible work were not in agreement with the terms of the contracts. Following invoice procedures as indicated in the service contracts will help ensure that the City is paying for services stated in its contracts.

Recommendation: The SCO recommended that the City follow invoice procedures as indicated in service contracts.

E+P concurs with the SCO's recommendation; in addition, this recommendation addresses COSO's Control Activities, Principle 12: deploys controls through policies and procedures.

Management Response and Corrective Action Plan

City's Response: ...the City is in agreement with the State Controller's recommendation to follow internal control policies and procedures....

Planned Implementation Date: June 30, 2019

Responsible Person: Rafaela King, Controller

2013-001 – Internal Control over Significant Accounting and Financial Reporting Procedures

Repeat Finding: 2010-05, 2010-08, 2011-05, 2011-07, 2011-11, and 2012-001

Criteria: An organization should have a system of internal controls, which are suitably designed to allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements of the entity's financial statements on a timely basis. Formal written policies and procedures are an integral part of a system of internal controls. Such policies and procedures are established to ensure integrity over financial reporting, including compliance with provisions of laws, regulations, contracts, and grant agreements that could have a direct and material effect on the financial statements, and to safeguard assets. An effective system of internal controls also needs to operate as designed. Key duties and responsibilities need to be divided or segregated among different people to reduce the risk of error or fraud. This should include separating the responsibilities for authorizing transactions, processing and recording the transactions, reviewing the transactions, and handling any related assets. No one individual should control all key aspects of a transaction or event.

Condition, Cause, and Effect:

1. Capital assets and land held for resale:
 - a. (MW) As the City does not have a formal process over capitalizing assets, assets in the amount of \$173,109 inadvertently were capitalized. In addition, certain retention amounts withheld from progress payments to contractors during the fiscal year were not capitalized, resulting in a net understatement of the Successor Agency to the Community Redevelopment Agency's (Successor Agency) capital assets by \$268,721. The City subsequently recorded an adjustment to correct the error.
 - b. (MW) The City was unable to provide documentation of when the last physical inventory of capital assets was performed. As a result, the capital assets balance may not be accurately stated. A properly designed system of internal controls should establish guidelines for a periodic physical inventory of capital assets, which reconciles physical counts to accounting records to ensure recorded capital assets exist and to safeguard capital assets.
 - c. (MW) Land held for resale in the amount of \$2,311,876 was incorrectly recorded under the Successor Agency Private-Purpose Trust Fund instead of the Compton Housing Authority Capital Projects Fund even though it was bought using low moderate income housing monies. Subsequently, the City recorded a prior period adjustment to correct the error.
 - d. (MW) Abandoned construction-in-progress (CIP) in the amount of \$94,469 was recorded in capital assets. Subsequently, the City recorded an adjustment to write off the balance.
 - e. (MW) The City did not properly record the cost of the water replacement project in the prior year in the amount of \$92,016 in the Water Enterprise Fund.
(MW) In addition, the contributed capital assets related to Martin Luther King (MLK) Transit Center in the amount of \$29,240 was not recorded in the Successor Agency Private-Purpose Trust Fund in the prior year. Subsequently, the City recorded adjustments to correct the balances.
 - f. The City did not properly report capital assets as follows:
 - (MW) MLK Transit Center project was incorrectly reported under governmental activities, while it should have been reported under the Successor Agency Private-Purpose Trust Fund.
 - (MW) Water Well No. 20 project was incorrectly reported under the governmental activities, while it should have been recorded under the Water Enterprise Fund. Subsequently, the City corrected the reporting of capital assets.

2. Liabilities and expenditures/expenses:
 - a. (MW) Compensated absences were incorrectly allocated to the Successor Agency Private-Purpose Trust Fund even though the Successor Agency did not have any employees. As a result, the compensated absences liabilities and expenses for the governmental activities were understated by \$76,488. In addition, sick leave balance for certain employees was calculated incorrectly. An adjustment was subsequently recorded to correct the compensated absences liabilities and expenses balances for the fiscal year ended June 30, 2013.
 - b. (MW) The City does not have a system in place to estimate and accrue incurred but not reported (IBNR) claims liabilities for fiscal year 2013. Subsequently, the City recorded an adjustment to accrue an IBNR amount.
 - c. Personnel policies and procedures were last updated in November 1979. An outdated policies and procedures manual can increase the City's risks related to personnel matters.
 - d. (MW) Our review over payroll expenditures identified that some payroll expenditures were not reconciled to timecards, some timecards were not signed by supervisors and the City did not update the timecards for changes in their account structures during fiscal year 2013. This increases the risk of error, abuse and fraud.
 - e. (MW) The City did not accrue expenses in the proper year. As a result, two invoices in the amount of \$33,253 were not properly accrued as of June 30, 2013. Subsequently, the City recorded an adjustment to accrue expenses.
 - f. (MW) The City was unable to provide supporting documents for some missing checks. This increases the risk of error, abuse and fraud.

3. Revenues and receivables:
 - a. (MW) The City duplicated the posting of the sales and use tax revenues in the general ledger. As a result, the revenues were overstated by \$766,856. The City subsequently recorded an adjustment to correct this error.
 - b. (MW) Property tax revenues and receivables in the amount of \$580,548 were recorded in the incorrect fiscal year. The City subsequently recorded an adjustment to correct this error.
 - c. (MW) The City does not have a formal policy and procedure in place to verify the proper rate used in utility billing. As a result, we noted the following:
 - The City did not update the Sewer Construction in Progress rate effective as of July 2012 until September 2012.
 - Some customers were billed incorrectly during fiscal year ended June 30, 2013, which resulted in overbilling of approximately \$29,000. The City subsequently reviewed all customer accounts to ensure correct utility billing rates used.
 - d. (MW) The City Controller's Office does not centrally maintain complete supporting documentation for cash received. Rather, the City's procedure is for various departments to maintain the documents relating to the revenues generated by the respective departments. As a result, the following supporting documentation was not available for review:
 - Supporting documentation for business license revenue received in the amount of \$92,825.

The City should strengthen its internal control over cash receipts and maintain adequate supporting documentation.
 - e. (MW) The City does not have a formal policy and procedure in place to verify that the amount of business license fee paid is the correct amount due. The amount of business license fees due are calculated based on the self-reported gross revenue amounts by

- business owners. To ensure the accuracy of business license fees due, the City normally performed an audit by comparing the gross receipt amounts reported to the ones reported on the business owners' tax returns. However, the City has not performed this audit since 2011. Accordingly, the business license revenue amounts may not be accurately stated.
- f. (MW) The City failed to report a loan disbursed in the amount of \$550,000 in the loans receivable schedule. The City subsequently recorded an adjustment to correct the understatement of loans receivable balance as of June 30, 2013.
 - g. (MW) Prior year grant revenues in the amount of \$197,809 were not properly recorded in the prior year. As a result, the City recorded the prior year revenues during fiscal year ended June 30, 2013.
4. Fund balances:
The City's General Fund has a continuing deficit fund balance. The deficits for the fiscal year ended June 30, 2013 was in the amount of \$36,381,141. City Management needs to make significant efforts to ensure that budgets generated for next fiscal year are based on attainable expectations. Budgets should be established to control the level of General Fund expenditures to conform to its anticipated revenues and to provide for an increase in General Fund reserves. Throughout the fiscal year, as expectations of revenue levels change, adjustments should be made to expenditures for the remainder of the year. The City should also make efforts to identify additional recurring revenue sources to support City operations.
5. Year-end close process:
The City does not have a documented year-end close process. We found that the process was disorganized and fragmented, which resulted in many audit adjustments to record missed transactions or to correct errors in the current year and prior year financial statements.

Recommendation: We recommend that the City review all of its major functions and services and develop, approve and implement formal written policies and procedures to ensure that the City's system of internal control over financial reporting and the safeguarding of assets is suitably designed in accordance with the Committee of Sponsoring Organizations of the Treadway Commission (COSO) internal control framework. This should include a plan for the year-end closing process, which should detail a step by step guide listing each closing procedure, the individual responsible for the procedure, the time frame in which this procedure will be performed, and the individual who will review and approve the procedure. The City should perform periodic monitoring reviews to determine that the controls are functioning as intended and that the appropriate controls are in place. The City should also perform periodic risk assessments of the control environment to determine whether changes in policies and procedures are warranted when there are changes in the operating environment.

Management Response and Corrective Action Plan

Management agrees with Finding 2013-001.

The City made necessary correcting entries in FY 2012-13 and has reconciled the general ledger to the audited financial statements.

Currently, the City is in the process of upgrading its financial information system (IFAS). The new Enterprise Resource Planning (ERP) system will provide improved functionality, new capital assets software, new job cost ledgers' software, and several other improvements. The payroll system was upgraded with latest version of Automatic Data Processing (ADP) software which offers improved reporting options.

The City's ultimate goal is to link all City departments, integrate all the City's software applications utilized by the departments and eliminate duplicated tasks. The new ERP system will also improve the electronic maintenance of the supporting documents relating to revenue collection and expenditures.

In the City Controller's Office, the City has filled two key positions, an interim Internal Auditor and a Deputy City Controller. Both are key positions, within the City Controller's Office, that will have critical input in the financial reporting process. The City's policies and procedures will be updated following the upgrade of the financial information system. The City's current manual of policies and procedures will be written to incorporate more elaborate operational practices and specific procedural guidelines.

The risk management claims monitoring system will be integrated and linked to the City's main financial information system. The check writing function performed by the Risk Management Unit will be migrated to the main check writing system maintained by the City Controller's Office.

Furthermore, the City's Personnel Rules and Regulations will be updated as recommended by the auditors. The update will be performed in phases to ensure thoroughness and effectiveness.

The City Manager, City Attorney and City Controller will coordinate the update of the City's policies and procedures over financial accounting and reporting with significant input from the department directors. A phased update of the policies and procedures will commence during the 2015-2016 fiscal year.

City's Response: The City has upgraded its financial information systems, however many of the features of the software have not been implemented. Due to continued staff turnover in the City Controller department and City Manager department, there has been very little progress in addressing the findings.

Corrective Action Plan: The City is developing policies and procedures that will establish an Internal Control Integrated Framework (ICIF) based on COSO and GAO standards. Those policies also reflect the guidance of the California State Controller's Office's Internal Control Guidelines - Local Government Agencies.

Implementing policies will be drafted for control environment, risk assessment, control activity, information and communication, and monitoring components before June 30, 2020. The City plans to adopt a series of policies and procedures implementing the control components during the fiscal years ending June 30, 2019, 2020 and 2021.

Planned Implementation Date: June 30, 2020

Responsible Person: Rafaela King, Controller

2013-002 – Self-Insurance Internal Service Fund (ISF) Accounting (MW)

Repeat Finding: 2012-002

Criteria: Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – And Management's Discussion and Analysis - For State and Local Governments*, provides that internal service funds may be used to report any activity that provides goods or services to other funds, departments or agencies of the government on a cost-reimbursement basis. Internal service funds use the full accrual basis of accounting; accordingly, charges to other funds for goods or services should be set to provide for the cost-reimbursement of the accrual based expenses incurred by the activity. Internal service funds are voluntary under generally accepted accounting principles and are designed to recover the full cost of an activity from participating funds, departments or agencies.

Condition, Cause, and Effect: The City's Self-Insurance ISF records the City's general liability and workers compensation activities. The City records liabilities in the Self-Insurance ISF as they are incurred but the City reimburses the Self-Insurance ISF on a pay as you go basis; therefore, the City is not operating the fund in accordance with the prescribed use of internal service funds as stipulated under GASB Statement No. 34. As a result, the City's Self-Insurance ISF had a deficit balance of \$18,048,723 at June 30, 2013.

Recommendation: We recommend that the City either budget sufficient charges each fiscal year to reimburse the Self-Insurance ISF for the liabilities incurred or reconsider the use of an ISF for self-insurance activities. The City can report self-insurance activities in the General Fund.

Management Response and Corrective Action Plan

The deficit in the fund exists as a result of:

- 1) Existing liability claims in litigation, under investigation or pending but unresolved. These claims are reported at face value of outstanding claims rather than actuarially determined to reflect the probability of actually incurring the claims. The City's policy is to accrue the claims liabilities in the books as the claims arise and pay the actual liability amount when the cases are resolved.
- 2) DOF denial of \$7,753,406 Successor Agency charges for claims paid by City on behalf of former Redevelopment Agency (RDA) while RDA was in operation. However, the City paid \$4.1 million to the State through Los Angeles County in fiscal year 2014/2015. This payment of \$4.1 million has significantly reduced the deficit and the liability in the Fund.

To completely erase the deficit in the Self-Insurance ISF, the City will appropriate more revenues in the Self-Insurance ISF in future years. The excess revenues in the Self-Insurance ISF will gradually eliminate the deficit in the Self-Insurance ISF. Also, periodic review of the self-insurance claims will involve write off of any excess liabilities booked in the Self-Insurance ISF which is above the amount settled for the claims. The Risk Management Unit will monitor implementation of this recommendation.

City's Response: Due to continued staff turnover in the City Controller department and City Manager department, there has been very little progress in addressing the findings.

Corrective Action Plan: The City is developing policies and procedures that will establish an Internal Control Integrated Framework (ICIF) based on COSO and GAO standards. Those policies also reflect the guidance of the California State Controller's Office's Internal Control Guidelines - Local Government Agencies.

Implementing policies will be drafted for control environment, risk assessment, control activity, information and communication, and monitoring components before June 30, 2020. The City plans to adopt a series of policies and procedures implementing the control components during the fiscal years ending June 30, 2019, 2020, and 2021.

Planned Implementation Date: June 30, 2021

Responsible Person: Rafaela King, Controller

2013-003 – Noncompliance with Laws, Regulations, and Contracts

Repeat Finding: 2012-003

Criteria: Governmental entities are subject to a variety of laws, regulations, and contracts that have a direct and material effect on their financial statements. Accordingly, governmental entities should establish a system of internal control over compliance to ensure compliance with laws, regulations, and contracts. Personnel assigned to monitor compliance should have the appropriate knowledge and experience related to the requirements.

Condition, Cause, and Effect: As a result of weaknesses in internal control over compliance, we noted the following instances of noncompliance with bond covenants, budget policy, and other applicable laws and regulations:

1. (MW) The City and the Successor Agency were not in compliance with reporting provisions of the indentures for eight bonds for the fiscal year ended June 30, 2013 because the City's audited financial statements were not issued within 180 to 270 days of the year-end. Additionally, the City and the Successor Agency were not in compliance with continuing disclosure requirements under SEC Rule 15c2-12.
2. In accordance with the Solid Waste Management Facilities Variable Rate Revenue Bonds, Series 2000, the City shall at all times prescribe, revise, and collect rates, fees and charges for the use of service provided in the bond law so that in each twelve month period such rates, fees and charges, together with other revenues are reasonably expected to yield net revenues during such twelve month period sufficient for the payment of the sum of 1.25 times the maximum annual debt service, the amount to be paid during such twelve month period into the Reserve Fund, and all other charges or liens payable out of revenues during such twelve month period. The City's net revenues for the fiscal year ended June 30, 2013 did not equal to at least 1.25 times maximum annual debt service due that is required by the rate covenant, therefore the City was not in compliance with the Solid Waste Management Facilities Variable Rate Revenue Bonds, Series 2000 bond covenant requirement.
3. Pursuant to Section 5.11 (c) of the Indenture dated July 1, 1993 with US Bank, the City is required to cause the independent certified public accountant to deliver to the City and the trustee a certificate showing that during such fiscal year the City was in compliance with its rate covenant as set forth in Section 5.09. The City has not submitted such certificate for fiscal year 2013 and as such was not in compliance with Section 5. 11 (c) of the Indenture.
4. (MW) The City's policy over budget appropriation stipulates that the General Fund's actual expenditures may not exceed budgeted appropriations at the department level without City Council approval. The City's actual General Fund expenditures for the General Services, Fire and the Public Works-Street Maintenance departments exceeded the General Fund budget appropriations by \$0.6 million, \$0.02 million and \$0.05 million, respectively.
5. (MW) The General Fund operated at a deficit in prior years. As a result, the City utilized pooled checking account cash from the Retirement Special Revenue and Federal Grant Special Revenue funds to pay General Fund expenditures. The Retirement Special Revenue Fund's monies are restricted for the purposes of funding a pension program for City employees per the 1947 ballot initiative authorizing the levy of an ad valorem property tax. The Federal Grant Special Revenue Fund's monies are restricted to being utilized for grant purposes as indicated in the various federal grant awards. The General Fund recorded long-term advances of \$10.3 million from the Retirement Special Revenue Fund and \$1.1 million from the Federal Grants Special Revenue Fund as of June 30, 2013.

6. The City's ordinance over competitive bids should be updated. The "Competitive Bids" (§4-11.4) section of the City Code states that "the provisions of subsections 4-2.6 and 4-2.7 shall apply", but these code sections have since been renumbered. This section appears to reference sections entitled "Lowest Responsible Bidder" and "Certificates of Nondiscrimination". The numbered sections that are stated to apply (for competitive bids over \$5,000) are incorrect.

Recommendation: We recommend that the City develop, document, and implement policies and procedures to ensure the City's compliance with applicable laws, regulations, and contracts. Personnel assigned to monitor compliance should have the appropriate knowledge and experience with requirements. We also recommend that the City's budget process include a mid-year and year-end comparison of budget and actual amounts to allow City Council an opportunity to take timely action to ensure compliance with local laws and regulations governing budget appropriations and related expenditures. In addition, the City Manager or his designee should introduce an ordinance to correct the referenced sections that apply to §4-11.4, Competitive Bids.

Management Response and Corrective Action Plan

The City agrees with paragraphs 1, 2, 3, 4, 5, and 6.

The City is in the process of documenting areas where applicable laws, regulations, and contracts are supported by policies to enhance the financial administration of its procedures. Implementation of policies and procedures will occur upon identification and development of the supporting policies, and, selecting knowledgeable, experienced personnel that will ensure compliance with the applicable laws, regulations, and contracts. The City Manager, City Attorney and City Controller will coordinate the update of the City's policies and procedures over financial accounting and reporting with significant input from the department directors during the 2015-2016 fiscal year.

The City's budget review process includes a mid-year review and year-end comparison of budget to actual reports filed and presented to the City Council as recommended. In addition, the City Council receives quarterly reports which will provide another point in time to allow for budget adjustments.

The City Manager and City Attorney will review and propose amendments to the City's Competitive Bidding ordinance so that referenced sections in City Municipal Codes are corrected.

Purchases require authorization by a purchase order supported by a requisition verifying availability of unencumbered funds for the purchase as mandated in the City Municipal Code.

Competitive bids are required for purchases or contracts exceeding \$5,000; procedures conform to state law requirements, whereby bids deemed to be for the best interests of the City are accepted by the City Council. In addition to the price, other criteria to be considered the lowest responsible bidder are quality and performance of the services or supplies to be purchased or contracted for. For professional services, key criteria are the character, integrity, reputation, judgment, experience and efficiency of the bidder.

Each bidder requires a Certificate of Non-discrimination stating whether the bidder is in current compliance with all Federal and State laws covering non-discrimination in employment, follow the City's affirmative action guidelines, include an affirmative statement that upon receiving a contract award will not discriminate because of race, color, national origin, ancestry, or religion, and, agree to a pre-award review of bidder's qualifications under the non-discrimination purchasing provisions.

The City is relying on MGO to certify its rate covenant certificate required under the Indenture dated July 1, 1993. Continuing disclosure reports will be completed after financial statement audit for each fiscal year.

City's Response: Due to continued staff turnover there has been very little progress in addressing the findings.

Corrective Action Plan: The City is developing policies and procedures that will establish an Internal Control Integrated Framework (ICIF) based on COSO and GAO standards. Those policies also reflect the guidance of the California State Controller's Office's Internal Control Guidelines - Local Government Agencies.

Implementing policies will be drafted for control environment, risk assessment, control activity, information and communication, and monitoring components before June 30, 2020. The City plans to adopt a series of policies and procedures implementing the control components during the fiscal years ending June 30, 2019, 2020, and 2021.

Planned Implementation Date: June 30, 2021
Responsible Person: Rafaela King, Controller

2013-004 – Information Technology (IT) Internal Controls

Repeat Finding: 2010-01, 2010-02, 2010-03, 2010-04, 2011-02, 2011-04, 2011-03, 2012-004

Criteria: IT controls are a critical mechanism for ensuring the integrity of information systems and the reporting of the City's financial information.

Condition, Cause, and Effect: During our review of IT controls, we noted the following deficiencies:

1. (MW) City lacks central governance of IT strategy and activities.

The COSO standards represent a generally accepted internal control framework that organizations, including governments, can use as a guide in developing a comprehensive set of internal controls over financial reporting. The COSO framework requires that the top level of governance establish policies and procedures for its entire organization. Additionally, the COSO framework standards encourage that continual monitoring of related controls exist to ensure that the documented controls are actually being adhered to by staff. Such governance is integral to providing direction and establishing an entity's control environment by issuing entity-wide policies and procedures and providing oversight over IT activities. Minimal IT governance, however, exists within the City. As a result of the lack of governance, the City has let its IT hardware and software age well beyond normal support life. Additionally, the City does not have any ongoing, chartered, IT governance committee.

Recommendation: The City's Director of General Services should charter a formal IT Governance Committee to prioritize IT initiatives, provide oversight of IT activities, and evolve the City's minimal IT policies and procedures.

Management Response and Corrective Action Plan

The City agrees with the recommendation and will consider setting up an IT Governance Committee as recommended.

The recommendation will be considered for implementation during the 2015/2016 fiscal year.

The General Services Director will oversee the required specific actions regarding the recommendation.

City's Response: Due to continued staff turnover there has been very little progress in addressing the findings.

Corrective Action Plan: The City is developing policies and procedures that will establish an Internal Control Integrated Framework (ICIF) based on COSO and GAO standards. Those policies also reflect the guidance of the California State Controller's Office's Internal Control Guidelines - Local Government Agencies.

Implementing policies will be drafted for control environment, risk assessment, control activity, information and communication, and monitoring components before June 30, 2020. The City plans to adopt a series of policies and procedures implementing the control components during the fiscal years ending June 30, 2019, 2020 and 2021.

Planned Implementation Date: June 30, 2020

Responsible Person Mily Huntley, Assistant City Manager and Cecil W. Rhambo, Jr., City Manager

2. (MW) The City does not have formal policies and procedures for managing new system development or acquisition.

New system development and acquisition are formal processes used to ensure that new products or systems are introduced in a controlled and coordinated manner. Today's computer applications and network infrastructure are extremely complex, and require careful control and testing in order to assure proper stewardship of public funds and fit-for-use within an organization's operations. The City, however, has no formal control documentation for how to develop or implement new systems or applications. Implementation, including testing, is currently only based on the institutional knowledge of those involved.

Recommendation: The Director of General Services, along with key IT staff and key functional stakeholders, should formally document new system development and acquisition processes. This process should include roles, ownership, and responsibility for providing overall leadership, requirements, testing, and approvals within key user groups and within the IT organization.

Management Response and Corrective Action Plan

IT Management is in agreement with the above recommendation.

Since the City does not do software development, and the majority of system acquisitions are usually implementation or upgrades of current departmental software, the departments are the de facto owners of the software.

The City is currently developing a written and formalized Change and Problem Management Policy and Procedures.

The Director of General Services will oversee the disaster recovery testing of the City's financial systems.

City's Response: Due to continued staff turnover there has been very little progress in addressing the findings.

Corrective Action Plan: The City is developing policies and procedures that will establish an Internal Control Integrated Framework (ICIF) based on COSO and GAO standards. Those policies also reflect the guidance of the California State Controller's Office's Internal Control Guidelines - Local Government Agencies.

Implementing policies will be drafted for control environment, risk assessment, control activity, information and communication, and monitoring components before June 30, 2020. The City plans to adopt a series of policies and procedures implementing the control components during the fiscal years ending June 30, 2019, 2020 and 2021.

Planned Implementation Date: June 30, 2020

Responsible Person Mily Huntley, Assistant City Manager and Cecil W. Rhambo, Jr., City Manager

3. (MW) The City has not tested its Disaster Recovery Plan.

Computer operations controls require that an entity has developed, documented, and implemented a disaster recovery/business continuity plan to provide contingency for

unforeseeable events and assure that system and financial data can be recovered in a timely manner. The IT department authored a disaster plan document in 2009. However, the documented plan has not been tested. Without a full disaster recovery plan that has been fully tested, the City cannot be fully assured that IT systems can be restored within a reasonable time after a disaster.

Recommendation: The City should periodically test its disaster recovery plan to assure that financial systems and data can be recovered. Findings from the testing should be incorporated into updates to the plan.

Management Response and Corrective Action Plan

The City agrees that it should periodically test its disaster recovery plan to ensure the viability of its financial systems.

The Information Technology Unit will develop a formal policy and procedure for performing periodic disaster recovery plan testing of the City's financial systems. The General Services Department will develop this policy in conjunction with the City's Fire Department and City Manager's Office.

The City anticipates that it will begin developing a policy and procedure during fiscal year 2015/2016.

The Director of General Services will oversee the disaster recovery testing of the City's financial systems.

City's Response: Due to continued staff turnover there has been very little progress in addressing the findings.

Corrective Action Plan: The City is developing policies and procedures that will establish an Internal Control Integrated Framework (ICIF) based on COSO and GAO standards. Those policies also reflect the guidance of the California State Controller's Office's Internal Control Guidelines - Local Government Agencies.

Implementing policies will be drafted for control environment, risk assessment, control activity, information and communication, and monitoring components before June 30, 2020. The City plans to adopt a series of policies and procedures implementing the control components during the fiscal years ending June 30, 2019, 2020 and 2021.

Planned Implementation Date: June 30, 2020

Responsible Person Mily Huntley, Assistant City Manager and Cecil W. Rhambo, Jr., City Manager

4. (MW) The City has inadequate data backup and recovery procedures.

Computer operations controls require that an entity has adequate data backup and recovery in the event of a hardware, operating system, or application failure. While the City has a full backup of data at Fire Station No. 3, located about two miles from City Hall, there is no regular testing of data to provide assurance data can be restored in a timely manner.

Additionally, no backups are stored outside of the City. Without remote storage of backup data and regularly scheduled testing of data recovery, the City cannot be fully assured that IT application and financial data can be restored after an incident affecting the City's servers or

storage systems. The storage location for backup data should not be in the same geographic area subject to the same environmental hazards (fire, flood, and earthquake) as the primary data center.

Recommendation: The Director of General Services should:

- 1) Develop and implement a testing schedule for backup files.
- 2) Make arrangements for remote (recommended 20 miles or more) storage of backup application and financial data. The off-site location should be in a geographic area that is not subject to the same environmental hazards as the City.

Management Response and Corrective Action Plan

The City agrees that it should periodically test IT Backup files for the financial data.

The Information Technology Unit will develop a formal policy and procedure for performing periodic disaster recovery plan testing of the City's financial systems. The General Services Department will develop this policy in conjunction with the City's Fire Department and City Manager's Office.

The City anticipates that it will begin developing a policy and procedure during fiscal year 2015/2016.

The Director of General Services will oversee the disaster recovery testing of the City's financial systems.

City's Response: Due to continued staff turnover there has been very little progress in addressing the findings.

Corrective Action Plan: The City is developing policies and procedures that will establish an Internal Control Integrated Framework (ICIF) based on COSO and GAO standards. Those policies also reflect the guidance of the California State Controller's Office's Internal Control Guidelines - Local Government Agencies.

Implementing policies will be drafted for control environment, risk assessment, control activity, information and communication, and monitoring components before June 30, 2020. The City plans to adopt a series of policies and procedures implementing the control components during the fiscal years ending June 30, 2019, 2020 and 2021.

Planned Implementation Date: June 30, 2020

Responsible Person Mily Huntley, Assistant City Manager and Cecil W. Rhambo, Jr., City Manager

5. (MW)The City's server room is in a basement location without any sump pumps and is not, in practice, isolated from the surrounding office area.

The basement server room has no pumps for removing water from the area, should flooding occur. City Hall is in a flat area that could be a natural flood plain. In addition, a break in a water main could cause flooding in the basement area. This increases the risk of damage to IT assets and possible data loss. Also, while the City's computer room is access controlled, during our visit we found the door propped open and accessible from the nearby office/ hallway area. Without a secure computer facility the City runs the risk of damage or inappropriate access from individuals entering the area for non-server maintenance-related reasons.

Recommendation Short-term, the Director of General Services should install a high-capacity sump pump, with backup power, in the basement. Long-term, the City should evaluate options and budget for the installation of an above-ground (or remote outsourced) data center.

1. In addition, the Director of General Services should work with IT staff to assure that the server room door remains closed when not being accessed.

Management Response and Corrective Action Plan

The City agrees with the recommendation to install a high capacity pump and develop office policy that requires the server room door remain closed when not being accessed.

The General Services Department is in the process of developing a long-term infrastructure improvement plan for the City's IT Server room. It is anticipated that the City will begin allocating fiscal resources to this plan during fiscal year 2015/2016.

Additionally, the General Services Department has implemented a new policy that requires the server room to be closed at all times, unless being accessed by an IT Department employee. This policy was implemented during fiscal year 2013/2014.

The responsible official for the implementation of these policies is the City's General Services Director.

City's Response: The high capacity pump has been installed and a new policy that requires the server room to be closed at all times, unless being accessed by an IT Department employee. This policy was implemented during fiscal year 2013/2014.

The General Services Department is in the process of developing a long-term infrastructure improvement plan for the City's IT Server room. It is anticipated that the City will have a permanent solution by June 30, 2020.

Corrective Action Plan: The General Services Department is in the process of developing a long-term infrastructure improvement plan for the City's IT Server room.

Planned Implementation Date: June 30, 2020

Responsible Person Mily Huntley, Assistant City Manager and Cecil W. Rhambo, Jr., City Manager

6. (MW) The City does not regularly review user access privileges.

General computer controls over the access to programs and data require that network and application security controls be implemented to assure appropriate access roles and safeguard information technology resources and data. We noted the following:

1. The City has not established procedures to periodically review employee user access accounts within the IF AS, Springbrook, and ADP systems to assure that user authorization roles are current and appropriate for the user's functions, and to ensure proper segregation of duties. A comparison of IF AS accounts with a listing of City employees, performed in a prior year, resulted in 20 of 119 accounts, or 17 percent, where we could not match the user account to an employee name. An additional 29 IFAS accounts, or 24 percent of total accounts, were for terminated employees. Likewise, a comparison of Springbrook (utility billing) accounts with a listing of City employees, performed in a prior year, resulted in 5 of 29 accounts, or 17 percent, where we could not match the user account to an employee name. An additional three Springbrook accounts were for terminated employees. Furthermore, one of the seven ADP payroll accounts is in the name of a terminated employee. These issues place the City at an increased risk of the user account access being inappropriate for assigned job functions.
2. The City has two generic IF AS logins, which are not tied to a specific individual. The ADP (payroll) and Springbrook systems also have generic logons. Use of generic logons makes it difficult or impossible to determine the actual person who performed a transaction and increases the risk of fraudulent activity by an "anonymous" user.

Recommendation: In order to minimize the risk of improper or unauthorized activities within the financial systems, we recommend that the City take the following actions:

1. Develop policies and implement procedures for immediate termination of all user accounts for terminated employees.
2. Develop policies and implement procedures requiring periodic (at least annually) reviews of user accounts and related access privileges to ensure that the access privileges are current and appropriate for their job functions and to ensure proper segregation of duties.
3. Eliminate the use of generic logons, and transition the appropriate access to specific individual user accounts.

Management Response and Corrective Action Plan

The City is in agreement with the above recommendation.

Formal policies and procedures need to be developed; however, the City has already implemented a semi-annual review of user access to application systems to ensure appropriate access and that segregation of duties does exist. This is done at the beginning and middle of the calendar year.

The City recently implemented the financial system, ONESolution on October 2, 2015. Access to the financial system, ONESolution, is linked to their network account using Active Directory; thus, providing single sign-on for end user. Employees who are no longer with the City can be disabled at the network side and on the financial side. Subsequent to the implementation of ONESolution, generic accounts are no longer used by anyone in the City for access. There are a few generic accounts on ONESolution, but they are service accounts that are used by the application to run. All users, including our vendor, use a specific account to gain access to ONESolution.

ADP payroll has a "master" user account that is used by ADP. Generic accounts are not used internally within the City.

City's Response: Findings have been addressed subsequent to the issuance of the prior auditor report. Procedures will be documented alongside updated policies and procedures.

Implementing policies will be drafted for control environment, risk assessment, control activity, information and communication, and monitoring components before June 30, 2020. The City plans to adopt a series of policies and procedures implementing the control components during the fiscal years ending June 30, 2019, 2020 and 2021.

Planned Implementation Date: June 30, 2020

Responsible Person Mily Huntley, Assistant City Manager and Cecil W. Rhambo, Jr., City Manager

7. (MW) The City has not completed a formal IT Risk Assessment.

General computer controls over the access to programs and data should require that a mechanism or procedures be in place to identify and react to risks arising from internal and external sources. A comprehensive means to identify IT risks is through the periodic performance of IT risk assessments. The City IT Department has not completed a formal comprehensive IT risk assessment to help identify the risks to the delivery of IT services and the accuracy and integrity of the City's financial and personnel data.

Recommendation: The Director of General Services should plan and budget for an independent IT risk assessment to be performed on the department. The risk assessment should focus on identifying all of the possible risks to the City IT department, the delivery of IT services, and the accuracy and integrity of the City financial and personnel data. The risk assessment should quantify the likelihood of an event, the impact of the event and the mitigating controls that would address the possible risk.

Management Response and Corrective Action Plan

The City agrees with the recommendation to develop a formal IT Risk Assessment.

The General Services Department will coordinate with the City Manager's Office to develop a budget for an IT Risk Assessment.

The responsible official for this project is the General Services Director.

City's Response: Due to continued staff turnover there has been very little progress in addressing the findings.

Corrective Action Plan: The City is developing policies and procedures that will establish an Internal Control Integrated Framework (ICIF) based on COSO and GAO standards. Those policies also reflect the guidance of the California State Controller's Office's Internal Control Guidelines - Local Government Agencies.

Implementing policies will be drafted for control environment, risk assessment, control activity, information and communication, and monitoring components before June 30, 2020. The City plans to adopt a series of policies and procedures implementing the control components during the fiscal years ending June 30, 2019 and 2020.

Planned Implementation Date: June 30, 2020

Responsible Person Mily Huntley, Assistant City Manager and Cecil W. Rhambo, Jr., City Manager

8. (MW) General and application password policies need to be strengthened.

General computer controls require that access to the IT network and applications be properly controlled. The City, however, does not have a formal policy regarding complex password standards for network or financial application access. For network access, the City currently allows passwords to be only seven characters without any complexity requirements.

The City also does not enforce any password complexity requirements for accessing the IF AS financial system, the Springbrook utility billing system, the ADP payroll system, and the Happy Pro housing system. Without formal requirements, password configuration standards may change based on administrator preference, rather than adherence to formal policy. Additionally, if strong passwords are not used, the chance of someone hacking into a financial system increases considerably.

Recommendation: The Director of General Services, working with the IT Governance Committee, should revise the existing Information Management Administrative Policy Manual to include a formal policy defining minimum password configuration requirements for network access and all financial and payroll applications.

For example:

Password Policy Setting	Recommended value range
Enforce password history	12 to 24 passwords remembered
Maximum password age	30 to 90 days
Minimum password age	1 to 3 days
Minimum password length	8 character
Password must meet complexity requirements	Enabled
Store password using reversible encryption	Disabled
Password complexity	Minimum of eight characters. Contains at least two numeric or special characters.

Management Response and Corrective Action Plan

The City agrees with the recommendation to develop an IT Network and Applications policy for complex password standards.

On October 2, 2015, the City upgraded its core financial application to ONESolution, a product of Sungard Public Sector, the City's provider of data solutions products for numerous years. IF AS was immediately phased out, except for retrieval of historical information as needed. However, the City does not anticipate relying on IFAS beyond Oct. 2, 2015 since all the historical data was converted to ONESolution as well. As part of that upgrade process, the City incorporated a policy on network password standards.

City's Response: Due to continued staff turnover there has been very little progress in addressing the findings.

Corrective Action Plan: The City is developing policies and procedures that will establish an Internal Control Integrated Framework (ICIF) based on COSO and GAO standards. Those policies also reflect the guidance of the California State Controller's Office's Internal Control Guidelines - Local Government Agencies.

Implementing policies will be drafted for control environment, risk assessment, control activity, information and communication, and monitoring components before June 30, 2020. The City plans to adopt a series of policies and procedures implementing the control components during the fiscal years ending June 30, 2019 and 2020.

Planned Implementation Date: June 30, 2020

Responsible Person Mily Huntley, Assistant City Manager and Cecil W. Rhambo, Jr., City Manager.

9. (MW) City safeguards for controlling network and financial system user access can be improved.

General controls require that adequate safeguards are in place to prevent unauthorized access to or destruction of documents, records, and assets. These controls include user acceptance of Terms and Conditions (Data Security Agreement) for network access. While the City has a policy for acceptable use of IT resources, our employee sample, performed in a prior year, showed that 15 percent (3 of 20) employees sampled did not have an IT Acceptable Use agreement on file. This lack of consistent access policy enforcement puts the City at greatly increased risk of unauthorized use of the City network or financial system.

Recommendation: The Human Resources Director should work with the General Services Director to institute a process for users to review and sign IT Acceptable Use Agreements prior to granting IT network access. This will improve the City's safeguards for network and financial system user access.

Management Response and Corrective Action Plan

The City agrees with the recommendation to develop a process for policy for the preparation, review and implementation of an IT Acceptable Use Agreement.

The General Services Department will coordinate to ensure that the City reviews the IT Acceptable Use Agreement on an annual basis. Human Resources Department will ensure that the IT Acceptable Use Agreement is received by every employee and that documentation of receipt is included in every employee file. The new policy will be fully implemented during fiscal year 2015/2016.

The responsible official for this project is the General Services Director.

City's Response: Due to continued staff turnover there has been very little progress in addressing the findings.

Corrective Action Plan: The City is developing policies and procedures that will establish an Internal Control Integrated Framework (ICIF) based on COSO and GAO standards. Those policies also reflect the guidance of the California State Controller's Office's Internal Control Guidelines - Local Government Agencies.

Implementing policies will be drafted for control environment, risk assessment, control activity, information and communication, and monitoring components before June 30, 2020. The City plans to adopt a series of policies and procedures implementing the control components during the fiscal years ending June 30, 2019 and 2020.

Planned Implementation Date: June 30, 2020

Responsible Person Mily Huntley, Assistant City Manager and Cecil W. Rhambo, Jr., City Manager