



CITY OF COMPTON
SINGLE AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2020



CITY OF COMPTON

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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
Compton, California



We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Compton, California (the City) as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated March 3, 2022. Our report includes qualified opinions on those financial statements, because the City has not maintained sufficient records and we were unable to obtain sufficient appropriate audit evidence about the allocation of cash to the various funds, and carrying amounts of the City's capital assets. In addition, our report includes an emphasis of matters paragraph to bring attention to deficit fund balances in the general fund and other funds totaling approximately \$50.3 million.

Internal Control over Financial Reporting

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

Our consideration of internal control over financial reporting 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 did identify 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

As part of obtaining reasonable assurance about whether the City’s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, and which are described in the accompanying schedule of findings and questioned costs marked as NC.

The following schedule summarizes our findings, including outstanding findings from prior audits:

FISCAL YEAR	REFERENCE NUMBER	MATERIAL WEAKNESS (MW)	SIGNIFICANT DEFICIENCY (SD)	TOTAL	NON-COMPLIANCE (NC)
2019-20	2020-001 to 2020-007	5	2	7	4
2018-19	2019-001 to 2019-034	23	12	35	10
2017-18	2018-001 to 2018-039	21	12	33	9
2016-17	2017-001 to 2017-014	9	1	10	7
2015-16	2016-001 to 2016-009	1	1	2	-
2014-15	2015-002 to 2015-039	12	9	21	2
2013-14	2014-004 to 2014-146C	60	51	111	4
		<u>131</u>	<u>88</u>	<u>219</u>	<u>36</u>

City of Compton's Response to Findings

The City'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 audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Eddie and Payne HP

Riverside, California
March 3, 2022

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE

The Honorable City Council
City of Compton
Compton, California

Report on Compliance for Each Major Federal Program

We have audited City of Compton's (the City) 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, 2020. 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* (CFR) 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 qualified opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the City’s compliance.

Basis for Qualified Opinion on 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
2020-001	14.871	Section 8 Housing Choice Vouchers	Reporting
2020-002			Special Tests and Provisions – Rolling Forward Equity Balances
2020-003			General – Filing of Single Audit Report
2020-004			General – SEFA Preparation

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

Qualified Opinion on CFDA 14.871 Section 8 Housing Choice Vouchers

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the major federal program identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs for the year ended June 30, 2020.

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 have not been identified. However, as discussed below, we did identify 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 2020-001 to 2020-003 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 deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2020-004 to be a significant deficiency.

The City'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.

Report on Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of and for the year ended June 30, 2020, and the related notes to the financial statements which collectively comprise the City's basic financial statements. We have issued our report thereon dated March 3, 2022, which contains qualified opinions on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the financial statements as a whole.

Eddie and Payne HP

Riverside, California
March 3, 2022

**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, 2020

Federal Grantor / Pass-through Grantor / Program or Cluster Title	Federal Catalog Number	Program Identification Number	Total Program Expenditures	Total Amount Provided to Subrecipients	Total Federal Awards Expended for Loan or Loan Guarantee Programs
U.S. Department of Housing and Urban Development					
CDBG - Entitlement Grants Cluster					
Direct:					
Community Development Block Grants/Entitlement Grants	14.218	B-19-MC-06-0515	\$ 402,198	\$ 92,590	\$ -
Total CDBG - Entitlement Grants Cluster			<u>402,198</u>	<u>92,590</u>	<u>-</u>
Direct:					
Community Development Block Grants Section 108 Loan Guarantees	14.248	Loans	<u>538,624</u>	-	<u>538,624</u>
Direct:					
Community development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	B-08-MN-06-0505	32,600	-	-
Community development Block Grants/State's Program and Non-Entitlement Grants in Hawaii		B-11-MN-06-0505	<u>3,825</u>	-	-
			<u>36,425</u>	-	-
Direct:					
HOME Investment Partnership Program	14.239	M-19-MC-06-0506	<u>115,027</u>	-	-
Housing Voucher Cluster					
Direct:					
Section 8 Housing Choice Vouchers	14.871	CA-071	<u>8,610,441</u>	-	-
Total Housing Voucher Cluster			<u>8,610,441</u>	-	-
Total U.S. Department of Housing and Urban Development			<u>9,702,715</u>	<u>92,590</u>	<u>538,624</u>
Total Expenditures of Federal Awards			<u>\$ 9,702,715</u>	<u>\$ 92,590</u>	<u>\$ 538,624</u>

See accompanying notes to Schedule of Expenditures of Federal Awards and Independent Auditor's Report on Compliance for Each Major Program; Report on Internal Control over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance.

CITY OF COMPTON
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED JUNE 30, 2020

1. BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes the federal award activity of City of Compton (City) under programs of the federal government for the year ended June 30, 2020. The information in this Schedule is presented in accordance with the 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). Because the Schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position, changes in financial position, or cash flows of the City.

2. BASIS OF ACCOUNTING

The accompanying Schedule of Expenditures of Federal Awards is presented using the modified accrual basis of accounting. Such expenditures are recognized following the Cost Principles contained in the Uniform Guidance wherein certain types of expenditures are not allowable or are limited as to reimbursement.

3. INDIRECT COST RATE

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

4. SUBAWARDS

The City passes through Federal awards to certain subrecipients. The programs and amounts passed through as of June 30, 2020 are as follows:

Program Name	Subawards
CDBG - Entitlement Grants Cluster	
ERD Campfire Safety Self	\$ 50,000
RED Domestic Violence Prevention	16,990
Champions of Caring	10,600
Youth Building	15,000
Total Subawards	\$ 92,590

5. LOAN PROGRAMS WITH CONTINUING COMPLIANCE REQUIREMENTS

The City participates in the Community Development Block Grants Section 108 Loan Guarantees (CFDA No. 14.248) 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, 2020 are as follows:

CFDA Number	Program Name	Outstanding Balance at June 30, 2020
14.248	Rosewood Family Loan	\$ 354,017
14.248	Fatburger Loan	144,024
		\$ 498,041

CITY OF COMPTON
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 FOR THE YEAR ENDED JUNE 30, 2020

SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: Qualified

Internal control over financial reporting:

- Material weakness identified? x Yes No
- Significant deficiency identified? x Yes None reported
- Noncompliance material to financial statements noted? x Yes No

Federal Awards

Internal control over major federal programs:

- Material weakness identified? x Yes No
- Significant deficiency identified? x Yes None reported

Type of auditor's report issued on compliance for major federal programs: Qualified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? x Yes No

Identification of major federal programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
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

CITY OF COMPTON
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 FOR THE YEAR ENDED JUNE 30, 2020

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CURRENT YEAR

MAJOR FEDERAL AWARD PROGRAMS

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

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Special Tests and Provisions	2020-002

General

Filing of Single Audit Report	2020-003
Schedule of Expenditures of Federal Awards Preparation	2020-004

FINANCIAL STATEMENTS	2020-005 to 2020-007
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PRIOR YEAR

MAJOR FEDERAL AWARD PROGRAMS

2019-001 to 2019-008
2018-001 to 2018-012
2017-001 to 2017-012
2016-001, 2016-003
2015-002 to 2015-010
2014-004

FINANCIAL STATEMENTS	2019-009 to 2019-034
	2018-013 to 2018-040
	2017-013 to 2017-014
	2016-009
	2015-012 to 2015-039
	2014-011 to 2014-146C

CITY OF COMPTON
SCHEDULE OF FINDINGS AND QUESTIONED COSTS – FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2020

2020-001 – 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:	CA-071 – 2019
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 Office of Management and Budget (OMB) 2 CFR Part 200, Appendix XI, *Compliance Supplement August 2019*, sections 4-14.871-10 through 4-14.871-14, 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 timely submit the required annual FASS-PH report for FY 2019-2020 to HUD.

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

Effect or Potential Effect: The City is facing sanctions from the Office of Inspector General (OIG) with a reduced Section Eight Management Assessment Program (SEMAP) rating from High Performer to Standard Performer. A reduced rating may result in HUD withholding additional grant funds or offset the Housing Choice Voucher (HCV) administrative fees.

Questioned Cost: None

Context: The Housing Authority did not submit the required annual FASS-PH Audited Submissions report to HUD since June 30, 2012.

Statistical Sampling Validity: Not applicable. All required reports provided have been reviewed and tested.

Repeat of a Prior-Year Finding: 2019-005, 2018-007, 2017-007, 2016-004, 2015-006, 2014-001

Recommendation: We recommend the City 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 Local Housing Authority 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 and the Compton Housing Authority have submitted the following unaudited reports:

- 6/30/13 FYE Unaudited Submission completed on 2/10/20
- 6/30/14 FYE Unaudited Submission completed on 4/16/20
- 6/30/15 FYE Unaudited Submission completed on 4/27/20
- 6/30/16 FYE Unaudited Submission completed on 5/12/20
- 6/30/17 FYE Unaudited Submission completed on 5/19/20
- 6/30/18 FYE Unaudited Submission completed on 6/01/20
- 6/30/19 FYE Unaudited Submission completed on 6/22/20
- 6/30/20 FYE Unaudited Submission completed on 9/14/21

Due to the extraordinary circumstances outside the control of the City, the City and the CHA are unable to complete the Audited Submissions for fiscal years ended June 30, 2012 through 2018. The Audited Submission for fiscal year ended June 30, 2019 was submitted on April 30, 2021. The Audited Submission for fiscal year ended June 30, 2020 will be submitted in March 2022.

Planned Implementation Date: June 30, 2022

Responsible Person(s): Michael Antwine, Assistant City Manager and Sharon Rahban, City Controller

2020-002 – 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 – 2019
Category of Finding: Special Tests and Provisions – Rolling Forward Equity Balances

Criteria: The Office of Management and Budget (OMB) 2 CFR Part 200, Appendix XI, *Compliance Supplement August 2019*, section 4-14.871-18 states:

“Public housing agencies (PHAs) are required to maintain complete and accurate accounts. In addition, the annual contributions contract (ACC) requires PHA to properly account for program activity. Proper accounting requires that (1) account balances are properly maintained, (2) records and accounting transactions support a proper roll-forward of equity, and (3) errors are corrected as detected. Several HUD OIG audits reports have noted that PHAs have not been accounting and reporting HAP and Administrative Fee equity accounts properly. This has resulted in several PHAs not being funded correctly and has resulted in OIG findings against HUD and PHAs. If audit testing, account analysis, or third-party (e.g., HUD) information, provides evidence that the current HAP and Administrative Fee equity is not correctly stated, the PHA is required to correct the account balance. Errors affecting these accounts could have begun starting with 2004 or 2005 financial statements (24 CFR section 982.158).”

Condition: We were unable to obtain the housing assistance payments (HAP) equity account roll-forward for the year ended June 30, 2020.

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, 2020.

Statistical Sampling Validity: Not applicable. Sampling was not performed in relation to this finding.

Repeat of a Prior-Year Finding: 2019-006, 2018-010, 2017-009, 2016-006, 2015-008, 2014-003

Recommendation: We recommend the Housing Authority establish and implement policies and procedures over calculation of the 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 Local Housing Authority 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 Authority and City Controller's Office will take steps to address the specific finding noted above to ensure accurate computation of the HAP equity account by updating and reconciling the fund balance/equity of the Section 8 fund between the HUD online portal and the general ledger on time for the fiscal 2021 audit.

Planned Implementation Date: June 30, 2022

Responsible Person(s): Michael Antwine, Assistant City Manager and Sharon Rahban, City Controller

2020-003 – 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". The OMB extended the Single Audit submission deadline for fiscal year ended June 30, 2020 by six months.

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, 2017, 2018, and 2019 within nine months after the end of audit period. The City did not complete the audit and submit the Single Audit Reporting Package for the fiscal year ended June 30, 2020 within 15 months after the end of the audit period (the extended deadline).

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. 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. The City has been working diligently to update its records since 2018, however it still continues to experience a lack of qualified personnel and substantial employee turnover in the City Controller's Office.

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: The physical single audit reports for fiscal years 2015, 2016, and 2017, were submitted to the U.S. Department of Housing and Urban Development (Attn: Mr. Miguel Fontanez, Director of Housing Voucher Financial Management Division) at the Office of Public and Indian Housing, Washington, DC 20410-5000 on March 27, 2019. The Single Audit Reporting Package for fiscal year 2019 was submitted on April 28, 2021.

Statistical Sampling Validity: Not applicable. Sampling was not performed in relation to this finding.

Repeat of a Prior-Year Finding: 2019-007, 2018-011, 2017-011, 2016-007, 2015-010, 2014-009

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.

Management Response and Corrective Action Plan

City's Response: The City is in the process on catching up on the Single Audit packet submission for fiscal year 2020 and expects to be on time for fiscal year 2021 and going forward.

Corrective Action Plan: City Manager and Controller are continuously working with auditors to ensure delinquent reports are submitted as soon as possible and that fiscal year 2021 can be submitted in a timely manner.

Planned Implementation Date: June 30, 2022

Responsible Person(s): City Manager and Sharon Rahban, City Controller

2020-004 – Schedule of Expenditures of Federal Awards (Schedule) Preparation (SD, NC)

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 did not report the correct CFDA number and program identification number for one program. The same program was incorrectly reported as part of a cluster, and the amount of program expenditures was misstated. The total program expenditures for another program was also misstated.

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 proper CFDA number and program identification number exposes the City to be flagged by the awarding federal agency for grant sanctions and the rectification of its reported records to the Federal Clearing House.

Questioned Cost: None

Context: CDBG Section 108 (CFDA 14.248) was incorrectly included under the CDBG - Entitlement Grant Cluster. The CFDA number and identification number for the same grant were not provided. The total program expenditures were understated by approximately \$39,000. The total program expenditures for CDBG (CFDA 14.218) did not include the amounts provided to subrecipients, resulting in an understatement of approximately \$93,000.

Statistical Sampling Validity: Not applicable. Sampling was not performed in relation to this finding.

Repeat of a Prior-Year Finding: No.

Recommendation: We recommend that the City provide education and training to the staff member who prepares the SEFA to ensure that the SEFA is complete and accurate.

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 in the grants policy to implement this process and will include assignment of authority and responsibility, reconciliation, and review of the SEFA. In the meantime, the City Controller's Office has taken steps to address the specific finding noted above by organizing a formal training over SEFA preparation and reporting by September 2021.

Planned Implementation Date: June 30, 2022

Responsible Person(s): Sharon Rahban, City Controller

CITY OF COMPTON
SCHEDULE OF FINDINGS AND QUESTIONED COSTS – FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020

2020-005 – Land Held for Resale Appraisals (SD)

Criteria: Generally accepted accounting principles require that land (and other real estate) that are held for sale should be stated at the lower of cost or net realizable value.

Condition: The City does not have a formal procedure to ensure that land held for resale is valued at lower of cost or net realizable value. The City does not obtain an appraisal of its land held for sale to determine net realizable value.

Cause: The City has not been maintaining a listing of land held for resale.

Effect or Potential Effect: Land held for resale could potentially be overstated.

Questioned Cost: None

Context: Land held for sale by the Successor Agency and Housing Successor have been valued at lower or cost or net realizable value as of June 30, 2020. The City has not listed land held for resale in its governmental or business-type activities.

Statistical Sampling Validity: Not applicable

Repeat of a Prior-Year Finding: No

Recommendation: We recommend that the City prepare a complete list of land and other real estate held for resale and obtain appraisals by an independent third party to in order to evaluate lower of cost or net realizable value.

Management Response and Corrective Action Plan

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

Corrective Action Plan: We will prepare a policy to annually update property appraisals, and bring to Council, and also we will also include it our budget policy that this must be budgeted.

Planned Implementation Date: June, 30 2022

Responsible Person(s): City Manager and Sharon Rahban, City Controller

2020-006 – Internal Audits (MW)

Criteria: Internal audits should be performed to ensure that information processed is accurate and valid. Departments should cooperate and make all information available for internal audits to be performed and completed effectively and efficiently.

Condition: There is a lack of cooperation from departments when supporting documentation is requested for internal audit purposes.

Cause: Departments other than the City Controller's Office do not agree that providing information to the internal auditor is their responsibility. These departments are not willing to use resources to fulfill a task that is not included in their job description.

Effect or Potential Effect: Lack of transparency results in information that cannot be considered timely or reliable. Additionally, failing to perform regular and timely internal audits creates an opportunity for malicious activities, including waste and abuse of City funds.

Questioned Cost: None

Context: Internal audit requests have not been common practice in the City in the recent years and, therefore, might not have been addressed in job descriptions. However, the City has been making efforts to resolve operational, accounting, and internal control issues that will allow the City to move forward.

Statistical Sampling Validity: Not applicable

Repeat of a Prior-Year Finding: No

Recommendation: We recommend that City Council and City Management establish and reinforce policies and procedures that promote cooperation of all departments and educate them on the importance of checks and balances within departments across the City.

Management Response and Corrective Action Plan

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

Corrective Action Plan: We will establish Internal Auditor policies and procedures and plan to get them accepted by the City Council, as well as the City Manager, in order for employees to face consequences if they do not respond to internal or external audits.

Planned Implementation Date: June 30, 2022

Responsible Person(s): City Manager and Sharon Rahban, City Controller

2020-007 – Staffing (MW)

Criteria: City employees should have adequate qualifications, competency, and experience to effectively carry out day-to-day responsibilities directly correlated with their job description in a qualitative and timely manner.

Condition: The City Controller's Office has vacancies in positions that are vital in the City's day-to-day accounting.

Cause: The City's recruitment process is lengthy. Additionally, departments are encouraged to explore internal recruitments more extensively, rather than initiating external recruitments.

Effect or Potential Effect: Upper management has been compensating for the lack of lower management available in the City Controller's Department, which results in delays of getting complex projects completed, i.e. financial statement audits, cost allocation plan revision, capital assets valuation, etc.

Questioned Cost: None

Context: The City Controller's Department has been delayed in its financial statement audits and other projects because vacancies are preventing day-to-day accounting activities from being effectively carried out. This has resulted in the City not having enough resources to move other projects forward.

Statistical Sampling Validity: Not applicable

Repeat of a Prior-Year Finding: 2014-064A; 2014-074B, 2014-085B

Recommendation: We recommend that the City implement a remedial action plan to adequately staff the departments with qualified and experienced individuals who can contribute immediately to the performance of its accounting functions.

Management Response and Corrective Action Plan

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

Corrective Action Plan: City Management will work with the bargaining units and through the recruitment process to find efficiencies in order to get the necessary help as soon as possible.

Planned Implementation Date: June 30, 2022

Responsible Person(s): City Manager and Sharon Rahban, City Controller

CITY OF COMPTON
SUMMARY SCHEDULE OF REPEAT AUDIT FINDINGS – FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020

The following is a summary of repeat findings for the fiscal year ended June 30, 2020. Additional detail on the findings below may be found in the following pages.

Finding No.	Level	Title
2019-009	MW	Bank Reconciliations
2019-010	MW	Cash - Negative Balances
2019-015	MW	Capital Assets
2019-025	MW	Negative Fund Balances
2019-026B	MW	Human Resources
2019-029	SD, NC	Procurement Policy
2019-030	SD, NC	Procurement - Requests for Proposal (RFP) Documentation
2019-032	MW	Lack of Budgeted Fund Balances
2019-033	MW	Turnover and Lack of Consistent Leadership
2019-034	MW	Information Technology (IT) Controls
2018-013	MW	Bank Reconciliations
2018-014	MW	Cash - Negative Balances
2018-016	MW	Notes and Loans Receivable
2018-023	MW	Capital Assets
2018-028	MW	Accrued Liabilities
2018-033	SD	Deferred Grant Revenues
2018-036	MW	Bond Compliance
2018-037	MW	Fund Balance - Negative Fund Balances
2018-038	MW	Human Resources - Employee Compensation
2018-039	MW	Management Oversight and Control - Payroll Segregation of Duties
2018-040	MW	Information Technology (IT) Controls
2017-013	MW	Bank Reconciliations
2017-014	MW	Information Technology (IT) Controls
2016-009	MW	Bank Reconciliations
2015-012	MW	Bank Reconciliations
2015-013	MW	Cash Transfers
2015-018	MW	Capital Assets - Government-Wide
2015-019	MW	Capital Assets - Proprietary and Fiduciary
2015-020	MW	Capital Assets - Physical Inventory
2015-021	SD	Construction in Progress - Lack of Status Reports

(**MW**) – Material Weakness (**SD**) – Significant Deficiency (**NC**) – Noncompliance

CITY OF COMPTON
SUMMARY SCHEDULE OF REPEAT AUDIT FINDINGS – FINANCIAL STATEMENTS
(CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2020

Finding No.	Level	Title
2014-011	MW	Financial Statement Reporting
2014-021	MW	Labor Cost Allocation Budget Approval
2014-023	SD	Fire Department Time Cards
2014-025	SD	Payroll Allocations
2014-034	MW	Internal Control Over Procurement
2014-038	MW	Internal Control Over Cash Disbursements - Segregation of Duties
2014-039	MW	Internal Control Over Accounts Payable - Maintenance of Accounts Payable Aging
2014-045	MW	Bank Reconciliations
2014-048	SD	Internal Control Over Accounts Receivable
2014-057A	MW	Bank Reconciliations
2014-060A	MW	Fixed Assets
2014-062A	MW	Turnover and Lack of Consistent Leadership
2014-063A	MW	Financial Statements
2014-064A	MW	Lack of Adequate Staff Performing Critical Functions
2014-072B	SD	Commitment to Competence
2014-074B	SD	Commitment to Competence
2014-125B	SD	On-Going Monitoring
2014-126B	SD	On-Going Monitoring
2014-128B	MW	On-Going Monitoring
2014-129B	MW	On-Going Monitoring
2014-132B	MW	Separate Evaluation
2014-133B	MW	Separate Evaluation
2014-134B	MW	Separate Evaluation
2014-135B	SD	Report Deficiencies
2014-136B	SD	Report Deficiencies

(**MW**) – Material Weakness (**SD**) – Significant Deficiency (**NC**) – Noncompliance

**CITY OF COMPTON
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FEDERAL AWARDS**

Finding No.	Federal Program Name	CFDA No.	Compliance Requirement(s)	Status of Corrective Action	Reason for Finding Recurrence
2019-001	Community Development Block Grants/Entitlement Grants	14.218	Reporting (MW, NC)	In progress	Management turnover leading to insufficient implementation of controls for correction
2019-002	Community Development Block Grants/Entitlement Grants	14.218	Program Income - Identification, Determination, Assessment, and Recording (MW, NC)	In progress	Management turnover; inadequate staff training
2019-003	Community Development Block Grants/Entitlement Grants	14.218	Program Income - CDBG Loan Listing (MW, NC)	In progress	Management turnover; inadequate staff training
2019-004	Community Development Block Grants/Entitlement Grants	14.218	Equipment and Real Property Management (MW, NC)	In progress	Management turnover; inadequate staff training
2019-005	Section 8 Housing Choice Vouchers	14.871	Reporting (MW, NC)	In progress; repeat finding 2020-001	Management turnover; inadequate staff training
2019-006	Section 8 Housing Choice Vouchers	14.871	Special Tests and Provisions - Rolling Forward Equity Balances (MW, NC)	In progress; repeat finding 2020-002	Management turnover; inadequate staff training
2019-007	N/A; General finding	N/A	Filing of Single Audit Report (MW, NC)	In progress; repeat finding 2020-003	Management turnover
2019-008	N/A; General finding	N/A	Schedule of Expenditures of Federal Awards Preparation (MW)	In progress; repeat finding 2020-004	Management turnover; inadequate staff training
2018-001	Community Development Block Grants/Entitlement Grants	14.218	Reporting (MW, NC)	In progress; repeat finding 2019-001	Management turnover leading to insufficient implementation of controls for correction
2018-002	Community Development Block Grants/Entitlement Grants	14.218	Program Income - Identification, Determination, Assessment, and Recording (MW, NC)	In progress; repeat finding 2019-002	Management turnover; inadequate staff training
2018-003	Community Development Block Grants/Entitlement Grants	14.218	Program Income - CDBG Loan Listing (MW, NC)	In progress; repeat finding 2019-003	Management turnover; inadequate staff training
2018-005	Community Development Block Grants/Entitlement Grants	14.218	Allowable Costs/Cost Principles - Lack of Drawdown Supporting Documentation (MW, NC)	In progress; related controls added to the City grants policy	N/A

(MW) – Material Weakness (SD) – Significant Deficiency (NC) – Noncompliance

**CITY OF COMPTON
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FEDERAL AWARDS (CONTINUED)**

Finding No.	Federal Program Name	CFDA No.	Compliance Requirement(s)	Status of Corrective Action	Reason for Finding Recurrence
2018-006	Community Development Block Grants/Entitlement Grants	14.218	Equipment and Real Property Management (MW, NC)	In progress; repeat finding 2019-004	Management turnover; inadequate staff training
2018-007	Section 8 Housing Choice Vouchers	14.871	Reporting (MW, NC)	In progress; repeat finding 2020-001	Management turnover; inadequate staff training
2018-010	Section 8 Housing Choice Vouchers	14.871	Special Tests and Provisions - Rolling Forward Equity Balances (MW, NC)	In progress; repeat finding 2020-002	Management turnover; inadequate staff training
2018-011	N/A; General finding	N/A	Filing of Single Audit Report (MW, NC)	In progress; repeat finding 2020-003	Management turnover
2018-012	N/A; General finding	N/A	Schedule of Expenditures of Federal Awards Preparation (MW)	In progress; repeat finding 2020-004	Management turnover; inadequate staff training
2017-001	Community Development Block Grants/Entitlement Grants	14.218	Reporting (MW, NC)	In progress; repeat finding 2018-001	Management turnover; inadequate staff training
2017-002	Community Development Block Grants/Entitlement Grants	14.218	Program Income - Identification, Determination, Assessment, and Recording (MW, NC)	In progress; repeat finding 2018-002	Management turnover; inadequate staff training
2017-003	Community Development Block Grants/Entitlement Grants	14.218	Program Income - CDBG Loan Listing (MW, NC)	In progress; repeat finding 2018-003	Management turnover; inadequate staff training
2017-007	Section 8 Housing Choice Vouchers	14.871	Reporting (MW, NC)	In progress; repeat finding 2018-007	Management turnover; inadequate staff training
2017-009	Section 8 Housing Choice Vouchers	14.871	Special Tests and Provisions - Rolling Forward Equity Balances (MW, NC)	In progress; repeat finding 2018-011	Management turnover; inadequate staff training
2017-011	N/A; General finding	N/A	Filing of Single Audit Report (MW, NC)	In progress; repeat finding 2018-011	Management turnover
2017-012	N/A; General finding	N/A	Schedule of Expenditures of Federal Awards Preparation (MW)	In progress; repeat finding 2018-012	Management turnover; inadequate staff training
2016-001	Community Development Block Grants/Entitlement Grants	14.218	Allowable Costs/Cost Principles (SD)	In progress	N/A
2015-002	Community Development Block Grants/Entitlement Grants	14.218	Equipment and Real Property Management (MW, NC)	In progress; repeat finding 2018-006	Management turnover; inadequate staff training
2015-005	Community Development Block Grants/Entitlement Grants	14.218	Internal Control over Compliance related to Control Environment and Control Activities (SD)	In progress; related controls to be added to the City accounts payable policy	N/A
2015-010	N/A; General finding	N/A	Filing of Single Audit Report	In progress; repeat finding 2017-007	Management turnover

Findings for FYE 2013 and prior have been omitted in this report.

(MW) – Material Weakness **(SD)** – Significant Deficiency **(NC)** – Noncompliance

CITY OF COMPTON
SCHEDULE OF PRIOR AUDIT FINDINGS – FINANCIAL STATEMENTS

2019-009 – Bank Reconciliations (MW)

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

Condition: Bank reconciliations are not prepared and reviewed in a timely manner. Bank reconciliations for the period from August 2014 through May 2018 were not prepared. Bank reconciliations for the period from July 1, 2018 through June 30, 2019 were prepared during calendar year 2020.

Cause: Weakness in internal control over reconciliations, lack of training, and lack of resources allocated to the bank reconciliation function. 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 of \$3.72 million remained undetected for years, was discovered in 2016, and was not recorded until October 2019. Also, cash could be materially misstated.

Repeat of a Prior-Year Finding: 2018-013, 2017-013, 2016-009, 2015-012, 2014-045

Recommendation: The City should dedicate appropriate resources and 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.

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 designed to serve as a system of internal controls in the Bank Reconciliation policy. In the meantime, the City Controller's Office is examining current processes over bank reconciliations and the proper assignments of responsibilities at key dates each month to be able to catch up on timely preparation by fiscal year 2022.

Planned Implementation Date: June 30, 2022

Responsible Person(s): Sharon Rahban, City Controller

EP's Comment 2020: Repeat finding. Corrective action plan in progress.

2019-010 – Cash – Negative Balances (MW)

Criteria: Negative cash balances occur within a fund when there is mismatch of expenditures and revenue. Since the City pools its cash, other funds (usually the General Fund) will cover temporary negative cash balances through interfund payable/receivable accounts. Interfund payable/receivable accounts should be settled within the current period.

Condition: The City does not have consistent cash allocation and tracking procedures in place, which continues to result in negative cash balances rolling forward. The City's general ledger reported negative cash balances at June 30, 2019 in excess of \$21.9 million for various funds including special revenue funds, internal service funds, and debt service funds. These negative cash balances are not appropriate due to the nature of the funds. Interfund payable/receivable or transfers amounts were not recorded when necessary.

Cause: Lack of policy over interfund transaction and weakness in internal control over reconciliations. Due to the vacancies in key positions in the City Controller's Office, staff fell behind on the monthly reconciliations and monitoring of cash balances across funds.

Effect or Potential Effect: Cash allocation could be materially misstated. Operating cash deficiencies for amounts not properly recorded, reimbursed or transferred could exist and not detected and corrected on a timely basis.

Repeat of a Prior-Year Finding: 2018-014

Recommendation: We recommend the City review cash balances on a regular basis and prepare a plan to eliminate these negative cash balances. Policies and procedures need to be put in place for the regular review of cash balances and the initiation of transfers for reimbursements as needed.

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 designed to serve as a system of internal controls in the Bank Reconciliation policy. In the meantime, the City Controller's Office did research on prior year accounting errors that are to be corrected, including any for the fiscal 2021 audit, and will continue to review the general fund negative balance.

Planned Implementation Date: September 30, 2022

Responsible Person(s): City Manager and Sharon Rahban, City Controller

EP's Comment 2020: Repeat finding. Corrective action plan in progress.

2019-011 – Accounts Receivable Roll Forward Balances (SD)

Criteria: Accounts receivable balances should be properly tracked, recorded, and reviewed in a timely manner to ensure general ledger balances reflect actual amounts receivable.

Condition: The beginning balance in accounts receivable included accounts with balances that should have been credited for actual payments received. Numerous accounts receivable balances required multiple revisions based on our review of supporting documentation. An adjustment for \$99,648 was made to record a missed entry for cash received and was not credited to accounts receivable.

Cause: Lack of timely review of accounts receivable caused the City to roll forward balances that should have been cleared.

Effect or Potential Effect: Accounts receivable could be materially misstated.

Repeat of a Prior-Year Finding: 2018-015

Recommendation: The City should implement and maintain procedures to periodically review balance sheet general ledger accounts to ensure that prior period accruals are properly reversed, if necessary, and to review account balances for reasonableness.

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 designed to implement the recommendations. These are anticipated to be ready by the fiscal year 2021 audit. In the meantime, the City Controller's Office has performed a review of receivables to verify ending balances are appropriate, and plan to perform this review annually.

Planned Implementation Date: June 30, 2022

Responsible Person(s): Sharon Rahban, City Controller

EP's Comment 2020: Partially implemented. Corrective action plan in progress.

2019-012 – Notes and Loans Receivable (MW)

Criteria: Subsidiary record for notes and loans receivable should be maintained and reconciled to the general ledger on a monthly basis.

Condition: The City did not have procedures in place for a complete and centralized system to track note and loan receivable balances. No current note and loan receivable schedules are prepared and maintained regularly for reviewing of general account balances, as the last known schedule was prepared in FYE 2015. Note and loan receivable payments related to notes and loans to the City are irregular and sporadic nature, and are not tracked accurately and regularly with detailed review and approval of loan schedules. Notes and loans receivable balances appears to be out-of-date.

Cause: The City lacks internal control procedures for identifying and recording of all notes and loans receivable transactions that would contain a sufficient detail review process to identify loan-related activities throughout the year.

Effect or Potential Effect: There is a potential to miss timely demands related to the notes and loans receivable that are due to the City. Balances of notes receivable may be outdated and are not reported at their net realizable value. Failure to implement a timely and effective reconciliation process over notes and loans receivable could increase the risk of fraud, waste, and mismanagement of funds.

Repeat of a Prior-Year Finding: 2018-016

Recommendation: The City should develop and implement procedures for reviewing general account balances in detail regularly throughout the year in addition to implementing a centralized note and loan schedules for an accurate tracking and reconciliation of balances.

Management Response and Corrective Action Plan

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

Corrective Action Plan: The City has drafted policies and procedures designed to serve as a system of internal controls including those required by OMB's Uniform Guidance (2CFR 200), and is awaiting approval of these policies. In the meantime, the City Controller is implementing the accounts receivable module of OneSolution to assist with the tracking and recording of notes and loans receivable. As of fiscal year 2020, the City Controller's Office has prepared a complete list of outstanding loans receivable.

Planned Implementation Date: June 30, 2022

Responsible Person(s): Aubrey Relf, City Grants Compliance Manager and Sharon Rahban, City Controller

EP's Comment 2020: Partially implemented. Corrective action plan in progress.

2019-013 – Utilities Allowance for Doubtful Accounts (SD)

Criteria: Allowance for doubtful accounts should be appropriate and assessed on a regular basis and adjusted to reflect amounts expected to be uncollectible.

Condition: The allowances for doubtful accounts for the proprietary funds have not been adjusted since FYE 2014. The City's allowance calculation indicates that balances are understated by approximately \$270,000 in total across all proprietary funds.

Cause: Lack of timely review of accounts and lack of staff training. Accounts were not adjusted to reflect computed estimate of uncollectable balances.

Effect or Potential Effect: The allowance for doubtful accounts could be materially misstated, causing accounts receivable and revenue to be materially overstated.

Repeat of a Prior-Year Finding: 2018-019

Recommendation: The City should implement and maintain procedures to periodically review balance sheet general ledger accounts to ensure that balances are properly adjusted. We recommend the City establish procedures in place to promptly identify uncollectible accounts and perform collection attempts.

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 designed to serve as a system of internal controls. In the meantime, the City Controller's Office has conducted training over utilities allowance for doubtful accounts, and will continue to provide training to ensure correct reporting in the future.

Planned Implementation Date: June 30, 2022

Responsible Person(s): Brian Dickinson, Water Department General Manager and Sharon Rahban, City Controller

EP's Comment 2020: Partially implemented. Corrective action plan in progress.

2019-014 – Prepaid Expenses and Roll Forward Balances (SD)

Criteria: Prepaid expenses represent valid future economic benefits based on past transactions, are realized in accordance with GAAP, and are timely removed when no continuing value remains.

Condition: The City does not regularly track and maintain prepaid expenses. An entry to record prepaid medical insurance for \$715,215 for June 30, 2019 was not recorded timely, having been booked in September 2020.

Cause: Prepaid expense accounts were not reviewed in a timely manner, and staff was not appropriately trained.

Effect or Potential Effect: Prepaid expenses were materially misstated.

Repeat of a Prior-Year Finding: 2018-020

Recommendation: The City should implement and maintain procedures to periodically review balance sheet general ledger accounts to ensure that prior period accruals were properly reversed and not posted against incorrect accounts.

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 designed to serve as a system of internal controls. In the meantime, the City Controller's Office has conducted training over prepaid expenses and roll forward balances, and plans to continue to provide annual training.

Planned Implementation Date: June 30, 2022

Responsible Person(s): Brian Dickinson, Water Department General Manager and Sharon Rahban, City Controller

EP's Comment 2020: Partially implemented. Corrective action plan in progress..

2019-015 – Capital Assets (MW)

Criteria: Subsidiary records for capital assets should be maintained and reconciled to the general ledger on an annual basis. Complete capital asset records should be maintained and an inventory of capital assets should be performed periodically.

Condition: The City has not maintained its capital asset records for several years. Depreciation was not recorded for fiscal year 2019, and there have been no additions to capital assets or retirements of capital assets in the general ledger since 2015. In addition, the City does not have a formal process for capitalizing assets and the City was unable to provide documentation of when the last physical inventory of capital assets was performed.

Cause: Lack of timely review of capital assets and internal controls over adequate asset keeping and safeguarding.

Effect or Potential Effect: Capital asset balances are stale and could be materially misstated, and this deficiency resulted in a qualified opinion on the financial statements.

Repeat of a Prior-Year Finding: 2018-023, 2015-018, 2015-019, 2015-020, 2014-060A, 2014-087B

Recommendation: We recommend that the capital asset subsidiary ledger and the general ledger be brought up to date. It may be necessary to hire an outside company to perform a complete inventory of assets and to establish the estimated cost basis and date of acquisition, if sufficient records are not available to reconstruct the asset detail. In addition, we recommend that capital asset software be obtained to maintain accountability of capital assets and to compute depreciation. Currently, Excel spreadsheets are being used for this purpose.

We also recommend the City develop and implement 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.

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 designed to serve as a system of internal controls including those required by OMB's Uniform Guidance (2CFR 200) in the policies. These are anticipated to be ready by December 31, 2022. In the meantime, the City has started on the planning for the capital asset valuation and implementation of the capital assets module of OneSolution.

Planned Implementation Date: December 31, 2022

Responsible Person(s): Sharon Rahban, City Controller

EP's Comment 2020: Repeat finding. Corrective action plan in progress.

2019-016 – Land Held for Resale (MW)

Criteria: Land held for resale should be tracked and regularly updated in the accounting records.

Condition: The City was unable to provide a listing of properties or any supporting documentation to support the carrying value. The account for land held for resale has not been updated in fiscal year 2019.

Cause: Land held for resale of \$16,137,052 in the governmental activities and \$17,569,190 in the Successor Agency private-purpose trust fund were not reviewed in a timely manner, and staff was not appropriately trained.

Effect or Potential Effect: Land held for resale could be materially misstated, and this deficiency resulted in a qualified opinion on the financial statements.

Repeat of a Prior-Year Finding: 2018-024

Recommendation: The City should have a designated staff to keep track of land held for resale and regularly update and maintain the schedule.

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 designed to serve as a system of internal controls. In the meantime, the City Controller's Office has completed the finding above by taking inventory, updating, and reconciling the land held for resale schedule to the general ledger on time for the fiscal year 2020 audit.

Planned Implementation Date: June 30, 2022

Responsible Person(s): Sharon Rahban, City Controller

EP's Comment 2020: Partially implemented. Corrective action plan in progress.

2019-017 – Interfund Balances (SD)

Criteria: Interfund balances should be recorded as transactions occur, and reviewed and reconciled in a timely manner.

Condition: Interfund balances such as due to/due from are not properly tracked, monitored, and accounted for. Numerous correcting entries related to FYE 2018 were made at the beginning of the year, and FYE 2019 interfund entries were made in August 2020.

Cause: Significant turnover in Controller's Office staff and lack of: timely review of account balances, policies and procedures, and training of staff.

Effect or Potential Effect: Misstatement of interfund balances. Operating cash deficiencies for amounts not properly cleared or transferred could exist and not detected and corrected on a timely basis.

Repeat of a Prior-Year Finding: 2018-021

Recommendation: The City should establish policies and procedures over interfund balances, train and designate staff track interfund balances, and ensure these balances are tracked and reconciled timely.

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 designed to serve as a system of internal controls including those required by OMB's Uniform Guidance (2CFR 200) in the General Accounting policy. These are anticipated to be ready by November 30, 2020. In the meantime, the City Controller's Office has verified and reconciled existing interfund balances as of the fiscal year 2020 audit.

Planned Implementation Date: June 30, 2022

Responsible Person(s): Sharon Rahban, City Controller

EP's Comment 2020: Partially implemented. Corrective action plan in progress.

2019-018 – Interfund Balances – Advances to/from Repayment (MW)

Criteria: The City should adhere to the terms specified by resolution regarding the repayment of interfund borrowing.

Condition: The City has not continued the payments on the advances payable balances per the repayment agreement adopted with Resolution 23,970.

Cause: The City’s general fund had insufficient cash available to comply with the agreement.

Effect or Potential Effect: Noncompliance with Resolution 23,970. The fund the advanced the funds to the General Fund may not have sufficient cash available for its intended purposes.

Repeat of a Prior-Year Finding: 2018-022

Recommendation: We recommend the City review the repayment plan and develop a realistic plan to repay borrowed funds.

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 designed to implement the recommendation. In the meantime, the City Controller’s Office is taking necessary steps to address the above noted finding by:

- Researching the history of the negative fund balance in the General Fund to determine whether any adjustments made in the past has caused this error;
- Preparing a full-cost allocation plan to analyze the history of General Fund activity of payments and overpayments that may include identification of reimbursements due to the General Fund on behalf of other funds;
- Coordinating with the City Manager’s Office on revenue-generating initiatives;
- Extending the term and prioritizing the funds to be addressed first; and
- Determine the excess of revenues over expenditures for fiscal year 2020 and for future fiscal years as they come due and allocate a portion to the interfund loan repayment.

Planned Implementation Date: June 30, 2022

Responsible Person(s): City Manager and Sharon Rahban, City Controller

EP’s Comment 2020: Partially implemented. Corrective action plan in progress.

2019-019 – Accrued Interest (SD)

Criteria: Interest related to fiduciary fund long-term debt should be accrued (full accrual), and interest related to governmental fund long-term debt should not be accrued (modified accrual), according to governmental GAAP. Accrued interest related to governmental fund long-term debt should be included in the government-wide presentation of the financial statements. Accruals should be reversed in the following fiscal year.

Condition: The City did not accrue interest for fiduciary fund related long-term debt in accordance with governmental GAAP. The City accrued interest for governmental fund related long-term debt, which is not in accordance with governmental GAAP. The City did not account for accrued interest related to governmental fund long-term debt for government-wide presentation.

Cause: Inadequate staff training and ineffective supervision and review. The staff member preparing the accruals did not know that interest should be accrued on an accretion bond.

Effect or Potential Effect: Accrued interest and interest expense was misstated.

Repeat of a Prior-Year Finding: 2018-026

Recommendation: The City should ensure that its staff is provided with the appropriate training in order to successfully perform their assigned duties, including appropriate governmental accounting training. In addition, work performed by staff members should be reviewed by someone with a firm understanding of governmental GAAP.

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 designed to serve as a system of internal controls in the General Accounting policy detailing the understanding of the treatment between modified accrual and full accrual accounting. This will ensure interest payable is properly recorded in the correct account group instead of in the Debt Service Fund. Training has been provided to staff as of fiscal year 2020.

Planned Implementation Date: June 30, 2022

Responsible Person(s): Sharon Rahban, City Controller

EP's Comment 2020: Partially implemented. Corrective action plan in progress.

2019-020 – Accrued Liabilities (MW)

Criteria: Expenses/expenditures incurred but not paid as of year-end should be accrued as a liability.

Condition: Subsequent disbursements totaling in excess of \$1.5 million were identified that pertained to FYE 2019 were not included in accounts payable or accrued liabilities.

Cause: The City does not have an effective system to capture and record accounts payable and accrued liabilities in a timely manner.

Effect or Potential Effect: Accrued liabilities were materially understated.

Repeat of a Prior-Year Finding: 2018-028, 2015-029

Recommendation: The City should implement and maintain procedures to identify and record accrued liabilities. This may require additional software or training on the use of current software.

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 designed to serve as a system of internal controls including those required by OMB's Uniform Guidance (2CFR 200) in the General Accounting policy. In the meantime, the City is working with OneSolution to establish settings and make this an automated procedure. In addition, the City Controller is planning to conduct training over the treatment and recording of accrued liabilities and plans to have this audit area corrected and completed for the fiscal year 2022 audit.

The City will implement a policy for the City Controller's Office to follow up with the City Attorney's Office on a quarterly basis for claims that were incurred but not reported on our actuarial report. This will ensure that the actuarial report is capturing complete information.

Planned Implementation Date: June 30, 2022

Responsible Person(s): Sharon Rahban, City Controller

EP's Comment 2020: Partially implemented. Corrective action plan in progress.

2019-021 – Accrued Wages Payable Allocation (SD)

Criteria: Accrued wages payable should be recorded correctly as to account and period and allocated to the corresponding funds and account activity classification.

Condition: City did not properly record the final pay period accrual balances at year-end. The entire accrual was recorded to a pooled fund account instead of to the corresponding individual funds.

Cause: Lack of adequate controls and training over treatment of accrued wages payable at year-end.

Effect or Potential Effect: Material misstatement of accrued wages payable in relation to individual funds.

Repeat of a Prior-Year Finding: No

Recommendation: The City should implement and maintain procedures to identify and record accrued wages payable into the related funds and appropriate account classifications (e.g. Medicare insurance, deferred compensation, and payroll taxes payable).

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 designed to serve as a system of internal controls. In the meantime, the City Controller has provided training to staff and has corrected the accrued wages payable allocation for fiscal year 2020.

Planned Implementation Date: June 30, 2022

Responsible Person(s): Sharon Rahban, City Controller

EP's Comment 2020: Partially implemented. Corrective action plan in progress.

2019-022 – Deferred Grant Revenues (MW)

Criteria: Deferred grant revenues should be recorded or adjusted as part of year-end closing procedures.

Condition: Deferred grant revenues have not been adjusted since fiscal year 2014. Actual current year deferred grant revenues are unknown.

Cause: There appears to be a lack of communication between the Grants Division and Controller's Office. No one was assigned to track and record appropriate transactions. Year-end accruals are not properly reversed at the beginning of the next fiscal year. There is also inadequate staff training and ineffective supervision and review.

Effect or Potential Effect: Deferred grant revenues and the related revenue accounts could be materially misstated, and this deficiency resulted in a qualified opinion on the financial statements.

Repeat of a Prior-Year Finding: 2018-033

Recommendation: The Controller's Office and Grants Division should work closely together to ensure proper communication between each other. We recommend the City analyze the fiscal year 2014 balance and determine if any of the balance would still be considered deferred grant revenue. Otherwise, the balance should be adjusted to reflect fiscal year 2019 balances.

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 designed to serve as a system of internal controls required by OMB's Uniform Guidance (2CFR 200) in the General Accounting policy. In the meantime, the City Controller's Office is addressing the finding above by updating and reconciling the grants receivable schedule to the general ledger on time for the fiscal year 2020 audit. In addition, the City Controller proposes to implement the accounts receivable module of the financial software to assist with the tracking and recording of grants receivable and continuously providing training to staff.

Planned Implementation Date: June 30, 2022 for policy adoption; December 31, 2022 for financial software upgrade

Responsible Person(s): Sharon Rahban, City Controller

EP's Comment 2020: Partially implemented. Corrective action plan in progress.

2019-023 – Fund Balance Classification (SD)

Criteria: GASB 54 requires the following classifications: nonspendable, restricted, committed, assigned, and unassigned. Fund balances should be properly presented and classified in the financial statements in accordance with governmental GAAP.

Condition: The City has not been reviewing fund balance classifications and rely on prior year treatment.

Cause: Lack of management assessment, review, and controls over fund balance classifications.

Effect or Potential Effect: Fund balance classifications could be materially misstated.

Repeat of a Prior-Year Finding: No

Recommendation: We recommend the City develop, document, and implement policies and procedures over the proper and timely review of fund balance classifications.

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 designed to serve as a system of internal controls in the General Accounting policy. In the meantime, the City Controller's Office will provide the necessary training of staff to correct this finding for the fiscal year 2020 audit and going forward.

Planned Implementation Date: June 30, 2022

Responsible Person(s): Sharon Rahban, City Controller

EP's Comment 2020: Partially implemented. Corrective action plan in progress.

2019-024 – Bond Compliance (MW)

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: The City does not monitor debt covenants periodically. The City and the Successor Agency were not in compliance with reporting provisions of the indentures for various bonds for the fiscal year ended June 30, 2019 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. 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 2019 and as such was not in compliance with Section 5. 11 (c) of the Indenture.

Cause: Lack of assigned staff for this function and lack of training and competence of staff.

Effect or Potential Effect: Bonds could be deemed in default and could become due and payable.

Repeat of a Prior-Year Finding: 2018-036

Recommendation: We recommend 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.

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 designed to serve as a system of internal controls in the General Accounting policy. In the meantime, the City Controller's Office performed training on debt covenant testing and staff performed the testing while preparing for fiscal year 2020 audit, and will continue to provide this training in the future.

Planned Implementation Date: June 30, 2022

Responsible Person(s): Sharon Rahban, City Controller

EP's Comment 2020: Partially implemented. Corrective action plan in progress.

2019-025 – Negative Fund Balances (MW)

Criteria: The City should operate to maintain adequate fund balances in all of its funds to mitigate current and future risks, such as revenue shortfalls and unanticipated expenditures.

Condition: There are negative fund balances for various funds including the general fund, grant funds, nonmajor governmental funds, and internal service funds.

Cause: Lack of policies and procedures over cash management and budgetary restrictions. Weakness in internal control over operational spending and lack of consideration of long-term financial planning.

Effect or Potential Effect: The deficits could have a significant effect on operations on a go-forward basis. City programs and services involved with the fund may be curtailed.

Repeat of a Prior-Year Finding: 2018-037, 2014-049A

Recommendation: We recommend that management review the negative fund balances and the affected operations to make provisions to eliminate the deficit balances going forward.

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 designed to serve as a system of internal controls in the General Accounting policy. In the meantime, the City Controller's Office is performing investigations to determine how the negative fund balances came about to eliminate the deficit balances going forward. Fiscal sustainability plan elements have been brought to the attention of the Finance Committee and are pending approval by City Council. The City Controller has recommended to the City Manager to add a position for the Economic Development Director to the Fiscal Year 2023 budget.

Planned Implementation Date: June 30, 2023

Responsible Person(s): City Manager and Sharon Rahban, City Controller

EP's Comment 2020: Repeat finding. Corrective action plan in progress.

2019-026A – Payroll (MW)

Criteria: Management should adhere to adequate controls in place over payroll recording, processing, and reporting.

Condition: The City:

- Processed inaccurate hours worked, where the employee's timecard did not match compared to the payroll register;
- Processed a timecard that was not approved by the supervisor;
- Did not review proper classification of wages to funds; and
- Did not review and sign payroll registers (by the Controller and/or Treasurer) per City procedures.

Cause: Lack of internal controls over the payroll cycle.

Effect or Potential Effect: The City is exposed to:

- Unauthorized payroll payments made to invalid time submitted in timecard; and
- Material discrepancies not timely identified and evaluated for corrective action.

Repeat of a Prior-Year Finding: No; however related to 2018-004 for unapproved timesheets.

Recommendation: We recommend the City strengthen their procedures in place in relation to the timesheet hours reporting process, where approved timesheets must agree with posted hours in the payroll registers. We recommend the City prepare and implement written uniform policies & procedures across all departments in setting procedures and expectations prescribed to City personnel for payroll time reporting.

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 designed to serve as a system of internal controls including those required by OMB's Uniform Guidance (2CFR 200) in the Payroll and Budget policies.

Planned Implementation Date: June 30, 2022

Responsible Person(s): Sharon Rahban, City Controller

EP's Comment 2020: Partially implemented. Corrective action plan in progress.

2019-026B – Human Resources (MW)

Criteria: Management should adhere to adequate controls in place over required documentation for human resources. City employees shall be compensated for actual qualifying merit and step increases.

Condition: The City:

- Paid wages that were unauthorized; and
- Did not regularly maintain personnel records, where an employee's form I-9 was not certified.

Cause: Lack of internal controls over human resources.

Effect or Potential Effect: The City is exposed to personnel getting under or overpaid.

Repeat of a Prior-Year Finding: No; however related to 2018-038 for qualifying merit and step increase compensation.

Recommendation: We recommend the City strengthen their procedures in place in relation to the documentation and retention of authorized pay, and City certification of employee I-9 forms. We recommend the City prepare and implement written uniform policies & procedures across all departments in setting procedures and expectations prescribed to City personnel for human resources processing.

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 designed to serve as a system of internal controls including those required by OMB's Uniform Guidance (2CFR 200) in the Human Resources policies. In the meantime, the I-9 form issue is being coordinated with City Manager and the Human Resources Department through a consultant hired to assist with the implementation of corrective actions.

Planned Implementation Date: June 30, 2022

Responsible Person(s): City Manager

EP's Comment 2020: Repeat finding. Corrective action plan in progress.

2019-027 – Self-Insurance Liabilities and Expenditures/Expenses (SD)

Criteria: Insurance claims payable amounts agree with supporting documentation and are accurately recorded to the proper account and period. The insurance claims payable reflected on the financial statements represent the actual obligations and liabilities for occurrences that have been incurred.

Condition: The City relies on internal risk management reports and does not perform independent checks, reconciliation, and analytics of estimated recorded liabilities to actual liabilities incurred.

Cause: Lack of independent checks and review of self-insurance liabilities.

Effect or Potential Effect: Material misstatement of recorded amounts if more accurate and current information known by management has not been factored in the report and/or calculation.

Repeat of a Prior-Year Finding: No

Recommendation: The City should perform their own checks and reconciliation of self-insurance claims. We recommend the City develop, document, and implement policies and procedures to ensure the City's proper treatment over self-insurance claims.

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 designed to serve as a system of internal controls in the General Accounting policy.

Planned Implementation Date: June 30, 2022

Responsible Person(s): Risk Manager, and Sharon Rahban, City Controller

EP's Comment 2020: Partially implemented. Corrective action plan in progress.

2019-028 – Cash Disbursements – Payments Based on Quotes (SD)

Criteria: Invoices should go through the proper review and approval process prior to cash disbursement to ensure accuracy and validity of invoice. Per City policy, payments must be processed on original invoices only.

Condition: Payments made were not based on valid supporting documentation and were based on quotes, not original invoices. Of sixty (60) randomly sampled cash disbursements, the City processed two (2) transactions on quotes without the supporting invoice present.

Cause: Weak controls over procurement procedures and cash disbursement and lack of enforcement of City policy.

Effect or Potential Effect: Potential risk of remitting payment for unauthorized expenditures and misuse of City funds.

Repeat of a Prior-Year Finding: 2015-015, 2015-016, 2014-031

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. The City should strengthen its procurement policies and internal controls over cash disbursements and closely monitor staff adherence.

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 designed to serve as a system of internal controls including those required by OMB's Uniform Guidance (2CFR 200) in the Accounts Payable policy.

Planned Implementation Date: June 30, 2022

Responsible Person(s): Sharon Rahban, City Controller

EP's Comment 2020: Partially implemented. Corrective action plan in progress.

2019-029 – Procurement Policy (SD, NC)

Criteria: A current official written policy should be in place for procurement and contracts conforming to applicable federal statutes and the updated procurement requirements per 2 CFR part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance).

Condition: The City does not have a current effective purchasing manual for City-wide use. The City's procurement policy is severely outdated, having been last updated on April 1, 1997 and therefore does not contain the language required by the Uniform Guidance.

Cause: Lack of formal policies and procedures over current required procurement standards and lack of internal controls and adequate staff training on effective requirements set forth by the Uniform Guidance over procurement.

Effect or Potential Effect: Goods or services could be acquired in violation of the administrative requirements federal regulations and other procurement requirements, such as inappropriately acquired from debarred or suspended parties or providers. Failure to document and retain evidence that procurement procedures were followed could result in the need to reimburse federal funds.

Repeat of a Prior-Year Finding: No

Recommendation: We recommend the City establish an official written policy for procurement and contracting and Conflict of Interest Code that are in line with the requirements of the Uniform Guidance. The policy should contain components for compliance with and references to federal requirements, such as language establishing contract files that document significant procurement history; methods of procurement authorized including selection of contract type, contractor selection or rejection, and the basis of contract price; verification that procurements provide full and open competition; requirements for cost or price analysis, including for contract modifications. The City should therefore strengthen its procurement internal controls based on this official written policy.

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 designed to serve as a system of internal controls including those required by OMB's Uniform Guidance (2CFR 200) in the Purchasing policy.

Planned Implementation Date: June 30, 2022

Responsible Person(s): City Manager and Sharon Rahban, City Controller

EP's Comment 2020: Repeat finding. Corrective action plan in progress.

2019-030 – Procurement – Requests for Proposal (RFP) Documentation (SD, NC)

Criteria: Per City Procurement Standard Operating Manual under section III, Authorities, Article XIV, Fiscal Administration, Contracts on Public Works, “Every contract involving an expenditure of more than Seven-Thousand Five-Hundred (\$7,500) Dollars for the construction or improvement (excluding maintenance and repair)... shall be let to the lowest responsible bidder after notice by publication...” and per section X, Retention of Records, “Procurement records shall be maintained sufficient to detail the significant history of a procurement. These records shall include, but are not necessarily limited to information pertinent to the following: rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the cost or price.”

Condition: Ten (10) out of the fifteen (15) contracts tested did not have the requests for proposal (RFP) advertising posted through a public notice at the City website at the time of testing. RFP documentation should be filed and retained at City Clerk’s Office or City website. The City was not able to provide the procurement records upon request. We therefore were unable to verify whether the solicitation of bids were performed at a public domain that complies with the required competitive bidding policy as required by the City Procurement Standard Operating Manual.

Cause: Lack of adequate maintenance of RFP and procurement records at the City website or in an accessible, centralized location.

Effect or Potential Effect: Awarded contracts may have not gone through the formal and authorized procurement process per City policy.

Repeat of a Prior-Year Finding: 2014-034

Recommendation: The City should implement procedures to file and maintain all procurement records in a centralized location in a timely manner.

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 designed to serve as a system of internal controls including those required by OMB’s Uniform Guidance (2CFR 200) in the Purchasing policy.

Planned Implementation Date: June 30, 2022

Responsible Person(s): City Manager

EP’s Comment 2020: Repeat finding. Corrective action plan in progress.

2019-031 – Journal Entries (SD)

Criteria: Journal entries are appropriate and reviewed by an authorized personnel and recorded correctly as to amount, account, and period in accordance with governmental GAAP prior to posting.

Condition: The City has a large volume of journal entries throughout the fiscal year, and EP noted numerous erroneous journal entries indicative of poor and insufficient review prior to posting.

Cause: Instances of poor and insufficient review are a result of vacancies in key positions in the City Controller's Office and time constraints on current personnel.

Effect or Potential Effect: Significant errors could remain undetected and materially misstate the financial statements.

Repeat of a Prior-Year Finding: No

Recommendation: We recommend the City strengthen the review process for journal entries as to accuracy, classification, and period of performance in accordance with governmental GAAP prior to posting.

Management Response and Corrective Action Plan

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

Corrective Action Plan: The City Controller's Office is continuously providing accounting staff training over governmental accounting and finance. In addition, the City will establish and document policies and procedures over journal entries, as included in the General Accounting Policy, which is planned to be implemented in fiscal year 2021.

Planned Implementation Date: June 30, 2022

Responsible Person(s): Sharon Rahban, City Controller

EP's Comment 2020: Partially implemented. Corrective action plan in progress.

2019-032 – Lack of Budgeted Fund Balances (MW)

Criteria: Local governments are subject to a requirement to pass a balanced budget that supports financial sustainability for multiple years into the future. Local governmental should adopt rigorous policies for all operating funds aimed at achieving and maintaining structural balance, where recurring revenues are equal to recurring expenditures in the adopted budget. Non-recurring resources such as asset sales or reserves should not fund ongoing expenditures. Revenues, expenditures, and fund balances – fund resources that are not spent in a prior year that is carried over into the next year as fund balance should be incorporated in the adopted budget.

Condition: The City has not budgeted for fund balances for at least the past ten fiscal years.

Cause: Weakness in internal control over structurally sound balanced budgets.

Effect or Potential Effect: Unsound budgetary procedures can result to deficits across City funds. City programs and services involved with the fund may be curtailed.

Repeat of a Prior-Year Finding: No

Recommendation: We recommend the City strengthen their procedures in place in relation to the budgetary process and conduct necessary training to those involved.

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 designed to serve as a system of internal controls in the General Accounting and Budget policies. In the meantime, the City Controller has coordinated with the City Manager by taking steps so that adequate training is conducted. In addition, the finding is being added to the budget policy which is anticipated to be approved by June 30, 2022 and will be implemented in the staff report for fiscal year 2022 budget book revision.

Planned Implementation Date: June 30, 2022

Responsible Person(s): City Manager and Sharon Rahban, City Controller

EP's Comment 2020: Repeat finding. Corrective action plan in progress.

2019-033 – Turnover and Lack of Consistent Leadership (MW)

Criteria: An entity in a governmental environment must have adequate and consistent, competent leadership demonstrating and exercising oversight responsibility.

Condition: The City has been experiencing a high degree of management turnover for years, since at least 2010, 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 1, 2020, ten different individuals served as City Manager. In addition, the City also experienced numerous turnover of the City Controller position in past years.

The City plans to fill some vacant management positions; however, the position of the City's Human Resources Director has been vacant since at least 2011, significantly delaying the hiring process for critical positions within several City departments.

Cause: The high turnover has contributed to a lack of leadership and, in some cases, a lack of management oversight.

Effect or Potential Effect: In addition to potential effects noted above, for purposes of financial reporting, the City was unable to produce financial statements on a timely basis.

Repeat of a Prior-Year Finding: 2014-062A

Recommendation: In line with SCO's comment, we recommend the City evaluate its hiring practices for its upper management positions. In addition, the City should develop a succession plan that will help it to ensure continued leadership even during management turnover.

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 that include provisions for succession planning. For upper management, the City Manager and City Controller are appointed by the City Council, and all other upper management except the City Treasurer are hired by the City Manager.

Planned Implementation Date: June 30, 2022

Responsible Person(s): City Manager and Sharon Rahban, City Controller

EP's Comment 2020: Repeat finding. Corrective action plan in progress.

2019-034 – 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. IT general controls (ITGC) are basic controls applied to IT systems. The objectives of ITGC are to ensure the integrity of data and processes that the IT systems support. ITGC have a pervasive effect on the City's system of internal control over financial reporting.

Condition: We evaluated the design and implementation of ITGCs and noted 23 findings. We communicated such findings to the IT department. Because those findings reveal vulnerabilities to, or otherwise increase the potential for an attack on, information technology systems of the City, the details of the findings will not be published in this document. They will however be communicated to the City Council via a separate confidential written report.

Repeat of a Prior-Year Finding: 2018-040, 2017-040

Recommendation: Our recommendations will be communicated to the City Council through a separate confidential written report.

Management Response and Corrective Action Plan

City's Response: The City's corrective action plan will be communicated to the City Council through a separate confidential written report. The auditors will follow up on the City's implementation of its corrective action plan in the next audit.

Responsible Person(s): City Manager

EP's Comment 2020: Repeat finding. Corrective action plan in progress.

2018-013 – Bank Reconciliations (MW)

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

Condition: Bank reconciliations are not prepared and reviewed in a timely manner. Bank reconciliations for the period from August 2014 through May 2018 were not prepared. Bank reconciliations for June 30, 2018 were prepared during calendar year 2019. An embezzlement of \$3.72 million discovered in 2016 was not recorded until October 2019.

Cause: Weakness in internal control over reconciliations. 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: 2017-013, 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.

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 designed to serve as a system of internal controls in the Bank Reconciliation policy. In the meantime, the City Controller's Office is examining current processes over bank reconciliations and the proper assignments of responsibilities at key dates each month to be able to catch up on timely preparation by fiscal year 2022.

Planned Implementation Date: June 30, 2022

Responsible Person(s): Sharon Rahban, City Controller

EP's Comment 2020: Repeat finding. Corrective action plan in progress.

2018-014 – Cash – Negative Balances (MW)

Criteria: Negative cash balances occur within a fund when there is mismatch of expenditures and revenue. Since the City pools its cash, other funds (usually the General Fund) will cover temporary negative cash balances through interfund payable/receivable accounts. Interfund payable/receivable accounts should be settled within the current period.

Condition: The City's general ledger reported negative cash balances at June 30, 2018 in excess of \$17 million for various funds including special revenue funds, internal service funds, and debt service funds. These negative cash balances are not appropriate due to the nature of the funds. Interfund payable/receivable amounts were not recorded when necessary.

Cause: Weakness in internal control over reconciliations. Due to the vacancies in key positions in the City Controller's Office, staff fell behind on the monthly reconciliations and monitoring of cash balances.

Effect or Potential Effect: Cash could be materially misstated. Operating cash deficiencies for amounts not properly recorded, reimbursed or transferred.

Repeat of a Prior-Year Finding: No

Recommendation: We recommend the City review cash balances on a regular basis and prepare a plan to eliminate these negative cash balances. Policies and procedures need to be put in place for the regular review of cash balances and the initiation of transfers for reimbursements as needed.

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 designed to serve as a system of internal controls in the Bank Reconciliation policy. In the meantime, the City Controller's Office did research on prior year accounting errors that are to be corrected, including any for the fiscal 2021 audit, and will continue to review the general fund negative balance.

Planned Implementation Date: June 30, 2022

Responsible Person(s): City Manager and Sharon Rahban, City Controller

EP's Comment 2020: Repeat finding. Corrective action plan in progress.

2018-015 – Accounts Receivable Roll Forward Balances (SD)

Criteria: Accounts receivable balances should be properly tracked, recorded, and reviewed in a timely manner to ensure general ledger balances reflect actual amounts receivable.

Condition: The beginning balance in accounts receivable included five accounts with balances totaling \$902,165, which had not changed in five years. Upon investigation, four of these accounts should have been reduced to \$0 in a prior year, and no support could be found for the fifth one.

Cause: Lack of timely review of accounts receivable caused the City to roll forward balances that should have been cleared.

Effect or Potential Effect: Accounts receivable were misstated by at least \$646,677.

Repeat of a Prior-Year Finding: No

Recommendation: The City should implement and maintain procedures to periodically review balance sheet general ledger accounts to ensure that prior period accruals are properly reversed, if necessary, and to review account balances for reasonableness.

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 designed to implement the recommendations. These are anticipated to be ready by the fiscal year 2021 audit. In the meantime, the City Controller's Office has performed a review of receivables to verify ending balances are appropriate, and plan to perform this review annually.

Planned Implementation Date: June 30, 2022

Responsible Person(s): Sharon Rahban, City Controller

EP's Comment 2020: Partially implemented. Corrective action plan in progress.

2018-016 – Notes and Loans Receivable (MW)

Criteria: Management is responsible for establishing and maintaining effective internal control over financial reporting. Internal controls should allow management or employees in the normal course of performing their assigned functions to prevent or detect material misstatements in the financial reporting of all funds. Subsidiary record for notes and loans receivable should be maintained and reconciled to the general ledger on a monthly basis.

Condition: The City did not have procedures in place for a complete and centralized system to track note and loan receivable balances. Payments related to notes and loans to the City are irregular and sporadic nature and are not tracked accurately and regularly with detailed review and approval of loan schedules.

Cause: The City does not have designed internal control procedures for identifying and recording of all notes and loans receivable transactions that would contain a sufficient detail review process to identify loan-related activities throughout the year.

Effect or Potential Effect: There is a potential to miss timely demands related to the notes and loans receivable that are due to the City. Balances of notes receivable may be outdated and are not reported at their net realizable value. Failure to implement a timely and effective reconciliation process over notes and loans receivable could increase the risk of fraud, waste, and mismanagement of funds.

Repeat of a Prior-Year Finding: No

Recommendation: The City should develop and implement procedures for reviewing general account balances in detail regularly throughout the year in addition to implementing a centralized note and loan schedules for an accurate tracking and reconciliation of balances.

Management Response and Corrective Action Plan

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

Corrective Action Plan: The City has drafted policies and procedures designed to serve as a system of internal controls including those required by OMB's Uniform Guidance (2CFR 200), and is awaiting approval of these policies. In the meantime, the City Controller is implementing the accounts receivable module of OneSolution to assist with the tracking and recording of notes and loans receivable. As of fiscal year 2020, the City Controller's Office has prepared a complete list of outstanding loans receivable.

Planned Implementation Date: June 30, 2022 for policy adoption; December 31, 2022 for financial software implementation

Responsible Person(s): Aubrey Relf, City Grants Compliance Manager and Sharon Rahban, City Controller

EP's Comment 2020: Repeat finding. Corrective action plan in progress.

2018-017 – First Time Home Buyer (FTHB) Loan Program (MW)

Criteria: First Time Home Buyer loans are to be recorded once awarded, and tracked for repayment. The City's First Time Homebuyers Program Guidelines state that moderate income FTHB loans are limited to \$100,000.

Condition: First time home buyer loan programs are not adequately tracked. Loan payments have not been properly applied to individual loans. The amount of collections during each year were recorded on the client's schedule in the year received. As a result, the actual loan balance for any specific loan is not known. There were numerous moderate income loans awarded between 2007 and 2011 that exceeded the maximum of \$100,000. The excess loan awards totaled \$2.8 million in those years.

Cause: Lack of timely tracking of loan payments and significant turnover in the Controller's Office. Inadequate staff training and ineffective controls over loan program.

Effect or Potential Effect: Loans receivable could be materially misstated, as well as the related income statement accounts including revenue and loan write-off expense. Loans totaling \$2.8 million were disbursed that did not comply with the City's program guidelines.

Repeat of a Prior-Year Finding: No

Recommendation: The City should have designated staff who are familiar with the First Time Home Buyer Loan Program administering the program and to properly account for any loans receivable outstanding. In addition, the City should have designated staff to ensure that the City is in compliance with the program guidelines.

Management Response and Corrective Action Plan

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

Corrective Action Plan: The Grants Division has hired a consulting firm to assist with the administration and implementation of the FTHB and Rehab programs. Additionally, the consulting firm will provide technical assistance and training to Grants Division staff on the correct implementation of the FTHB program in compliance with all grant regulations.

Planned Implementation Date: Implemented December 17, 2019

Responsible Person(s): Aubrey Relf, City Grants Manager, and Sharon Rahban, City Controller

EP's Comment 2020: Implemented.

2018-018 – Grants Receivable (MW)

Criteria: Management is responsible for establishing and maintaining effective internal control over financial reporting. Internal controls should allow management or employees in the normal course of performing their assigned functions to prevent or detect material misstatements in the financial reporting of all funds. Grant receivables should be reviewed and adjusted on a regular period basis. Reimbursement of grant expenditures and drawdowns receivable need to be made timely and recorded in the general ledger as grants receivable and relieved once the funds have been collected.

Condition: The City did not have procedures in place for detailed preparation, review, and approval of its grants receivable balances. There is no grant schedule for an adequate and centralized tracking of the activity of grants awarded to the City, and supporting documentation such as effective grant agreements were unable to be provided. Moreover, certain grant receivable balances have been rolled forward since at least from June 30, 2014, and indicate the potential for the receivable balances to be materially misstated.

Cause: The City does not have internal control procedures for identifying and recording of all grant-related transactions that would contain a sufficient detail review process to identify grant-related activities throughout the year.

Effect or Potential Effect: Failure to implement a timely and effective reconciliation process over grants could increase the risk of fraud, waste, and mismanagement of funds. Inaccurate reporting of grant-related balances could affect the City's ability to effectively monitor budget executions and exposes itself to possible grant sanctions.

Repeat of a Prior-Year Finding: No

Recommendation: Procedures over accounting for grants should be strengthened in order to accurately present grant activity and the related grant receivable and unearned revenue account balances. The City should implement a process, where all grant-related schedules are prepared and maintained, subject to detailed regular review and approval throughout the year.

Management Response and Corrective Action Plan

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

Corrective Action Plan: The Grants Division will utilize its new procedures manual processes for Loan Receivables, SEFA preparation and centralized grants system and database to assist the City Controller's Office with the annual reconciliation of all Grants receivables and unearned Grant revenue balances.

Planned Implementation Date: June 30, 2021

Responsible Person(s): Aubrey Relf, City Grants Manager, and Sharon Rahban, City Controller

EP's Comment 2020: Implemented.

2018-019 – Utilities Allowance for Doubtful Accounts (SD)

Criteria: Allowance for doubtful accounts should be assessed on a regular basis and adjusted to reflect amounts expected to be uncollectible.

Condition: The allowances for doubtful accounts for the proprietary funds have not been adjusted since fiscal year 2014. The City's allowance calculation indicates that balances are understated by approximately \$270,000 in total for all proprietary funds.

Cause: Lack of timely review of accounts and lack of staff training. Accounts were not adjusted to reflect computed estimate of uncollectable balances.

Effect or Potential Effect: The allowance for doubtful accounts could be materially misstated, causing accounts receivable and revenue to be materially overstated.

Repeat of a Prior-Year Finding: No

Recommendation: The City should implement and maintain procedures to periodically review balance sheet general ledger accounts to ensure that balances are properly adjusted.

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 designed to serve as a system of internal controls. In the meantime, the City Controller's Office has conducted training over utilities allowance for doubtful accounts, and will continue to provide training to ensure correct reporting in the future.

Planned Implementation Date: June 30, 2022

Responsible Person(s): Brian Dickinson, Water Department General Manager and Sharon Rahban, City Controller

EP's Comment 2020: Partially implemented. Corrective action plan in progress.

2018-020 – Prepaid Expenses and Roll Forward Balances (SD)

Criteria: Prepaid expenses should be initially be recorded as a debit, then credited once the expense is incurred.

Condition: Several prepaid expense accounts have credit balances. The beginning balance in some prepaid expense accounts was not cleared within the fiscal year and a standing balance rolled forward from the prior year.

Cause: Prepaid expense accounts were not reviewed in a timely manner, and staff was not appropriately trained.

Effect or Potential Effect: Prepaid expenses were materially misstated.

Repeat of a Prior-Year Finding: No

Recommendation: The City should implement and maintain procedures to periodically review balance sheet general ledger accounts to ensure that prior period accruals were properly reversed and not posted against incorrect accounts.

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 designed to serve as a system of internal controls. In the meantime, the City Controller's Office has conducted training over prepaid expenses and roll forward balances, and plans to continue to provide annual training.

Planned Implementation Date: June 30, 2022

Responsible Person(s): Brian Dickinson, Water Department General Manager and Sharon Rahban, City Controller

EP's Comment 2020: Partially implemented. Corrective action plan in progress.

2018-021 – Interfund Balances (SD)

Criteria: Interfund balances should be recorded as transactions occur, and reviewed and reconciled in a timely manner.

Condition: Interfund balances such as Due To/Due From have not been adjusted since fiscal year 2016.

Cause: Lack of timely review of account balances, and significant turnover in Controller's Office staff.

Effect or Potential Effect: Misstatement of account balances and or fund balances. Operating cash deficiencies for amounts not properly cleared or transferred.

Repeat of a Prior-Year Finding: No

Recommendation: The City should have designated staff to track interfund balances and ensure these balances are reconciled.

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 designed to serve as a system of internal controls including those required by OMB's Uniform Guidance (2CFR 200) in the General Accounting policy. These are anticipated to be adopted by June 30, 2022. In the meantime, the City Controller's Office has verified and reconciled existing interfund balances as of the fiscal year 2020 audit.

Planned Implementation Date: June 30, 2022

Responsible Person(s): Sharon Rahban, City Controller

EP's Comment 2020: Partially implemented. Corrective action plan in progress.

2018-022 – Interfund Balances – Advances to/from Repayment (MW)

Criteria: The City should adhere to the terms specified by resolution regarding the repayment of interfund borrowing.

Condition: The City has not continued the payments on the advances payable balances per the repayment agreement adopted with Resolution 23,970.

Cause: The City’s general fund had insufficient cash available to comply with the agreement.

Effect or Potential Effect: Noncompliance with Resolution 23,970. Cash is not available for its intended purposes.

Repeat of a Prior-Year Finding: No

Recommendation: We recommend the City review the repayment plan and develop a realistic plan to repay borrowed funds.

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 designed to implement the recommendation. In the meantime, the City Controller’s Office is taking necessary steps to address the above noted finding by:

- Researching the history of the negative fund balance in the General Fund to determine whether any adjustments made in the past has caused this error;
- Preparing a full-cost allocation plan to analyze the history of General Fund activity of payments and overpayments that may include identification of reimbursements due to the General Fund on behalf of other funds;
- Coordinating with the City Manager’s Office on revenue-generating initiatives;
- Extending the term and prioritizing the funds to be addressed first; and
- Determine the excess of revenues over expenditures for fiscal year 2020 and allocate a portion to the interfund loan repayment.

Planned Implementation Date: June 30, 2022

Responsible Person(s): City Manager and Sharon Rahban, City Controller

EP’s Comment 2020: Partially implemented. Corrective action plan in progress.

2018-023 – Capital Assets (MW)

Criteria: Management is responsible for establishing and maintaining effective internal control over financial reporting. Internal controls should allow management or employees in the normal course of performing their assigned functions to prevent or detect material misstatements in the financial reporting of all funds.

Complete capital asset records should be maintained and an inventory of capital assets should be performed periodically.

Condition: The City has not maintained its capital asset records for several years. Depreciation was not been recorded and there have been no additions to capital assets or retirements of capital assets in the general ledger since 2015. In addition, the City does not have a formal process for capitalizing assets and the City was unable to provide documentation of when the last physical inventory of capital assets was performed.

Cause: The City has experienced significant turnover in the Controller's Office. When a staff person leaves, those 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: Capital assets might be significantly misstated.

Repeat of a Prior-Year finding: 2015-018, 2015-019, 2015-020, 2014-060A, 2014-087B, 2013-001

Recommendation: We recommend that the capital asset subsidiary ledger and the general ledger be brought up to date. It may be necessary to hire an outside company to prepare a complete inventory of assets and to establish the estimated cost basis and date of acquisition, if sufficient records are not available to reconstruct the asset detail. In addition, we recommend that capital asset software be obtained to maintain accountability of capital assets and to compute depreciation. Currently, Excel spreadsheets are being used for this purpose.

We also recommend the City develop and implement 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.

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 designed to serve as a system of internal controls including those required by OMB's Uniform Guidance (2CFR 200) in the policies. These are anticipated to be ready by December 31, 2022. In the meantime, the City has started on the planning for the capital asset valuation and implementation of the capital assets module of OneSolution.

Planned Implementation Date: December 31, 2022

Responsible Person(s): Sharon Rahban, City Controller

EP's Comment 2020: Repeat finding. Corrective action plan in progress.

2018-024 – Land Held for Resale (SD)

Criteria: Land held for resale should be tracked and regularly updated in the accounting records.

Condition: The City was unable to provide a listing of properties or any supporting documentation to support the carrying value. The account for Land Held for Resale has not been updated in fiscal year 2018.

Cause: Land held for resale of \$16,137,052 in the governmental activities and \$17,569,190 in the Successor Agency private-purpose trust fund was not reviewed in a timely manner, and staff was not appropriately trained.

Effect or Potential Effect: Land held for resale could be materially misstated.

Repeat of a Prior-Year Finding: No

Recommendation: The City should have a designated staff to keep track of land held for resale and regularly update and maintain the schedule.

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 designed to serve as a system of internal controls. In the meantime, the City Controller's Office has completed the finding above by taking inventory, updating, and reconciling the land held for resale schedule to the general ledger on time for the fiscal year 2020 audit.

Planned Implementation Date: June 30, 2022

Responsible Person(s): Sharon Rahban, City Controller

EP's Comment 2020: Partially implemented. Corrective action plan in progress.

2018-025 – Accounts Payable Supporting Documentation (SD)

Criteria: Supporting documentation should be retained for all accounts payable transactions.

Condition: The City was unable to provide requested supporting documentation for four items from accounts payable and subsequent disbursements.

Cause: The City has experienced significant turnover in the Controller's Office. Supporting documentation was either not retained or it was not filed appropriately.

Effect or Potential Effect: Accounts payable and the related income statement accounts could be misstated.

Repeat of a Prior-Year Finding: No

Recommendation: The City should implement and maintain procedures to ensure that appropriate supporting documents are retained and accessible.

Management Response and Corrective Action Plan

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

Corrective Action Plan: The Controller's Office has restructured the entire Accounts Payable filing system. The new system makes it easy to produce supporting documentation at a moment's notice. The Accounts Payable staff is charged with maintaining this system. 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).

Planned Implementation Date: June 30, 2021

Responsible Person(s): Sharon Rahban, City Controller

EP's Comment 2020: Implemented.

2018-026 – Accrued Interest (SD)

Criteria: Interest related to fiduciary fund long-term debt should be accrued, and interest related to governmental fund long-term debt should not be accrued, according to governmental GAAP. Accrued interest related to governmental fund long-term debt should be included in the government-wide presentation of the financial statements. Accruals should be reversed in the following fiscal year.

Condition: The City did not accrue interest for fiduciary fund related long-term debt in accordance with governmental GAAP. The City accrued interest for governmental fund related long-term debt, which is not in accordance with governmental GAAP. The City did not account for accrued interest related to governmental fund long-term debt for government-wide presentation. In addition, the fiscal year 2015 accrual had not been reversed.

Cause: Inadequate staff training and ineffective supervision and review. The staff member preparing the accruals did not know that interest should be accrued on an accretion bond.

Effect or Potential Effect: Accrued interest and interest expense was misstated.

Repeat of a Prior-Year Finding: No

Recommendation: The City should ensure that its staff is provided with the appropriate training in order to successfully perform their assigned duties, including appropriate governmental accounting training. In addition, work performed by staff members should be reviewed by someone with a firm understanding of governmental GAAP.

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 designed to serve as a system of internal controls in the General Accounting policy detailing the understanding of the treatment between modified accrual and full accrual accounting. This will ensure interest payable is properly recorded in the correct account group instead of in the Debt Service Fund. Training has been provided to staff as of fiscal year 2020.

Planned Implementation Date: June 30, 2022

Responsible Person(s): Sharon Rahban, City Controller

EP's Comment 2020: Partially implemented. Corrective action plan in progress.

2018-027 – Accrued Payroll (MW)

Criteria: Management is responsible for establishing and maintaining effective internal control over financial reporting. Internal controls should allow management or employees in the normal course of performing their assigned functions to prevent or detect material misstatements in the financial reporting of all funds.

Accrued payroll should be reversed at the beginning of the following fiscal year.

Condition: The City did not reverse fiscal year 2015 accrued payroll balances, which resulted in a \$1 million prior period adjustment.

Cause: Inadequate staff training and ineffective supervision and review.

Effect or Potential Effect: Accrued payroll was materially misstated. In addition, the budget process could be affected due to an inaccurate balance in accrued payroll.

Repeat of a Prior-Year Finding: No

Recommendation: The City should implement and maintain procedures to periodically review balance sheet general ledger accounts to ensure that prior period accruals were properly reversed.

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 designed to serve as a system of internal controls required by OMB's Uniform Guidance (2CFR 200) in the General Accounting policy. These are anticipated to be ready by November 30, 2020. In the meantime, the City Controller will provide training to staff and has made corrections to this audit area during the fiscal year 2020 audit.

Planned Implementation Date: June 30, 2022

Responsible Person(s): Sharon Rahban, City Controller

EP's Comment 2020: Partially implemented. Corrective action plan in progress.

2018-028 – Accrued Liabilities (MW)

Criteria: Management is responsible for establishing and maintaining effective internal control over financial reporting. Internal controls should allow management or employees in the normal course of performing their assigned functions to prevent or detect material misstatements in the financial reporting of all funds.

Liabilities incurred but not paid as of year-end should be accrued as a liability.

Condition: Subsequent disbursements totaling in excess of \$600,000 were identified that pertained to fiscal year 2018 that were not included in accounts payable or accrued liabilities.

Cause: The City does not have an effective system to capture and record accounts payable and accrued liabilities.

Effect or Potential Effect: Accrued liabilities were materially understated.

Repeat of a Prior-Year Finding: 2015-029, 2013-001 (2. e.)

Recommendation: The City should implement and maintain procedures to identify and record accrued liabilities. This may require additional software or training on the use of current software.

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 designed to serve as a system of internal controls including those required by OMB's Uniform Guidance (2CFR 200) in the General Accounting policy. In the meantime, the City is working with OneSolution to establish settings and make this an automated procedure. In addition, the City Controller is planning to conduct training over the treatment and recording of accrued liabilities and plans to have this audit area corrected and completed for the fiscal year 2022 audit.

The City will implement a policy for the City Controller's Office to follow up with the City Attorney's Office on a quarterly basis for claims that were incurred but not reported on our actuarial report. This will ensure that the actuarial report is capturing complete information.

Planned Implementation Date: June 30, 2022

Responsible Person(s): Sharon Rahban, City Controller

EP's Comment 2020: Repeat finding. Corrective action plan in progress.

2018-029 – Retentions Payable (SD)

Criteria: Management is responsible for establishing and maintaining effective internal control over financial reporting. Internal controls should allow management or employees in the normal course of performing their assigned functions to prevent or detect material misstatements in the financial reporting of all funds.

Retention payable should be credited when incurred, and debited when paid.

Condition: Retention payable balances have not been adjusted since fiscal year 2016.

Cause: Inadequate staff training and ineffective supervision and review.

Effect or Potential Effect: Retention payable could be materially misstated, causing expenses and related balance sheet accounts to be materially misstated as well.

Repeat of a Prior-Year Finding: No

Recommendation: The City should have the staff assigned to contract management also track retention payable. Retention payable should also be reviewed, analyzed, and adjusted to be more relevant to the ending balance of fiscal year 2018.

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 designed to serve as a system of internal controls required by OMB's Uniform Guidance (2CFR 200) in the General Accounting and Accounts Payable policies. In the meantime, the City Controller has conducted training for staff to address this audit area.

Planned Implementation Date: June 30, 2022

Responsible Person(s): Sharon Rahban, City Controller

EP's Comment 2020: Partially implemented. Corrective action plan in progress.

2018-030 – Payables and Expenses – Deposits (SD)

Criteria: Deposit balances should be properly tracked, recorded, and reviewed in a timely manner to ensure general ledger balances reflect actual deposits.

Condition: Prior-year deposits balance carried forward to FY18. Deposits lack status reports of occurrence and revenue clarification.

Cause: Lack of timely review and tracking of deposits.

Effect or Potential Effect: Deposit balances may be materially misstated, and there could be potential unrecognized revenues.

Repeat of a Prior-Year Finding: No

Recommendation: The City should maintain a deposits schedule and review it periodically to ensure that revenues are recorded in the correct period.

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 designed to serve as a system of internal controls required by OMB's Uniform Guidance (2CFR 200) in the General Accounting policy. In the meantime, the City Controller has conducted training for staff to address this audit area.

Planned Implementation Date: June 30, 2022

Responsible Person(s): City Manager and Sharon Rahban, City Controller

EP's Comment 2020: Partially implemented. Corrective action plan in progress.

2018-031 – Payables and Expenses – Special Revenue Funds Expenditures are not Budgeted (MW)

Criteria: The City should budget for all of its funds to ensure adequate short- and long-term sound financial planning to effectively manage fiscal operations.

Condition: The City does not budget their expenditures for all the special revenue funds. There is no monitoring of carryover balances and expenditures.

Cause: Lack of oversight in the implementation of proper and accurate budgetary process over Special Revenue Funds expenditures.

Effect or Potential Effect: Overspending of City funds resulting to reduced resources for intended purposes of the city's ongoing operations.

Repeat of a Prior-Year Finding: No

Recommendation: We recommend the City review all active funds and for current activities and include them in the annual budget for appropriations and monitoring of expenditures. The City should update their policies and procedures for annual budget preparations.

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 designed to serve as a system of internal controls required by OMB's Uniform Guidance (2CFR 200) in the Budget policy. In the meantime, the City Controller's Office has implemented IT, budget, and manual controls in order to prevent overspending.

Planned Implementation Date: June 30, 2022

Responsible Person(s): City Manager and Sharon Rahban, City Controller

EP's Comment 2020: Partially implemented. Corrective action plan in progress.

2018-033 – Deferred Grant Revenues (SD)

Criteria: Management is responsible for establishing and maintaining effective internal control over financial reporting. Internal controls should allow management or employees in the normal course of performing their assigned functions to prevent or detect material misstatements in the financial reporting of all funds. Deferred grant revenues should be recorded or adjusted as part of year-end closing procedures.

Condition: Deferred grant revenues have not been adjusted since fiscal year 2014. Actual current year deferred grant revenues are unknown.

Cause: There appears to be a lack of communication between the Grants Division and Controller's Office. No one was assigned to track and record appropriate transactions. Year-end accruals are not properly reversed at the beginning of the next fiscal year. Inadequate staff training and ineffective supervision and review.

Effect or Potential Effect: Deferred grant revenues and the related revenue accounts could be materially misstated.

Repeat of a Prior-Year Finding: No

Recommendation: The Controller's Office and Grants Division should work closely together to ensure proper communication between each other. We recommend the City analyze the fiscal year 2014 balance and determine if any of the balance would still be considered deferred grant revenue. Otherwise, the balance should be adjusted to reflect fiscal year 2018 balances.

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 designed to serve as a system of internal controls required by OMB's Uniform Guidance (2CFR 200) in the General Accounting policy. In the meantime, the City Controller's Office is addressing the finding above by updating and reconciling the grants receivable schedule to the general ledger on time for the fiscal year 2020 audit. In addition, the City Controller proposes to implement the accounts receivable module of OneSolution to assist with the tracking and recording of grants receivable and continuously providing training to staff.

Planned Implementation Date: June 30, 2022 for policy adoption; December 31, 2022 for financial software implementation

Responsible Person(s): Sharon Rahban, City Controller

EP's Comment 2020: Repeat finding. Corrective action plan in progress.

2018-034 – Bonds Payable (SD)

Criteria: Management is responsible for establishing and maintaining effective internal control over financial reporting. Internal controls should allow management or employees in the normal course of performing their assigned functions to prevent or detect material misstatements in the financial reporting of all funds.

Payments on accretion bonds should be allocated between the portion that is a reduction of long-term debt and the portion that represents interest expense.

Condition: The City understated its liability for the 1995C Accretion Bonds. The full amount of the debt service payment was applied to principal and no interest expense was recorded on the bond for the fiscal years ended June 30, 2016, 2017 and 2018.

Cause: Inadequate staff training and ineffective supervision and review.

Effect or Potential Effect: Long-term debt and interest expense were understated.

Repeat of a Prior-Year Finding: No

Recommendation: Payments on the 1995C Accretion Bonds should be properly recorded as interest and principal in accordance with the accreted value schedule.

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 designed to serve as a system of internal controls required by OMB's Uniform Guidance (2CFR 200) in the General Accounting policy. In the meantime, the City Controller will provide training to staff and plans to correct this audit area for the fiscal year 2021 audit.

Planned Implementation Date: June 30, 2022

Responsible Person(s): Sharon Rahban, City Controller

EP's Comment 2020: Partially implemented. Corrective action plan in progress.

2018-035 – Bond Refunding (MW)

Criteria: Management is responsible for establishing and maintaining effective internal control over financial reporting. Internal controls should allow management or employees in the normal course of performing their assigned functions to prevent or detect material misstatements in the financial reporting of all funds. Infrequent transactions, such as a bond defeasance, should receive extra supervision and review to ensure proper recording.

Condition: Proceeds from a bond defeased in a prior year were recorded as an asset in City records rather than as a source of funds. In addition, the liability was not removed from the government wide debt accounts.

Cause: Lack of supervision and review of a significant, infrequent transaction.

Effect or Potential Effect: Public finance authority assets and fund balance were overstated by \$34.4 million and government wide assets and long-term debt were overstated.

Repeat of a Prior-Year Finding: No

Recommendation: The City should ensure that infrequent transactions are reviewed in detail by individuals with a firm understanding of GASB standards.

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 designed to serve as a system of internal controls required by OMB's Uniform Guidance (2CFR 200) in the General Accounting policy. In the meantime, the City Controller has provided training to staff based on the GFOA GAAFR/Blue Book, and has corrected this audit area for the fiscal year 2020 audit.

Planned Implementation Date: June 30, 2022

Responsible Person(s): Sharon Rahban, City Controller

EP's Comment 2020: Partially implemented. Corrective action plan in progress.

2018-036 – Bond Compliance (MW)

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: The City and the Successor Agency were not in compliance with reporting provisions of the indentures for various bonds for the fiscal year ended June 30, 2018 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. 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 2018 and as such was not in compliance with Section 5. 11 (c) of the Indenture.

Cause: Weaknesses in internal control over compliance.

Effect or Potential Effect: Bonds could be deemed in default and could become due and payable.

Repeat of a Prior-Year Finding: 2013-003

Recommendation: We recommend 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.

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 designed to serve as a system of internal controls in the General Accounting policy. In the meantime, the City Controller's Office performed training on debt covenant testing and staff performed the testing while preparing for fiscal year 2020 audit, and will continue to provide this training in the future.

Planned Implementation Date: June 30, 2022

Responsible Person(s): Sharon Rahban, City Controller

EP's Comment 2020: Repeat finding. Corrective action plan in progress.

2018-037 – Fund Balance – Negative Fund Balances (MW)

Criteria: The City should operate to maintain adequate fund balances in all of its funds to mitigate current and future risks, such as revenue shortfalls and unanticipated expenditures.

Condition: There are negative fund balances for various funds including the general fund, grant funds, nonmajor governmental funds, and internal service funds.

Cause: Weakness in internal control over operational spending and lack of consideration of long-term financial planning.

Effect or Potential Effect: The deficits could have a significant effect on operations on a go-forward basis. City programs and services involved with the fund may be curtailed.

Repeat of a Prior-Year Finding: 2014-049A

Recommendation: We recommend that management review the negative fund balances and the affected operations to make provisions to eliminate the deficit balances going forward.

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 designed to serve as a system of internal controls in the General Accounting policy. In the meantime, the City Controller's Office is performing investigations to determine how the negative fund balances came about to eliminate the deficit balances going forward. Fiscal sustainability plan elements have been brought to the attention of the Finance Committee attention and are pending approval by City Council. The City Controller has recommended to the City Manager to add a position for the Economic Development Director to the fiscal year 2023 budget.

Planned Implementation Date: June 30, 2023

Responsible Person(s): City Manager and Sharon Rahban, City Controller

EP's Comment 2020: Repeat finding. Corrective action plan in progress.

2018-038 – Human Resources – Employee Compensation (MW)

Criteria: City employees shall be compensated for actual qualifying merit and step increases.

Condition: Based on our interview of management, there was insufficient internal control over employee compensation. It appears that some employees who qualified for step increases were not compensated as such, and other employees who were not qualified for pay increases were given raises. In addition, certain employees are receiving full compensation despite being on leave for an extended period of time.

Cause: Weakness in internal control over the application pay rates and lack of proper supervision and review of such changes in the payroll system.

Effect or Potential Effect: Employees are receiving incorrect compensation. Payroll expenditures and City financial statements could be materially misstated.

Repeat of a Prior-Year Finding: 2014-017, 2014-27

Recommendation: The City needs to do an in-depth review of all employee files and compensation to review the appropriateness of current pay and benefit being paid.

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 designed to serve as a system of internal controls required by OMB's Uniform Guidance (2CFR 200) in the Human Resources policies. In the meantime, the I-9 form issue is being handled by the Human Resources Department through a consultant hired to assist to implement corrective actions.

Planned Implementation Date: June 30, 2023

Responsible Person(s): City Manager

EP's Comment 2020: Repeat finding. Corrective action plan in progress.

2018-039 – Management Oversight and Control – Payroll Segregation of Duties (MW)

Criteria: There should be a segregation of incompatible responsibilities.

Condition: The Controller's Office Department was calculating and updating pay rate step schedule payroll information instead of the Human Resources Department, violating segregation of duties.

Cause: Lack of proper management oversight and control over crucial areas prone for erroneous and fraudulent transactions.

Effect or Potential Effect: Opportunity exists for erroneous and fraudulent transaction activities to be perpetrated.

Repeat of a Prior-Year Finding: No (However: 2014-038 Cash Disbursements Segregation of Duties, 2014-042 Cash Receipt Segregation of Duties, 2014-058A Lack of Segregation of Duties)

Recommendation: Human Resources should be responsible for calculating pay rates and maintaining updated employee personnel files with payroll changes.

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 designed to serve as a system of internal controls required by OMB's Uniform Guidance (2CFR 200) in the Human Resources polices. In the meantime, the I-9 form issue is being handled by the Human Resources Department through a consultant hired to assist to implement corrective actions.

Planned Implementation Date: June 30, 2023

Responsible Person(s): City Manager

EP's Comment 2020: Repeat finding. Corrective action plan in progress.

2018-040 – 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. IT general controls (ITGC) are basic controls applied to IT systems. The objectives of ITGC are to ensure the integrity of data and processes that the IT systems support. ITGC have a pervasive effect on the City's system of internal control over financial reporting.

Condition: We evaluated the design and implementation of ITGCs and noted 23 findings. We communicated such findings to the IT department. Because those findings reveal vulnerabilities to, or otherwise increase the potential for an attack on, information technology systems of the City, the details of the findings will not be published in this document. They will however be communicated to the City Council via a separate confidential written report.

Repeat of a Prior-Year Finding: Yes

Recommendation: Our recommendations will be communicated to the City Council through a separate confidential written report.

Management Response and Corrective Action Plan

City's Response: The City's corrective action plan will be communicated to the City Council through a separate confidential written report. The auditors will follow up on the City's implementation of its corrective action plan in the next audit.

Responsible Person(s): City Manager

EP's Comment 2020: Repeat finding. Corrective action plan in progress.

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: 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.

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 designed to serve as a system of internal controls in the Bank Reconciliation policy. In the meantime, the City Controller’s Office is examining current processes over bank reconciliations and the proper assignments of responsibilities at key dates each month to be able to catch up on timely preparation by fiscal year 2022.

Planned Implementation Date: June 30, 2022

Responsible Person(s): Sharon Rahban, City Controller

EP’s Comment 2020: Repeat finding. Corrective action plan in progress.

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. IT general controls (ITGC) are basic controls applied to IT systems. The objectives of ITGC are to ensure the integrity of data and processes that the IT systems support. ITGC have a pervasive effect on the City's system of internal control over financial reporting.

Condition: We evaluated the design and implementation of ITGCs and noted 23 findings. We communicated such findings to the IT department. Because those findings reveal vulnerabilities to, or otherwise increase the potential for an attack on, information technology systems of the City, the details of the findings will not be published in this document. They will however be communicated to the City Council via a separate confidential written report.

Repeat of a Prior-Year Finding: Yes

Recommendation: Our recommendations will be communicated to the City Council through a separate confidential written report.

Management Response and Corrective Action Plan

City's Response: The City's corrective action plan will be communicated to the City Council through a separate confidential written report. The auditors will follow up on the City's implementation of its corrective action plan in the next audit.

Responsible Person(s): City Manager

EP's Comment 2020: Repeat finding. Corrective action plan in progress.

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: 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.

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 designed to serve as a system of internal controls in the Bank Reconciliation policy. In the meantime, the City Controller's Office is examining current processes over bank reconciliations and the proper assignments of responsibilities at key dates each month to be able to catch up on timely preparation by fiscal year 2022.

Planned Implementation Date: June 30, 2022

Responsible Person(s): Sharon Rahban, City Controller

EP's Comment 2020: Repeat finding. Corrective action plan in progress.

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: 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.

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 designed to serve as a system of internal controls in the Bank Reconciliation policy. In the meantime, the City Controller's Office is examining current processes over bank reconciliations and the proper assignments of responsibilities at key dates each month to be able to catch up on timely preparation by fiscal year 2022.

Planned Implementation Date: June 30, 2022

Responsible Person(s): Sharon Rahban, City Controller

EP's Comment 2020: Repeat finding. Corrective action plan in progress.

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.

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 designed to serve as a system of internal controls required by OMB's Uniform Guidance (2CFR 200) in the General Accounting and Bank Reconciliation policies. In the meantime, training is underway address this finding for the fiscal year 2021 audit. Additionally, a procedure has been implemented in the General Accounting Division to propose the journal entry at the time of wire transfer initiation; the journal entry will be approved and posted after wire transfer confirmation is received.

Planned Implementation Date: June 30, 2022

Responsible Person(s): Sharon Rahban, City Controller

EP's Comment 2020: Repeat finding. Corrective action plan in progress.

2015-015 – Cash Disbursements – 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: 2014-031

Recommendation: The City should strengthen its monitoring of City staff adhering to City policy.

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 designed to serve as a system of internal controls including those required by OMB's Uniform Guidance (2CFR 200) in the Accounts Payable policy.

Planned Implementation Date: June 30, 2022

Responsible Person(s): Sharon Rahban, City Controller

EP's Comment 2020: Partially implemented. Corrective action plan in progress.

2015-016 – Cash Disbursements – 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.

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 designed to serve as a system of internal controls including those required by OMB's Uniform Guidance (2CFR 200) in the Accounts Payable policy.

Planned Implementation Date: June 30, 2021

Responsible Person(s): Sharon Rahban, City Controller

EP's Comment 2020: Implemented.

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 Controller's Office. 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: 2014-060A, 2014-087B, 2013-001 (1.b.)

Recommendation: Capital asset records should be maintained on a regular periodic basis. Controller's Office 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 the City start the process by assigning a qualified staff to bring records up to date and maintain.

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 designed to serve as a system of internal controls including those required by OMB's Uniform Guidance (2CFR 200) in the policies. These are anticipated to be ready by December 31, 2022. In the meantime, the City has started on the planning for the capital asset valuation and implementation of the capital assets module of OneSolution.

Planned Implementation Date: December 31, 2022

Responsible Person(s): Sharon Rahban, City Controller

EP's Comment 2020: Repeat finding. Corrective action plan in progress.

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 Controller's Office. 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: 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 the City start the process by assigning a qualified staff to bring records up to date and maintain.

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 designed to serve as a system of internal controls including those required by OMB's Uniform Guidance (2CFR 200) in the policies. These are anticipated to be ready by December 31, 2022. In the meantime, the City has started on the planning for the capital asset valuation and implementation of the capital assets module of OneSolution.

Planned Implementation Date: December 31, 2022

Responsible Person(s): Sharon Rahban, City Controller

EP's Comment 2020: Repeat finding. Corrective action plan in progress.

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: 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.

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 designed to serve as a system of internal controls including those required by OMB's Uniform Guidance (2CFR 200) in the policies. These are anticipated to be ready by December 31, 2022. In the meantime, the City has started on the planning for the capital asset valuation and implementation of the capital assets module of OneSolution.

Planned Implementation Date: December 31, 2022

Responsible Person(s): Sharon Rahban, City Controller

EP's Comment 2020: Repeat finding. Corrective action plan in progress.

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.

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 designed to serve as a system of internal controls required by OMB's Uniform Guidance (2CFR 200) in the Accounts Payable policy. These are anticipated to be ready by June 30, 2022. Additionally, the City will complete a valuation of fixed assets by June 30, 2022, and implementation of a fixed asset module by December 31, 2022.

Planned Implementation Date: December 31, 2022

Responsible Person(s): Sharon Rahban, City Controller

EP's Comment 2020: Repeat finding. Corrective action plan in progress.

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.

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 designed to serve as a system of internal controls required by OMB's Uniform Guidance (2CFR 200) in the Accounts Payable policy.

Planned Implementation Date: June 30, 2022

Responsible Person(s): Sharon Rahban, City Controller

EP's Comment 2020: Partially implemented. Corrective action plan in progress.

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.

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 designed to serve as a system of internal controls required by OMB's Uniform Guidance (2CFR 200) in the Accounts Payable policy.

Planned Implementation Date: June 30, 2022

Responsible Person(s): Sharon Rahban, City Controller

EP's Comment 2020: Partially implemented. Corrective action plan in progress.

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.

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 designed to serve as a system of internal controls required by OMB's Uniform Guidance (2CFR 200) in the General Accounting policy. The City debt policy will be adopted by June 30, 2021. In the meantime, the City Controller's Office has addressed the finding above by conducting necessary training of staff and made corrections to this finding for the fiscal year 2020 audit.

Planned Implementation Date: June 30, 2022

Responsible Person(s): Sharon Rahban, City Controller

EP's Comment 2020: Partially implemented. Corrective action plan in progress.

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).

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 designed to serve as a system of internal controls required by OMB's Uniform Guidance (2CFR 200) in the General Accounting policy. In the meantime, the City Controller's Office has addressed the finding above by conducting necessary training of staff and corrected this finding for the fiscal year 2020 audit.

Planned Implementation Date: June 30, 2022

Responsible Person(s): Sharon Rahban, City Controller

EP's Comment 2020: Partially implemented. Corrective action plan in progress.

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.

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 designed to serve as a system of internal controls required by OMB's Uniform Guidance (2CFR 200) in the General Accounting policy. In the meantime, the City Controller's Office has addressed the finding above by conducting necessary training of staff, and corrected this finding for the fiscal year 2020 audit.

Planned Implementation Date: June 30, 2021

Responsible Person(s): Sharon Rahban, City Controller

EP's Comment 2020: Implemented.

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.

Management Response and Corrective Action Plan

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

Corrective Action Plan: The Controller's Office has created separate revenue accounts that are used for rubbish assessments for the fiscal year ending June 30, 2020. The City is now separating the Rubbish department from the Water department. 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(s): Sharon Rahban, City Controller

EP's Comment 2020: Implemented.

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.

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 designed to serve as a system of internal controls required by OMB's Uniform Guidance (2CFR 200) in the Payroll policy. These are anticipated to be ready by December 31, 2021. In the meantime, the City Controller's Office has provided training to staff on the process to record payroll journal entries and reconcile the payroll account.

Planned Implementation Date: June 30, 2022

Responsible Person(s): Sharon Rahban, City Controller

EP's Comment 2020: Partially implemented. Corrective action plan in progress.

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.

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 designed to serve as a system of internal controls including those required by OMB's Uniform Guidance (2CFR 200) in the General Accounting policy. In the meantime, the City is working with OneSolution to establish settings and make this an automated procedure. In addition, the City Controller is planning to conduct training over the treatment and recording of accrued liabilities and plans to have this audit area corrected and completed for the fiscal year 2022 audit.

The City will implement a policy for the City Controller's Office to follow up with the City Attorney's Office on a quarterly basis for claims that were incurred but not reported on our actuarial report. This will ensure that the actuarial report is capturing complete information.

Planned Implementation Date: June 30, 2022

Responsible Person(s): Sharon Rahban, City Controller

EP's Comment 2020: Partially implemented. Corrective action plan in progress.

2015-030 – Cash Disbursements – 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.

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 designed to serve as a system of internal controls required by OMB's Uniform Guidance (2CFR 200) in the Accounts Payable policy.

Planned Implementation Date: June 30, 2021

Responsible Person(s): Sharon Rahban, City Controller

EP's Comment 2020: Implemented.

2015-031 – Cash Disbursements – 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.

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 designed to serve as a system of internal controls including those required by OMB's Uniform Guidance (2CFR 200) in the Accounts Payable policy.

Planned Implementation Date: June 30, 2021

Responsible Person(s): Sharon Rahban, City Controller

EP's Comment 2020: Implemented.

2015-032 – Cash Disbursements – 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.

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 designed to serve as a system of internal controls required by OMB's Uniform Guidance (2CFR 200) in the General Accounting and Accounts Payable policies. the meantime, the City Controller will conduct training to staff to address this audit area.

Planned Implementation Date: June 30, 2022

Responsible Person(s): Sharon Rahban, City Controller

EP's Comment 2020: Partially implemented. Corrective action plan in progress.

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: 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.

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 designed to serve as a system of internal controls required by OMB's Uniform Guidance (2CFR 200) in the Credit Card policy. In the meantime, the City Controller's Office ensured the City Manager is the only authorized cardholder, and staff has been trained on the timely processing of bills. Additionally, they have implemented a procedure to track late fees with a unique object code.

Planned Implementation Date: June 30, 2022

Responsible Person(s): Sharon Rahban, City Controller

EP's Comment 2020: Partially implemented. Corrective action plan in progress.

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.

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's Office will take steps to address the specific finding noted above by planning on implementing a miscellaneous receivables module in OneSolution. Additionally, the water department implemented a procedure to provide receivable reports to the City Controller's Office, where they are maintained as part of the journal entry backup retention procedures.

Planned Implementation Date: June 30, 2022

Responsible Person(s): Sharon Rahban, City Controller

EP's Comment 2020: Partially implemented. Corrective action plan in progress.

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: 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.

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 designed to serve as a system of internal controls required by OMB's Uniform Guidance (2CFR 200) in the Credit Card policy. The City 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. A policy was implemented that credit card charges will not be paid without supporting documentation.

Planned Implementation Date: June 30, 2022

Responsible Person(s): Sharon Rahban, City Controller

EP's Comment 2020: Partially implemented. Corrective action plan in progress.

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.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation and believes that this has been addressed already. The General Fund has paid for its own water usage since fiscal year 2015.

Corrective Action Plan: The City will establish and document policies and procedures designed to serve as a system of internal controls required by OMB's Uniform Guidance (2CFR 200) in the General Accounting policy.

Planned Implementation Date: June 30, 2022

Responsible Person(s): Don Nguyen, Municipal Water Manager

EP's Comment 2020: Partially implemented. Corrective action plan in progress.

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.

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 designed to serve as a system of internal controls required by OMB's Uniform Guidance (2CFR 200) in the General Accounting, Accounts Payable, Purchasing, Payroll, Capital Asset, and Budget policies. In the meantime, the City Controller's Office has implemented a procedure to investigate variances from budget, and perform mid-year budget reviews at City Council meetings. Monthly budget-to-actual reports were also provided to City Council members and department heads for their review.

Planned Implementation Date: June 30, 2023

Responsible Person(s): City Manager and Sharon Rahban, City Controller

EP's Comment 2020: Repeat finding. Corrective action plan in progress.

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: EP 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.

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 has an internal auditor position, who performs the initial review of journal entries. The Deputy City Controller performs a second review of all journal entries created by staff, and a third review of all entries is performed by the Controller as needed. 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, 2022

Responsible Person(s): Sharon Rahban, City Controller

EP’s Comment 2020: Partially implemented. Corrective action plan in progress.

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.

Management Response and Corrective Action Plan

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

Corrective Action Plan: The City has an internal auditor position, who performs the initial review of journal entries. The Deputy City Controller performs a second review of all journal entries created by staff, and a third review of all entries is performed by the Controller as needed. 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 (2CFR 200) in the General Accounting policy.

Planned Implementation Date: June 30, 2022

Responsible Person(s): Sharon Rahban, City Controller

EP's Comment 2020: Partially implemented. Corrective action plan in progress.

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.

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 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, 2022

Responsible Person(s): Sharon Rahban, City Controller

EP's Comment 2020: Partially implemented. Corrective action plan in progress.

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.

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 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).

Planned Implementation Date: June 30, 2021

Responsible Person(s): Sharon Rahban, City Controller

EP's Comment 2020: Implemented.

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.

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 designed to serve as a system of internal controls required by OMB's Uniform Guidance (2CFR 200) in the Accounts Payable policy. In the meantime, the Deputy City Controller has been reviewing the original data from the Housing Department prior to approving the EFT file for release to the City Treasurer Department. As of fiscal year 2022, the Housing Department will also provide the original information to the City Treasurer Department for their review prior to approving the EFT for release.

Planned Implementation Date: June 30, 2021

Responsible Person(s): Sharon Rahban, City Controller and Douglas Sanders, City Treasurer

EP's Comment 2020: Implemented.

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.

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 establish and document policies and procedures designed to serve as a system of internal controls required by OMB's Uniform Guidance (2CFR 200) in the Payroll policy. In the meantime, the payroll submission is reviewed by a payroll supervisor prior to submission. Once submitted, the registers are provided to the Deputy Controller for review and approval. A final copy is then provided to the Treasurer's Department.

Planned Implementation Date: June 30, 2022

Responsible Person(s): Sharon Rahban, City Controller

EP's Comment 2020: Partially implemented. Corrective action plan in progress.

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.

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 designed to serve as a system of internal controls required by OMB's Uniform Guidance (2CFR 200) in the General Accounting policy. In the meantime, the City Controller is ensuring that accounting staff have the proper payroll reports to post payroll efficiently and with proper allocation across funds. Additionally, two additional accountants have been trained on posting payroll, which will help the City continue to post on a timely basis. The City is also investigating the ADP account codes assigned to payroll codes to ensure they were appropriately assigned.

Planned Implementation Date: June 30, 2022

Responsible Person(s): Sharon Rahban, City Controller

EP's Comment 2020: Partially implemented. Corrective action plan in progress.

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.

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 designed to serve as a system of internal controls required by OMB's Uniform Guidance (2CFR 200) in the General Accounting policy. In the meantime, two additional accountants have been trained on posting payroll, which will help the City continue to post on a timely basis. The City is also investigating the ADP account codes assigned to payroll codes to ensure they were appropriately assigned.

Planned Implementation Date: June 30, 2022

Responsible Person(s): Sharon Rahban, City Controller

EP's Comment 2020: Partially implemented. Corrective action plan in progress.

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.

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 designed to serve as a system of internal controls required by OMB's Uniform Guidance (2CFR 200) in the Payroll policy. The City will also review procedures for employees to record their hours. In the meantime, City payroll policies require employees and supervisors to approve their time.

Planned Implementation Date: June 30, 2023

Responsible Person(s): Sharon Rahban, City Controller

EP's Comment 2020: Partially implemented. Corrective action plan in progress.

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: EP 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.

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 designed to serve as a system of internal controls required by OMB's Uniform Guidance (2CFR 200) in the Payroll policy. The labor cost allocation budget will be implemented for the fiscal year 2023 budget process, and a budget adjustment will be prepared and reviewed for fiscal year 2022. In the meantime, the City Controller's Office will prepare journal entries as needed for labor allocations. Additionally, the allocations in ADP were updated by the payroll supervisor for fiscal year 2022 budget.

Planned Implementation Date: June 30, 2023

Responsible Person(s): Sharon Rahban, City Controller

EP's Comment 2020: Repeat finding. Corrective action plan in progress.

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: 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.

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 designed to serve as a system of internal controls required by OMB's Uniform Guidance (2CFR 200) in the Payroll policy. In the meantime, the payroll supervisor obtained a list of individuals authorized to approve timecards from each department, and the ability to approve timecards in ADP was reviewed and provided only to authorized individuals. The City Manager approves department head time cards. As of fiscal year 2022, the ability for an individual to approve their own time card has been removed in ADP.

Planned Implementation Date: June 30, 2022

Responsible Person(s): Sharon Rahban, City Controller

EP's Comment 2020: Partially implemented. Corrective action plan in progress.

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.

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 designed to serve as a system of internal controls required by OMB's Uniform Guidance (2CFR 200) in the Payroll policy. In the meantime, the City has a standard operating procedure in place that the fire department must review and approve their own time cards.

Planned Implementation Date: December 31, 2022

Responsible Person(s): Sharon Rahban, City Controller

EP's Comment 2020: Repeat finding. Corrective action plan in progress.

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.

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's Office and City Manager's Office will continue to take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2022 for payroll policy adoption and 2023 for bargaining unit approved change in method of compensation.

Responsible Person(s): City Manager and Sharon Rahban, City Controller

EP's Comment 2020: Partially implemented. Corrective action plan in progress.

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. EP 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.

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 designed to serve as a system of internal controls required by OMB's Uniform Guidance (2CFR 200) in the Payroll policy. Additionally, the budget will be updated each fiscal year in ADP for updated allocation codes. Any changes made mid-year will be adjusted using a journal entry.

Planned Implementation Date: June 30, 2022

Responsible Person(s): Sharon Rahban, City Controller

EP's Comment 2020: Repeat finding. Corrective action plan in progress.

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.

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.

Repeat of a Prior-Year Finding: No

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.

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 designed to serve as a system of internal controls required by OMB's Uniform Guidance (2CFR 200) in the Human Resources policy.

Planned Implementation Date: June 30, 2022

Responsible Person(s): Human Resources Analyst

EP's Comment 2020: Partially implemented. Corrective action plan in progress.

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.

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.

Repeat of a Prior-Year Finding: No

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.

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 Human Resources and 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, 2022

Responsible Person(s): City Manager and Sharon Rahban, City Controller

EP's Comment 2020: Partially implemented. Corrective action plan in progress.

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.

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 designed to serve as a system of internal controls including those required by OMB's Uniform Guidance (2CFR 200) in the Accounts Payable policy.

Planned Implementation Date: June 30, 2022

Responsible Person(s): Sharon Rahban, City Controller

EP's Comment 2020: Partially implemented. Corrective action plan in progress.

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.

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 designed to serve as a system of internal controls required by OMB's Uniform Guidance (2 CFR 200). In the meantime, the City Controller's Office has eliminated the manual check process for the Successor Agency. Separate check stock for Successor Agency checks were purchased and are being used with OneSolution.

Planned Implementation Date: June 30, 2022

Responsible Person(s): Sharon Rahban, City Controller

EP's Comment 2020: Partially implemented. Corrective action plan in progress.

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.

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. All current check signers are not responsibly for the bank reconciliation process. Additionally, documentation of the Accountant II as an authorized signer is available in the City Treasurer's Department. The City will establish and document policies and procedures designed to serve as a system of internal controls including those required by OMB's Uniform Guidance (2CFR 200) in the Accounts Payable policy.

Planned Implementation Date: June 30, 2021

Responsible Person(s): Sharon Rahban, City Controller

EP's Comment 2020: Implemented.

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.

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 designed to serve as a system of internal controls including those required by OMB's Uniform Guidance (2CFR 200) in the Purchasing policy.

Planned Implementation Date: June 30, 2022

Responsible Person(s): City Manager

EP's Comment 2020: Repeat finding. Corrective action plan in progress.

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.

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's Office 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, 2022

Responsible Person(s): Sharon Rahban, City Controller

EP's Comment 2020: Partially implemented. Corrective action plan in progress.

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.

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 Accounts Payable policy. In the meantime, the City Controller's Office will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2022

Responsible Person(s): Sharon Rahban, City Controller

EP's Comment 2020: Partially implemented. Corrective action plan in progress.

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.

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 have been 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's Office will continue to take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2022

Responsible Person(s): Sharon Rahban, City Controller

EP's Comment 2020: Partially implemented. Corrective action plan in progress.

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.

Management Response and Corrective Action Plan

City's Response: Checks are now mailed out by the Treasurer's Office.

Corrective Action Plan: The City will establish and document policies and procedures designed to serve as a system of internal controls required by OMB's Uniform Guidance (2CFR 200) in the General Accounting and Accounts Payable policies. In the meantime, the City Controller will continue to conduct training to staff to address this audit area.

Planned Implementation Date: June 30, 2022

Responsible Person(s): Sharon Rahban, City Controller

EP's Comment 2020: Repeat finding. Corrective action plan in progress.

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.

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 designed to serve as a system of internal controls required by OMB's Uniform Guidance (2CFR 200) in the General Accounting policy. 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. Additionally, the City will implement an accounts payable module in OneSolution. In the meantime, the City Controller's Office has taken steps to address the specific finding by providing a list of open purchase orders to each department at year end.

Planned Implementation Date: June 30, 2022

Responsible Person(s): Sharon Rahban, City Controller

EP's Comment 2020: Repeat finding. Corrective action plan in progress.

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.

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.

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).

Partially implemented: The Treasurer's department implemented updated policies and procedures effective January 2017. Daily deposits are reconciled with all backup and supporting receipts. Separate deposit slips are prepared for each deposit. Daily deposits packages are reviewed by the Chief Deputy before they are sent to the Controller's department. There is dual review and sign-off in all stages as per updated policy.

Planned Implementation Date: December 31, 2022

Responsible Person(s): City Treasurer and Sharon Rahban, City Controller

EP's Comment 2020: Partially implemented. Corrective action plan in progress.

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, 2022

Responsible Person(s): Sharon Rahban, City Controller

EP's Comment 2020: Partially implemented. Corrective action plan in progress.

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.

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).

Partially implemented: The Treasurer's department implemented updated policies and procedures effective January 2017. There is double custody and sign off in all instances of cash counts and review of deposits.

Planned Implementation Date: June 30, 2022

Responsible Person(s): Douglas Sanders, City Treasurer and Sharon Rahban, City Controller

EP's Comment 2020: Partially implemented. Corrective action plan in progress.

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.

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's Office has added procedures to perform a monthly of the file markers on boxes or filing cabinets, and ensure staff appropriately stores all files.

Planned Implementation Date: June 30, 2022

Responsible Person(s): Sharon Rahban, City Controller

EP's Comment 2020: Partially implemented. Corrective action plan in progress.

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.

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 designed to serve as a system of internal controls in the Bank Reconciliation policy. In the meantime, the City Controller’s Office is examining current processes over bank reconciliations and the proper assignments of responsibilities at key dates each month to be able to catch up on timely preparation by fiscal year 2022.

Planned Implementation Date: June 30, 2022

Responsible Person(s): Sharon Rahban, City Controller

EP’s Comment 2020: Repeat finding. Corrective action plan in progress.

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.

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 designed to serve as a system of internal controls required by OMB's Uniform Guidance (2CFR 200) in the Bank Reconciliation policy. In the meantime, the City Controller's Office is currently researching prior year accounting errors that are to be corrected, and has made corrections for the fiscal 2020 audit.

Planned Implementation Date: June 30, 2022

Responsible Person(s): Sharon Rahban, City Controller

EP's Comment 2020: Partially implemented. Corrective action plan in progress.

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.

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's Office will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2023

Responsible Person(s): Sharon Rahban, City Controller

EP's Comment 2020: Repeat finding. Corrective action plan in progress.

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.

EP concurs with the SCO finding and recommendation. 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. Fiscal sustainability plan elements have been brought to the attention of the Finance Committee attention and are pending approval by City Council. The City Controller has recommended to the City Manager to add a position for the Economic Development Director to the fiscal year 2023 budget.

Planned Implementation Date: June 30, 2023

Responsible Person(s): City Manager and Sharon Rahban, City Controller

EP's Comment 2020: In progress.

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>

¹January 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.

EP concurs with the SCO finding and recommendation.

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.

Corrective Action Plan: Moving forward the city plans that council members will only receive \$600 per city charter per month + \$150 per month maximum allowance, as well as phone costs and auto allowance. Due to past practices commencing in 1976, refunds from prior periods will not be pursued as there is no way to pursue them equitably.

Planned Implementation Date: June 30, 2019

Responsible Person(s): City Manager

EP's Comment 2020: Implemented.

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 Policies and Procedures manual. The SCO recommended that the City update its formal Policies and Procedures manual to incorporate the recently implemented internal control procedures, and complete these updates as soon as possible.

EP concurs with the SCO finding and recommendation.

Management Response and Corrective Action Plan

City's Response: The City acknowledges the State's finding to update our formal Policies and Procedures manual to incorporate the recently implemented financial internal control procedures as soon as possible.

Partially implemented: The Treasurer's office implemented updated policies and procedures effective January 2017 that emphasizes segregation of duties and dual custody of cash at all times. Cash counting and verification of deposits are reviewed by the deputies and duties are periodically rotated. Security cameras have been installed for monitoring of cash handling.

Planned Implementation Date: June 30, 2022

Responsible Person(s): City Treasurer

EP's comment 2020: In progress.

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.

EP concurs with the SCO finding and recommendation.

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, 2022

Responsible Person(s): City Manager

EP's Comment 2020: In progress.

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.

EP concurs with the SCO finding and recommendation.

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 has increased use of line itemization in the 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, 2020

Responsible Person(s): City Manager

EP’s Comment 2020: Implemented.

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.

EP concurs with the SCO finding and recommendation.

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 to ensure the City is meeting its purchasing and contracting obligations.

Planned Implementation Date: June 30, 2022

Responsible Person(s): City Manager and Sharon Rahban, City Controller

EP's Comment 2020: In progress.

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:

Contractor	FY 2013-14	FY 2014-15	FY 2015-16	Total
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 Cities for 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.

EP concurs with the SCO finding and recommendation.

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 has received reimbursement of overpaid monies from Macias Gini & O'Connell, LLC (MGO) as of June 30, 2021.

Planned Implementation Date: June 30, 2022

Responsible Person(s): Sharon Rahban, City Controller

EP's Comment 2020: In progress.

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.

EP concurs with the SCO finding and recommendation.

Management Response and Corrective Action Plan

City's Response: The City will establish and document policies and procedures designed to serve as a system of internal controls required by OMB's Uniform Guidance (2CFR 200) in the credit card policy. In the meantime, the City has reviewed the State's findings regarding travel and credit card expenses and adopted a resolution stating only the City Manager is approved for a credit card.

Planned Implementation Date: December 31, 2022

Responsible Person(s): City Manager and Sharon Rahban, City Controller

EP's Comment 2020: In progress.

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.

EP concurs with the SCO finding and recommendation.

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 designed to serve as a system of internal controls in the Bank Reconciliation policy. In the meantime, the City Controller's Office is examining current processes over bank reconciliations and the proper assignments of responsibilities at key dates each month to be able to catch up on timely preparation by fiscal year 2022.

Planned Implementation Date: June 30, 2022

Responsible Person(s): Sharon Rahban, City Controller

EP's Comment 2020: Repeat finding. Corrective action plan in progress.

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 (Treasurer's Office)

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 (Controller's Office)

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 (Controller's Office)

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.

EP concurs with the SCO finding and recommendation.

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. Additionally, the City has set up a function in the timekeeping system requiring supervisor review and restricting access.

Partially implemented: The Treasurer's office implemented updated policies and procedures effective January 2017 that emphasizes segregation of duties and dual custody of cash at all times. Cash counting and verification of deposits are reviewed by the deputies and duties are periodically rotated. Security cameras have been installed for monitoring of cash handling.

Planned Implementation Date: December 31, 2022

Responsible Person(s): City Treasurer and Sharon Rahban, City Controller

EP's Comment 2020: In progress.

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.

EP concurs with the SCO finding and recommendation.

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 has also upgraded 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, 2022

Responsible Person(s): Sharon Rahban, City Controller

EP's Comment 2020: In progress.

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.

EP concurs with the SCO finding and recommendation.

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 designed to serve as a system of internal controls including those required by OMB’s Uniform Guidance (2CFR 200) in the policies. These are anticipated to be ready by December 31, 2022. In the meantime, the City has started on the planning for the capital asset valuation and implementation of the capital assets module of OneSolution.

Planned Implementation Date: December 31, 2022

Responsible Person(s): Sharon Rahban, City Controller

EP’s Comment 2020: Repeat finding. Corrective action plan in progress.

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.

EP concurs with the SCO finding and recommendation.

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, 2022

Responsible Person(s): City Manager and Sharon Rahban, City Controller

EP's Comment 2020: In progress.

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.

EP concurs with the SCO finding and recommendation.

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 that include provisions for succession planning. For upper management, the City Manager and City Controller are appointed by the City Council, and all other upper management except the City Treasurer are hired by the City Manager. Additionally, a human resources performance audit will be conducted.

Planned Implementation Date: June 30, 2022

Responsible Person(s): City Manager

EP's Comment 2020: Repeat finding. Corrective action plan in progress.

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:

Report Name	Due Date	Number of Months
		Past Due
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.

Management Response and Corrective Action Plan

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.

Corrective Action Plan: The City plans to complete the fiscal year 2021 audit by June 2022, at which point the City will have completed all outstanding audits.

Planned Implementation Date: July 2022

Responsible Person(s): Sharon Rahban, City Controller

EP's Comment 2020: Repeat finding. Corrective action in progress.

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.

Management Response and Corrective Action Plan

City's Response: City Council and Management have adopted a balanced Budget in FY 2020-2021 that provides resources to finance key departmental operations and personnel. The City Controller's office will research budgeting additional staff for the City Controller's Office to assist with continuity in the department.

Planned Implementation Date: June 30, 2022

Responsible Person(s): City Manager

EP's Comment 2020: Repeat finding. Corrective action plan in progress.

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 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 the City consider establishing an audit committee (see SCO Finding 18).

EP concurs with the SCO finding and recommendation.

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 July 2020. 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.

The finance committee is meeting on a regular basis. An audit committee will be formed by June 30, 2022.

Planned Implementation Date: June 30, 2022

Responsible Person(s): City Manager and Sharon Rahban, City Controller

EP's Comment 2020: In progress.

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.

EP concurs with the SCO finding and recommendation.

Management Response and Corrective Action Plan

City's Response: 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.

The City has formed a finance committee which meets on a regular basis, and an audit committee will be formed by June 30, 2022.

Planned Implementation Date: June 30, 2022

Responsible Person(s): City Manager

EP's Comment 2020: Partially implemented. Corrective action plan in progress.

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 the City update its formal Policies and Procedures manual to incorporate the recently implemented internal control procedures, and complete these updates as soon as possible.

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 designed to serve as a system of internal controls required by OMB's Uniform Guidance (2CFR 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. An ethics policy has been drafted and is pending review.

Planned Implementation Date: December 31, 2022

Responsible Person(s): City Manager

EP's Comment 2020: In progress.

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 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.

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 designed to serve as a system of internal controls required by OMB's Uniform Guidance (2CFR 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. Additionally, the City will implement internal audit procedures, and will report directly to the audit committee or finance committee. In the meantime, the City Manager department will take steps to address the specific finding noted above.

Planned Implementation Date: December 31, 2022

Responsible Person(s): City Manager

EP's Comment 2020: In progress.

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 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.

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 designed to serve as a system of internal controls required by OMB's Uniform Guidance (2CFR 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. Additionally, the City has formed a finance committee, and an audit committee will be formed by June 30, 2022. In the meantime, the City Controller's Office will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2022

Responsible Person(s): City Manager and Sharon Rahban, City Controller

EP's Comment 2020: In progress.

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 the City update its formal Policies and Procedures manual to incorporate the recently implemented internal control procedures, and complete these updates as soon as possible.

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 designed to serve as a system of internal controls required by OMB's Uniform Guidance (2CFR 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. The annual audit, the finance committee, and the audit committee will provide oversight to ensure audit findings are cleared. In the meantime, the City Manager and City Controller's Office will take steps to address the specific finding noted above.

Planned Implementation Date: December 31, 2022

Responsible Person(s): City Manager and Sharon Rahban, City Controller

EP's Comment 2020: In progress.

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 the City implement a remedial action plan to adequately staff the departments that are short on staff. In addition, we recommend the City implement policies to address the importance of experience and proper training of back-up staff when regular staff members are not available.

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 designed to serve as a system of internal controls required by OMB's Uniform Guidance (2CFR 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's Office will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2022

Responsible Person(s): City Manager

EP's Comment 2020: In progress.

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 the City implement a remedial action plan to adequately staff the departments that are short on staff. In addition, we recommend the City implement policies to address the importance of experience and proper training of back-up staff when regular staff members are not available.

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 designed to serve as a system of internal controls required by OMB's Uniform Guidance (2CFR 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: December 31, 2022

Responsible Person(s): City Manager

EP's Comment 2020: Repeat finding. Corrective action plan in progress.

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 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 the City implement policies to address the importance of experience and proper training of back-up staff when regular staff members are not available.

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 designed to serve as a system of internal controls required by OMB's Uniform Guidance (2CFR 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: December 31, 2022

Responsible Person(s): City Manager

EP's Comment 2020: In progress.

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 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 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.

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 designed to serve as a system of internal controls required by OMB's Uniform Guidance (2CFR 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: December 31, 2022

Responsible Person(s): City Manager

EP's Comment 2020: Repeat finding. Corrective action plan in progress.

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 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.

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 designed to serve as a system of internal controls required by OMB's Uniform Guidance (2CFR 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.

An audit committee has been selected, and is planning its first meeting date. A finance committee has been established and is meeting on a regular basis. In the meantime, the City Manager and City Controller's Office will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2022

Responsible Person(s): City Manager and Sharon Rahban, City Controller

EP's Comment 2020: Partially implemented. Corrective action plan in progress.

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.

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 designed to serve as a system of internal controls required by OMB's Uniform Guidance (2CFR 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.

An audit committee has been selected, and is planning its first meeting date. A finance committee has been established and is meeting on a regular basis. In the meantime, the City Manager and City Controller's Office will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2022

Responsible Person(s): City Manager and Sharon Rahban, City Controller

EP's Comment 2020: Partially implemented. Corrective action plan in progress.

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.

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 designed to serve as a system of internal controls required by OMB's Uniform Guidance (2CFR 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.

An audit committee has been selected, and is planning its first meeting date. A finance committee has been established and is meeting on a regular basis. In the meantime, the City Manager and City Controller's Office will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2022

Responsible Person(s): City Manager and Sharon Rahban, City Controller

EP's Comment 2020: Partially implemented. Corrective action plan in progress.

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 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.

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 designed to serve as a system of internal controls required by OMB's Uniform Guidance (2CFR 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.

An audit committee has been selected, and is planning its first meeting date. A finance committee has been established and is meeting on a regular basis. In the meantime, the City Manager and City Controller's Office will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2022

Responsible Person(s): City Manager and Sharon Rahban, City Controller

EP's Comment 2020: Partially implemented. Corrective action plan in progress.

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 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.

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 designed to serve as a system of internal controls required by OMB's Uniform Guidance (2CFR 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.

An audit committee has been selected, and is planning its first meeting date. A finance committee has been established and is meeting on a regular basis. In the meantime, the City Manager and City Controller’s Office will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2022

Responsible Person(s): City Manager and Sharon Rahban, City Controller

EP’s Comment 2020: Partially implemented. Corrective action plan in progress.

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 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.

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 designed to serve as a system of internal controls required by OMB's Uniform Guidance (2CFR 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.

An audit committee has been selected, and is planning its first meeting date. A finance committee has been established and is meeting on a regular basis. In the meantime, the City Manager and City Controller's Office will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2022

Responsible Person(s): City Manager and Sharon Rahban, City Controller

EP's Comment 2020: Partially implemented. Corrective action plan in progress.

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 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.

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 designed to serve as a system of internal controls required by OMB's Uniform Guidance (2CFR 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.

An audit committee has been selected, and is planning its first meeting date. A finance committee has been established and is meeting on a regular basis. In the meantime, the City Manager and City Controller's Office will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2022

Responsible Person(s): City Manager and Sharon Rahban, City Controller

EP's Comment 2020: Partially implemented. Corrective action plan in progress.

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 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.

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 designed to serve as a system of internal controls required by OMB's Uniform Guidance (2CFR 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.

An audit committee has been selected, and is planning its first meeting date. A finance committee has been established and is meeting on a regular basis. In the meantime, the City Manager and City Controller's Office will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2022

Responsible Person(s): City Manager and Sharon Rahban, City Controller

EP's Comment 2020: Partially implemented. Corrective action plan in progress.

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 the City develop a succession plan that will help it to ensure continued leadership even during management turnover.

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 designed to serve as a system of internal controls required by OMB's Uniform Guidance (2CFR 200). The policies and procedures will include succession planning, as well as 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: December 31, 2022

Responsible Person(s): City Manager

EP's Comment 2020: In progress.

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 the City evaluate its hiring practices for its upper management position. In addition, we recommend the City develop a succession plan that will help it to ensure continued leadership even during management turnover.

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 designed to serve as a system of internal controls required by OMB's Uniform Guidance (2CFR 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: December 31, 2022

Responsible Person(s): City Manager

EP's Comment 2020: In progress.

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 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 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.

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 designed to serve as a system of internal controls required by OMB's Uniform Guidance (2CFR 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: December 31, 2022

Responsible Person(s): City Manager

EP's Comment 2020: In progress.

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 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 the City consider establishing an audit committee.

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 designed to serve as a system of internal controls required by OMB's Uniform Guidance (2CFR 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. The City has selected an audit committee, and is planning its first meeting. A finance committee has been established and is meeting on a regular basis. In the meantime, the City Manager and City Controller's Office will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2022

Responsible Person(s): City Manager and Sharon Rahban, City Controller

EP's Comment 2020: In progress.

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 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.

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 designed to serve as a system of internal controls including those required by OMB's Uniform Guidance (2CFR 200) in the policies. These are anticipated to be ready by December 31, 2022. In the meantime, the City has started on the planning for the capital asset valuation and implementation of the capital assets module of OneSolution.

Planned Implementation Date: December 31, 2022

Responsible Person(s): Sharon Rahban, City Controller

EP's Comment 2020: In progress.

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 the City gradually evaluate and address recommendations from the County Grand Jury, SCO, National Resource Network (NRN), and external auditors.

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 designed to serve as a system of internal controls required by OMB's Uniform Guidance (2CFR 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's Office will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2022

Responsible Person(s): City Manager and Sharon Rahban, City Controller

EP's Comment 2020: In progress.

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 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 the City implement policies to address the importance of experience and proper training of back-up staff when regular staff members are not available.

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 designed to serve as a system of internal controls required by OMB's Uniform Guidance (2CFR 200). In the meantime, the City Manager department will take steps to address the specific finding noted above through the increased staffing to fill vacancies since 2018 at the City Controller's Office.

Planned Implementation Date: December 31, 2023

Responsible Person/s: City Manager

EP's Comment 2020: In progress.

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 the City evaluate its hiring practices for its upper management positions. In addition, we recommend the City develop a succession plan that will help it to ensure continued leadership even during management turnover.

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 designed to serve as a system of internal controls required by OMB's Uniform Guidance (2CFR 200). The financial policies have provisions requiring managers ensure operations can continue in their absence, including training of staff. In addition, increase in scrutiny has been implemented in hiring decisions.

It is also noted that when the economic downturn due to COVID-19 impacted the City, the City Manager's team responded quickly and made necessary cuts which prevented the General Fund from going bankrupt.

Planned Implementation Date: December 31, 2023

Responsible Person/s: City Manager

EP's Comment 2020: In progress.

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 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 the City implement policies to address the importance of experience and proper training of back-up staff when regular staff members are not available.

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 designed to serve as a system of internal controls required by OMB's Uniform Guidance (2CFR 200). The financial policies have provisions requiring managers ensure operations can continue in their absence, including training of staff. In addition, increase in scrutiny has been implemented in hiring decisions.

Planned Implementation Date: June 30, 2022

Responsible Person/s: City Manager

EP's Comment 2020: In progress.

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 the City makes filling and retaining upper management positions a priority to ensure that organizational goals and objectives are continuously worked towards.

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 designed to serve as a system of internal controls required by OMB's Uniform Guidance (2CFR 200). The financial policies have provisions requiring managers ensure operations can continue in their absence, including training of staff. In addition, increase in scrutiny has been implemented in hiring decisions.

Planned Implementation Date: December 31, 2022

Responsible Person/s: City Manager

EP's Comment 2020: In progress.

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 the City assess its current processes and implement policies and procedures to segregate incompatible functions.

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 designed to serve as a system of internal controls required by OMB's Uniform Guidance (2CFR 200) in the General Accounting policy. These are anticipated to be ready by November 30, 2020. In the meantime, the City Manager and City Controller's Office will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2022

Responsible Person/s: City Manager and Sharon Rahban, City Controller

EP's Comment 2020: In progress.

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 the City assess its current processes and implement policies and procedures to segregate incompatible functions.

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 designed to serve as a system of internal controls required by OMB's Uniform Guidance (2CFR 200) in the General Accounting policy to create policies for major transaction systems and for business processes to establish control standards. In the meantime, the City Manager and City Controller's Office are updating City-wide policies to address this finding.

Planned Implementation Date: June 30, 2022

Responsible Person/s: City Manager, City Treasurer, and Sharon Rahban, City Controller

EP's Comment 2020: In progress.

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 the City start doing risk assessments to be able to identify and properly address risks.

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 designed to serve as a system of internal controls required by OMB's Uniform Guidance (2CFR 200) in the General Accounting policy. These are anticipated to be ready by November 30, 2020. In the meantime, more scrutiny has been placed into hiring decisions in order to hire managers to aid in anticipating, identifying, and reacting to routine events that affect the achievement of objectives. Mid-year budget reviews, revenue forecasting, and analytical reviews done by the City Controller's Office also contribute to risk assessment. These were all accomplished during fiscal year 2021, and continue to be worked on.

Planned Implementation Date: June 30, 2023

Responsible Person/s: City Manager and Sharon Rahban, City Controller

EP's Comment 2020: In progress.

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 the City put mechanisms in place to aid in anticipating, identifying, and reacting to routine events that affect the achievement of 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 designed to serve as a system of internal controls required by OMB's Uniform Guidance (2CFR 200) in the General Accounting policy that includes general risk assessment and addressing of these risks. Elements of succession planning are included in the draft policies. In the meantime, more scrutiny has been placed into hiring decisions in order to hire managers to aid in anticipating, identifying, and reacting to routine events that affect the achievement of objectives.

Planned Implementation Date: June 30, 2022

Responsible Person/s: City Manager and Sharon Rahban, City Controller

EP's Comment 2020: In progress.

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 the City put mechanisms in place to aid in identifying external factors that affect the achievement of 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 designed to serve as a system of internal controls required by OMB's Uniform Guidance (2CFR 200) in the General Accounting policy. In the meantime, more scrutiny has been placed into hiring decisions in order to hire managers to aid in anticipating, identifying, and reacting to routine events that affect the achievement of objectives. An assessment will be implemented and performed during mid-year budget reviews.

Planned Implementation Date: June 30, 2022

Responsible Person/s: City Manager and Sharon Rahban, City Controller

EP's Comment 2020: In progress.

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.

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 designed to serve as a system of internal controls required by OMB's Uniform Guidance (2CFR 200) in the General Accounting policy. In the meantime, more scrutiny has been placed into hiring decisions in order to hire managers to aid in anticipating, identifying, and reacting to routine events that affect the achievement of objectives.

Planned Implementation Date: June 30, 2022

Responsible Person/s: City Manager and Sharon Rahban, City Controller

EP's Comment 2020: In progress.

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.

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 designed to serve as a system of internal controls required by OMB's Uniform Guidance (2CFR 200) in the General Accounting policy. In the meantime, training is underway address this finding for the fiscal year 2021 audit.

Planned Implementation Date: June 30, 2022

Responsible Person/s: City Manager and Sharon Rahban, City Controller

EP's Comment 2020: In progress.

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.

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 designed to serve as a system of internal controls required by OMB's Uniform Guidance (2CFR 200) in the General Accounting policy. In the meantime, training is underway address this finding for the fiscal year 2021 audit.

Planned Implementation Date: June 30, 2022

Responsible Person/s: City Manager and Sharon Rahban, City Controller

EP's Comment 2020: In progress.

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 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.

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 designed to serve as a system of internal controls required by OMB's Uniform Guidance (2CFR 200) in the General Accounting policy. In the meantime, training is underway address this finding for the fiscal year 2021 audit. Additionally, the City performs a risk analysis as part of the mid-year budget review process.

Planned Implementation Date: June 30, 2022

Responsible Person/s: City Manager and Sharon Rahban, City Controller

EP's Comment 2020: In progress.

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 the City update its formal Policies and Procedures manual to incorporate the recently implemented internal control procedures, and complete these updates as soon as possible.

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 designed to serve as a system of internal controls required by OMB's Uniform Guidance (2CFR 200) in the General Accounting policy. In the meantime, training is underway address this finding for the fiscal year 2021 audit, and the City plans to provide city-wide training following implementation of the General Accounting policy.

Planned Implementation Date: June 30, 2022

Responsible Person/s: City Manager and Sharon Rahban, City Controller

EP's Comment 2020: In progress.

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 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.

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 designed to serve as a system of internal controls required by OMB's Uniform Guidance (2CFR 200) in the General Accounting policy to create policies for major transaction systems and for business processes to establish control standards. In the meantime, the City Manager and City Controller's offices will take steps to address the specific finding noted above by working together with Human Resources to update job specifications and disseminate the policies and have employee acknowledge and sign them. Additionally, the City plans to provide city-wide training following implementation of the General Accounting policy.

Planned Implementation Date: June 30, 2022

Responsible Person/s: City Manager and Sharon Rahban, City Controller

EP's Comment 2020: In progress.

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 the City Council and City Management limit their spending to adopted budget amounts. In addition, we recommend 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.

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 designed to serve as a system of internal controls required by OMB's Uniform Guidance (2CFR 200) in the Accounts Payable policy. In the meantime, the City provides departments and City Council with monthly budgetary reports. Additionally, City Council has implemented mid-year budget reviews.

Planned Implementation Date: June 30, 2022

Responsible Person/s: City Manager and Sharon Rahban, City Controller

EP's Comment 2020: In progress.

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.

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 designed to serve as a system of internal controls required by OMB's Uniform Guidance (2CFR 200) in the Budget policy. In the meantime, the City Controller's Office provides monthly budgetary reports to the City Council and City Manager's Office. Additionally, the City Controller's Office performs a budgetary review for any needed budget transfers or excessive spending.

Planned Implementation Date: June 30, 2023

Responsible Person/s: City Manager and Sharon Rahban, City Controller

EP's Comment 2020: In progress.

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 the City assess its current processes and implement policies and procedures to segregate incompatible functions.

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 designed to serve as a system of internal controls required by OMB's Uniform Guidance (2CFR 200) in the Cash Receipts, Purchasing, and Payroll policies.

Planned Implementation Date: June 30, 2022 Policy Adoption

Responsible Person/s: City Manager, City Treasurer, and Sharon Rahban, City Controller

EP's Comment 2020: In progress.

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 the City periodically count controlled items and to compare these counts with control records to ensure accuracy and integrity of the recorded amounts.

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 designed to serve as a system of internal controls required by OMB's Uniform Guidance (2CFR 200) in the Bank Reconciliation, Capital Asset, and Inventory policies. In the meantime, the City performed bank reconciliations and inventory counts for fiscal year 2020.

Planned Implementation Date: June 30, 2022

Responsible Person/s: City Manager and Sharon Rahban, City Controller

EP's Comment 2020: In progress.

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.

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 designed to serve as a system of internal controls required by OMB's Uniform Guidance (2CFR 200) in the General Accounting policy to create policies for major transaction systems and for business processes to establish control standards. In the meantime, the City Manager, City Treasurer, and City Controller's Office will take steps to address the specific finding noted above.

Partially implemented. The Treasurer's Office implemented updated policies and procedures effective January 2017 that emphasizes segregation of duties and dual custody of cash at all times. Cash counting and verification of deposits are reviewed by the deputies and duties are periodically rotated. Security cameras are installed for monitoring of cash handling.

Planned Implementation Date: June 30, 2022

Responsible Person/s: City Manager, City Treasurer, and Sharon Rahban, City Controller

EP's comment 2020: Partially implemented. Corrective action plan in progress.

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 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.

Management Response and Corrective Action Plan

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

Corrective Action Plan: The City will establish, document, and update policies and procedures designed to serve as a system of internal controls required by OMB's Uniform Guidance (2CFR 200) in the financial policies.

Planned Implementation Date: June 30, 2022

Responsible Person/s: City Manager and Sharon Rahban, City Controller

EP's Comment 2020: In progress.

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 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.

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 designed to serve as a system of internal controls required by OMB's Uniform Guidance (2CFR 200) in the financial policies which includes budget-to-actual monitoring and reporting. In the meantime, the City Manager and City Controller's offices are taking steps to address prior year audit issues by ensuring employees and management are adequately trained to perform their respective duties. The fiscal year 2021 audit is expected to be completed by March 2022, and the City will move forward with timely audits starting with fiscal year 2022.

Planned Implementation Date: June 30, 2022

Responsible Person/s: City Manager and Sharon Rahban, City Controller

EP's Comment 2020: In progress.

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.

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 designed to serve as a system of internal controls required by OMB's Uniform Guidance (2CFR 200) in the financial policies which includes budget-to-actual monitoring and reporting. In the meantime, the City Manager and City Controller's offices are taking steps to address prior year audit issues by ensuring employees and management are adequately trained to perform their respective duties.

Planned Implementation Date: June 30, 2022

Responsible Person/s: City Manager and Sharon Rahban, City Controller

EP's Comment 2020: In progress.

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 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.

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 designed to serve as a system of internal controls required by OMB's Uniform Guidance (2CFR 200). In the meantime, the City Controller proposes to implement the capital asset and accounts receivable modules of OneSolution to assist with the tracking of transactions that are in line with producing accurate and timely reports necessary for strategic decision making. The budget enhancement for that will be included for fiscal year 2022. Additionally, we are building any missing bridges between OneSolution and other financial-related software being used in other departments. We also will implement modules of OneSolution that were paid for but not yet implemented

Planned Implementation Date: June 30, 2023

Responsible Person/s: City Manager and Sharon Rahban, City Controller

EP's Comment 2020: In progress.

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.

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 designed to serve as a system of internal controls required by OMB's Uniform Guidance (2CFR 200) in the General Accounting policy. In the meantime, the City has filled positions in fiscal year 2020, however vacant positions due to the COVID pandemic have been removed from the fiscal year 2021 budget. Ultimately, the City will review the usage of the billing software, Springbrook, and OneSolution to utilize improvements in reporting tools available from these software's modules. City Council is proactive in monitoring City Controller's Office staff implementation of unused modules of OneSolution and building bridges with other financial related software being used in other departments, as was discussed during a Finance Committee meeting in October 2021.

Planned Implementation Date: June 30, 2022

Responsible Person/s: City Manager and Sharon Rahban, City Controller

EP's Comment 2020: In progress.

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 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.

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 designed to serve as a system of internal controls required by OMB's Uniform Guidance (2CFR 200) in the General Accounting, Cash Receipts, Payroll, Accounts Payable, and Purchasing policies. In these policies, staff is required to only process transactions that appear reasonable and flag those that appear questionable until they are resolved. A City-wide Ethics and Fraud policy will be implemented to cover all transactions that may have not met the applicability of the other financial policies. Each department shall conduct their own meetings to provide information over to staff. In the meantime, the City Manager and City Controller's offices are taking steps to ensure effective internal communications occur by conducting employee and management training to perform their respective duties and implementing a fraud hotline. In the meantime, the City has implemented monthly finance committee meetings. Additionally, all legally binding agreements are currently reviewed by the City Manager's Department, the City Attorney's Department, the City Controller's Office, and the City Council Clerk. These are circulated on OnBase software before coming to Council.

Planned Implementation Date: June 30, 2022

Responsible Person/s: City Manager and Sharon Rahban, City Controller

EP's Comment 2020: In progress.

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 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 the City establish an audit committee.

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 designed to serve as a system of internal controls required by OMB's Uniform Guidance (2CFR 200) in the financial policies. In the meantime, the City Manager and City Controller's offices are taking steps to address prior year audit issues by ensuring employees and management are adequately trained to perform their respective duties. An audit committee has also been established.

Planned Implementation Date: June 30, 2022

Responsible Person/s: City Manager and Sharon Rahban, City Controller

EP's Comment 2020: In progress.

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 the City manage, develop, and revise its information system in an effort to continually improve usefulness and reliability of 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 designed to serve as a system of internal controls required by OMB's Uniform Guidance (2CFR 200) in the General Accounting policy and to create policies for major transaction systems and for business processes to establish control standards. Additionally, the City is working to upgrade OneSolution, which will help with information system revision.

Planned Implementation Date: June 30, 2022

Responsible Person/s: City Manager and Sharon Rahban, City Controller

EP's Comment 2020: In progress.

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 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.

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 designed to serve as a system of internal controls required by OMB's Uniform Guidance (2CFR 200) in the General Accounting policy to create policies for major transaction systems and for business processes to establish control standards. In the meantime, the City has established an audit committee.

Planned Implementation Date: June 30, 2022

Responsible Person/s: City Manager and Sharon Rahban, City Controller

EP's Comment 2020: Partially implemented. Corrective action plan in progress.

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 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.

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 designed to serve as a system of internal controls required by OMB's Uniform Guidance (2CFR 200) in the General Accounting policy. In the meantime, the City Controller's Office will address the finding above by conducting necessary training of staff once the policy has been implemented.

Planned Implementation Date: June 30, 2022

Responsible Person/s: City Manager and Sharon Rahban, City Controller

EP's Comment 2020: Repeat finding. Corrective action plan in progress.

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 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.

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 designed to serve as a system of internal controls required by OMB's Uniform Guidance (2CFR 200) in the financial policies. In the meantime, the City Manager and City Controller's offices are taking steps to address prior year internal control issues.

Planned Implementation Date: June 30, 2022

Responsible Person/s: City Manager and Sharon Rahban, City Controller

EP's Comment 2020: Repeat finding. Corrective action in progress.

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 the City establish an appropriate organizational structure, such as an audit committee, to have oversight of internal control functions.

Management Response and Corrective Action Plan

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

Corrective Action Plan: The City established an audit committee in February 2020. The City will establish and document policies and procedures designed to serve as a system of internal controls required by OMB's Uniform Guidance (2CFR 200) in the financial policies. In the meantime, the City Manager and City Controller's offices are taking steps to address prior year internal control issues.

Planned Implementation Date: June 30, 2022

Responsible Person/s: City Manager and Sharon Rahban, City Controller

EP's Comment 2020: Partially implemented. Corrective action plan in progress.

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 the City have periodic physical asset observations to compare to recorded information and financial records.

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 designed to serve as a system of internal controls required by OMB's Uniform Guidance (2CFR 200) in the General Accounting and Capital Assets policy. These are anticipated to be ready by November 30, 2020. In the meantime, the City has started on the planning for the capital asset inventory, valuation, and implementation of the capital assets module of OneSolution.

Planned Implementation Date: December 31, 2022

Responsible Person/s: Sharon Rahban, City Controller

EP's Comment 2020: Repeat finding. Corrective action plan in progress.

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 the City fill the internal audit position to allow for periodic internal audit reports to help in improving internal control.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation. The Internal Auditor is currently performing Accounting Manager duties, therefore a budget enhancement is needed so that internal audit duties can be performed.

Corrective Action Plan: The City will establish and document policies and procedures designed to serve as a system of internal controls required by OMB's Uniform Guidance (2CFR 200) in the General Accounting policy. In the meantime, the City Controller is proposing a budget enhancement for fiscal year 2022 to implement and conduct internal audits. The Internal Audit position will be implemented by June 30, 2022, which is dependent upon filling the Accounting Supervisor position.

Planned Implementation Date: June 30, 2022

Responsible Person/s: Sharon Rahban, City Controller

EP's Comment 2020: Repeat finding. Corrective action plan in progress.

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.

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 designed to serve as a system of internal controls required by OMB's Uniform Guidance (2CFR 200) in the General Accounting policy so that this finding does not reoccur. Additionally, the Internal Audit position will be implemented by June 30, 2022, which is dependent upon filling the Accounting Supervisor position.

Planned Implementation Date: June 30, 2022

Responsible Person/s: City Manager and Sharon Rahban, City Controller

EP's Comment 2020: Repeat finding. Corrective action plan in progress.

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.

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 designed to serve as a system of internal controls required by OMB's Uniform Guidance (2CFR 200) in the General Accounting policy. In the meantime, the City Controller is proposing a budget enhancement for fiscal year 2022 to implement and conduct internal audits.

Planned Implementation Date: June 30, 2022

Responsible Person/s: Sharon Rahban, City Controller

EP's Comment 2020: Repeat finding. Corrective action plan in progress.

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.

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 designed to serve as a system of internal controls required by OMB's Uniform Guidance (2CFR 200) in the General Accounting policy. In the meantime, the City Manager and City Controller's Office will take steps to address the specific finding noted above. Additionally, the Internal Audit position will be implemented by June 30, 2022, which is dependent upon filling the Accounting Supervisor position

Planned Implementation Date: June 30, 2022

Responsible Person/s: City Manager and Sharon Rahban, City Controller

EP's Comment 2020: Repeat finding. Corrective action plan in progress.

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 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.

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 designed to serve as a system of internal controls required by OMB's Uniform Guidance (2CFR 200) in the General Accounting policy. The City will document recurring concerns during employee evaluations. Additionally, the Internal Auditor will assist with identifying areas with deviations in internal control. In the meantime, the City Manager and City Controller's Office will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2022

Responsible Person/s: City Manager and Sharon Rahban, City Controller

EP's Comment 2020: Repeat finding. Corrective action plan in progress.

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.

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 designed to serve as a system of internal controls required by OMB's Uniform Guidance (2CFR 200) in the General Accounting policy. 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's Office will take steps to address the specific finding noted above by implementing a fraud hotline.

Planned Implementation Date: June 30, 2022

Responsible Person/s: City Manager and Sharon Rahban, City Controller

EP's Comment 2020: Repeat finding. Corrective action plan in progress.

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 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.

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 designed to serve as a system of internal controls required by OMB's Uniform Guidance (2CFR 200) in the General Accounting policy. 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's Office will take steps to address the specific finding noted above by communicating priorities to the Finance Committee. A timeline was prepared and shared the September 14, 2021 Council meeting. The Finance Committee has also been established and is currently discussing priorities as well.

Planned Implementation Date: June 30, 2022

Responsible Person/s: City Manager and Sharon Rahban, City Controller

EP's Comment 2020: Partially implemented. Corrective action plan in progress.

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.

EP concurs with the SCO's recommendation.

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. The City is in agreement with the State Controller's recommendation to follow internal control policies and procedures. During fiscal year 2018, the City's General Fund paid \$737,787 to the SCO in response to this finding. The Equipment Rental Fund refunded the original ISF charge back to the Gas Tax Fund, and the Gas Tax Fund reimbursed the General Fund for the same amount. As of June 30, 2020, the advance made to the General Fund has been reduced to \$0.

Planned Implementation Date: June 30, 2020

Responsible Person/s: Douglas Sanders, City Treasurer and Sharon Rahban, City Controller

EP's Comment 2020: Implemented.

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.

EP concurs with the SCO’s recommendation.

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. The City is in agreement with the State Controller’s recommendation to follow internal control policies and procedures. The City send a check for \$652,982 from the General Fund to the SCO during fiscal year 2018. Additionally, we removed any additional unallowable expenses from the Traffic Congestion Relief Fund from fiscal year 2017 to current.

Planned Implementation Date: June 30, 2020

Responsible Person/s: Sharon Rahban, City Controller

EP’s Comment 2020: Implemented.

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.

EP concurs with the SCO's recommendation.

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. The City is in agreement with the State Controller's recommendation to follow internal control policies and procedures. During fiscal year 2020, the City Controller's Office reversed the related ISF charges. Moving forward, the cost allocation plan and budget process will be updated to eliminate any incorrect allocations. We are reviewing fiscal year 2014 through fiscal year 2020 to adjust for any other unallowable charges, which will be posted for fiscal year 2021.

Planned Implementation Date: June 30, 2022

Responsible Person/s: Sharon Rahban, City Controller

EP's Comment 2020: Implemented.

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.

EP concurs with the SCO's recommendation.

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. The City is in agreement with the State Controller's recommendation to follow internal control policies and procedures. These reimbursements are currently being reviewed by accounting staff and will be corrected by fiscal year 2021.

Planned Implementation Date: June 30, 2022

Responsible Person/s: Sharon Rahban, City Controller

EP's Comment 2020: Partially implemented.

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.

EP concurs with the SCO's recommendation.

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. The City is in agreement with the State Controller's recommendation to follow internal control policies and procedures. This was addressed during fiscal year 2020 and all required transfers were made.

Planned Implementation Date: June 30, 2020

Responsible Person/s: Sharon Rahban, City Controller

EP's Comment 2020: Implemented.

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.

EP concurs with the SCO's recommendation.

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. The City is in agreement with the State Controller's recommendation to follow internal control policies and procedures. A check was sent to the SCO for \$130,805 during fiscal year 2018. During fiscal year 2020, the City reimbursed the General Fund from the Gas Tax Fund.

Planned Implementation Date: June 30, 2020

Responsible Person/s: Sharon Rahban, City Controller

EP's Comment 2020: Implemented.

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.

EP concurs with the SCO's recommendation.

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. The City is in agreement with the State Controller's recommendation to follow internal control policies and procedures.

Planned Implementation Date: June 30, 2022

Responsible Person/s: Sharon Rahban, City Controller

EP's Comment 2020: In progress.

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.

EP concurs with the SCO's recommendation.

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. The City is in agreement with the State Controller's recommendation to follow internal control policies and procedures. During fiscal year 2020, \$9,967 was transferred to the Gas Tax Fund. The City Controller's Office is currently reviewing fiscal year 2017 through fiscal year 2020, and will make any additional corrections by fiscal year 2021.

Planned Implementation Date: June 30, 2022

Responsible Person/s: Sharon Rahban, City Controller

EP's Comment 2020: Partially implemented. Corrective action plan in progress.

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.

EP concurs with the SCO's recommendation.

Management Response and Corrective Action Plan

City's Response: The City will establish and document policies and procedures designed to serve as a system of internal controls required by OMB's Uniform Guidance (2CFR 200) in the General Accounting and Accounts Payable policies. In the meantime, the City Controller will conduct training to staff to address this audit area.

Planned Implementation Date: June 30, 2022

Responsible Person/s: Sharon Rahban, City Controller

EP's Comment 2020: In progress.