



CITY OF COMPTON
SINGLE AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2018



CITY OF COMPTON
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JUNE 30, 2018

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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



Eadie + Payne, LLP

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We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the statements of financial position and balance sheets of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Compton, California (the City), as of June 30, 2018, and the related notes to the financial statements (the financial statements) and have issued our report thereon dated December 12, 2019. Our report expressed modified opinions on such financial statements because we were unable to obtain sufficient appropriate audit evidence regarding the allocation of pooled cash balances, or the ending balances of capital assets, land held for resale, and deferred grant revenues.

Internal Control over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs marked MW to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompany schedule of findings and questioned costs marked SD to be significant deficiencies.

Compliance and Other Matters

In connection with our engagement to audit the financial statements of the City, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, which are described in the accompanying schedule of findings and questioned costs as marked NC. Additionally, if the scope of our work had included an audit of the complete basic financial statements of the City, other instances of noncompliance or other matter may have been identified and reported herein.

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

The following schedule summarizes our findings:

FISCAL YEAR	REFERENCE NUMBER	MATERIAL WEAKNESS (MW)	SIGNIFICANT DEFICIENCY (SD)	NON- COMPLIANCE (NC)	BEST PRACTICES (BP)	TOTAL
2017/18	2018-001 to 2018-040	19	11	10	-	40
2016/17	2017-001 to 2017-014	3	-	11	-	14
2015/16	2016-001 to 2016-009	2	1	1	-	4
2014/15	2015-001 to 2015-039	16	11	2	3	32
2013/14	2014-001 to 2014-146C	64	49	2	12	127
		<u>104</u>	<u>72</u>	<u>26</u>	<u>15</u>	<u>217</u>

City of Compton's Response to Findings

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

Purpose of this Report

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

Eddie and Payne HP

December 12, 2019
Riverside, California

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

The Honorable City Council
City of Compton
Compton, California

Report on Compliance for Each Major Federal Program

We have audited City of Compton's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2018. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.



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

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

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

Finding No.	CFDA No.	Name of Federal Program or Cluster	Compliance Requirement
2018-001	14.218	Community Development Block Grants/ Entitlement Grants	Reporting
2018-002			Program Income
2018-003			Program Income
2018-004			Allowable Costs/Cost Principles
2018-005			Allowable Costs/Cost Principles
2018-006			Equipment and Real Property Management
2018-007	14.871	Section 8 Housing Choice Vouchers	Reporting
2018-008			Special Tests and Provisions – Operating Transfers and Administrative Fees
2018-009			Special Tests and Provisions – Housing Quality Standards Inspections
2018-010			Special Tests and Provisions – Rolling Forward Equity Balances
2018-011	14.218 & 14.871	Community Development Block Grants/Entitlement Grants & Section 8	General – Filing of Single Audit Report
2018-012	14.218 & 14.871	Housing Choice Vouchers	General – SEFA Preparation

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

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

In our opinion, because of the significance of the matters discussed in the Basis for Adverse Opinion paragraph, the City did not comply, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Community Development Block Grants/Entitlement Grants and Section 8 Housing Choice Vouchers for the year ended June 30, 2018.

Other Matters

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

Report on Internal Control over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis.

A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2018-001 through 2018-008 and 2018-010 through 2018-012, to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2018-009 to be a significant deficiency.

City's Response to Findings

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

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

Eddie and Payne HP

December 12, 2019
Riverside, California

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

The Honorable City Council
City of Compton
Compton, California

We were engaged to audit the accompanying schedule of expenditures of federal awards of the City of Compton for the year ended June 30, 2018, and the related notes (the SEFA).

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on the SEFA based on our audit. We conducted our audit in accordance with auditing standard generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether the SEFA is free from material misstatement.

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



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An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the SEFA.

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

Basis for Disclaimer of Opinion

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

Disclaimer of Opinion

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

Eddie and Payne HP

December 12, 2019
Riverside, California

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

CITY OF COMPTON
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018

<u>Federal Grantor / Pass-through Grantor / Program or Cluster Title</u>	<u>Federal Catalog Number</u>	<u>Program Identification Number</u>	<u>Total Program Expenditures</u>	<u>Total Amount Provided to Subrecipients</u>
U.S. Department of Housing and Urban Development				
CDBG - Entitlement Grants Cluster				
Direct:				
Community Development Block Grants/Entitlement Grants	14.218	B-17-MC-06-0515	\$ 1,043,173	\$ 104,871
		B-15-MC-06-0516	355,880	-
		B-14-MC-06-0517	144,120	-
		Loans	<u>614,545</u>	-
			<u>2,157,718</u>	<u>104,871</u>
Direct:				
Neighborhood Stabilization Program 1 (NSP1) –				
Community Development Block Grants/State's Program	14.218	B-08-MN-06-0505	21,838	-
Neighborhood Stabilization Program 3 (NSP3) –				
Community Development Block Grants/State's Program	14.218	B-11-MN-06-0505	<u>12,142</u>	-
			<u>33,980</u>	-
Total CDBG - Entitlement Grants Cluster			<u>2,191,698</u>	<u>104,871</u>
Direct:				
Emergency Shelter Grants Program	14.231	E-17-MC-06-0515	<u>10,091</u>	-
Direct:				
HOME Investment Partnership Program	14.239	M-17-MC-06-0506	<u>282,232</u>	-
Housing Voucher Cluster				
Direct:				
Section 8 Housing Choice Vouchers	14.871	CA-071	<u>8,174,148</u>	-
Total U.S. Department of Housing and Urban Development			<u>10,658,169</u>	<u>104,871</u>
U.S. Department of Justice				
Direct:				
Edward Byrne Memorial Justice Assistance Grant	16.738	2016-DJ-BX-0845	<u>6,227</u>	-
Total U.S. Department of Justice			<u>6,227</u>	-
Total Expenditures of Federal Awards			<u>\$ 10,664,396</u>	<u>\$ 104,871</u>

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

CITY OF COMPTON
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (Schedule) includes the federal award activity of City of Compton under programs of the federal government for the year ended June 30, 2018. 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 of Compton, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the City of Compton.

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. 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, 2018 was \$614,545.

4. INDIRECT COST RATE

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

CITY OF COMPTON
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 FOR THE YEAR ENDED JUNE 30, 2018

SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Qualified

Internal control over financial reporting:

– Material weakness identified?	<u> x </u> yes	<u> </u> no
– Significant deficiency identified?	<u> x </u> yes	<u> </u> none reported

Noncompliance material to financial statements noted: x yes no

Federal Awards

Internal control over compliance:

– Material weakness identified?	<u> x </u> yes	<u> </u> no
– Significant deficiency identified?	<u> x </u> yes	<u> </u> none reported

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

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

Identification of major program:

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

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

Auditee qualified as low-risk auditee? yes x no

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

CITY OF COMPTON
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018

INDEX

CURRENT YEAR

MAJOR FEDERAL AWARD PROGRAMS

Department of Housing and Urban Development – Community Development Block Grant

Reporting	2018-001
Program Income	2018-002 to 2018-003
Allowable Costs/Cost Principles	2018-004 to 2018-005
Equipment and Real Property Management	2018-006

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

Reporting	2018-007
Special Tests and Provisions	2018-008 to 2018-010

General

Filing of Single Audit Report	2018-011
Schedule of Expenditures of Federal Awards Preparation	2018-012

FINANCIAL STATEMENTS	2018-013 to 2018-040

PRIOR YEAR

MAJOR FEDERAL AWARD PROGRAMS	2017-001 to 2017-012
	2016-001 to 2016-008
	2015-001 to 2015-011
	2014-001 to 2014-010

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

CITY OF COMPTON
SCHEDULE OF SINGLE AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2018

2018-001 – Reporting (MW, NC)

Federal Program Title:	Community Development Block Grants/Entitlement Grants
Federal Catalog Number:	14.218
Federal Agency:	U.S. Department of Housing and Urban Development
Pass-Through Entity:	Not applicable
Federal Award Number and Year:	B-17-MC-06-0515 – 2018
Category of Finding:	Reporting

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

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

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

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

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

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

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

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

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

Questioned Cost: No costs identified

Context: The SF-425 Federal Financial Report was not available for review. Auditor therefore cannot perform reporting testing on the SF-425 report.

Upon search made in hudexchange.info, the online platform for HUD program information, no CAPER appears to have been submitted for the 2016 program year (FY 2016-2017). The CAPER was completed and timely submitted for the 2017 program year (FY 2017-2018).

The City was able to provide the C04PR03 and C04PR26 reports.

Repeat of a Prior-Year Finding: 2017-001, 2016-002, 2015-003, 2014-005

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

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

Management Response and Corrective Action Plan

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

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

Planned Implementation Date: June 30, 2020

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

2018-002 – Program Income – Identification, Determination, Assessment, and Recording (MW, NC)

Federal Program Title:	Community Development Block Grants/Entitlement Grants
Federal Catalog Number:	14.218
Federal Agency:	U.S. Department of Housing and Urban Development
Pass-Through Entity:	Not applicable
Federal Award Number and Year:	B-17-MC-06-0515 – 2018
Category of Finding:	Program Income – Identification, Determination, Assessment, and Recording

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

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

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

Condition: The City does not have adequate internal controls to identify and record CDBG program income on a regular and timely basis. Program income is not being used to pay for allowable costs prior to drawing down additional funds.

Known program income received in the current year from ten monthly loan repayments totaling \$61,844 did not get reported as such. In addition, it is not clear whether or not two months of loan payments totaling \$12,369 were received and not reported.

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

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

Questioned Cost: \$61,844

Context: There has been no accurate and timely process for the City to record program income. Per the IDIS PR09 report, program income was reported on an annual basis for program years 1997 through 2005. No program income was reported for program years 2008 through 2015. During program year 2016, the grant consultant identified and reported program income received in program years 2011 through 2015. However, not all program year 2016 program income was reported and no 2017 program income was reported.

Repeat of a Prior-Year Finding: 2017-002

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

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

Management Response and Corrective Action Plan

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

Corrective Action Plan: The Controller's office will work with the Grants Division to implement tracking procedures, recording procedures and processes, creation of a centralized database that clearly identifies program income including loan repayments and provide training to staff on how to track, record and report program income. This system will be communicated to all staff members within Grants Division, City Controller's Office and Treasury Department to ensure all parties have access to the database, policies and procedures so they are able to properly code each payment in order to monitor the payment type and record the payment in the correct fiscal year. The City will create a procedures manual that documents policies and procedures designed to serve as the system of internal controls required by OMB's Uniform Guidance (2 CFR 200). In the meantime, the Grants and City Controller's departments will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2021

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

2018-003 – Program Income – CDBG Loan Listing (MW, NC)

Federal Program Title:	Community Development Block Grants/Entitlement Grants
Federal Catalog Number:	14.218
Federal Agency:	U.S. Department of Housing and Urban Development
Pass-Through Entity:	Not applicable
Federal Award Number and Year:	B-17-MC-06-0515 – 2018
Category of Finding:	Program Income – Loan Listing

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

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

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

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

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

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

Questioned Cost: None

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

The loans receivable general ledger balance does not appear to be updated when payments are received. The recorded balance at June 30, 2018 is the same as June 30, 2017 and 2016.

Our review indicated that no CDBG program income was reported from FYE 2009 through FYE 2016. In FYE 2017, program income for FYE 2012 through FYE 2016 was reported as program income along with some, but not all of the FYE 2017 program income. No CDBG program income was reported in FYE 2018.

Repeat of a Prior-Year Finding: 2017-003

Recommendation: We recommend the City maintain a complete listing of outstanding loans and prepare and regularly use a master CDBG-related loan repayment schedule detailing all loans issued to monitor and capture loan repayments that would prompt the recording of program income as repayments are received. In addition, loans receivable should be reconciled to the general ledger on a regular periodic basis.

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

Management Response and Corrective Action Plan

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

Corrective Action Plan: The Controller's office will work with the Grants Division to implement tracking procedures, recording procedures and processes, creation of a centralized database that clearly identifies program income including loan repayments and provide training to staff on how to track, record and report program income. This system will be communicated to all staff members within Grants Division, City Controller's Office and Treasury Department to ensure all parties have access to the database, policies and procedures so they are able to properly code each payment in order to monitor the payment type and record the payment in the correct fiscal year. The Grants Division will create a CDBG procedures manual that documents policies and procedures designed to serve as the system of internal controls required by OMB's Uniform Guidance (2 CFR 200).

In the meantime, the Grants and City Controller's departments will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2021

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

**2018-004 – Internal Controls over Compliance, Allowable Costs/Cost Principles –
Unapproved Payroll Timesheets (MW)**

Federal Program Title: Community Development Block Grants/Entitlement Grants
Section 8 Housing Choice Vouchers
Federal Catalog Number: 14.218
14.871
Federal Agency: U.S. Department of Housing and Urban Development
Pass-Through Entity: Not applicable
Federal Award Number and Year: B-17-MC-06-0515 – 2018
CA-071 – 2018
Category of Finding: Internal Controls over Allowable Costs/Cost Principles

Criteria: The Office of Management and Budget (OMB) 2 CFR Part 200, Appendix XI, Compliance Supplement 2017, Part 6 Internal Control section 6-M-1 states:

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

Condition: The City did not properly approve payroll timesheets for both CDBG and Section 8 program administration expenditures.

Cause: Lack of internal controls and adequate staff training over the proper approval process of electronic timesheets.

Effect or Potential Effect: The City could be charging an inaccurate or unallowable amount of payroll expenditures to its Federal grants programs, which is a noncompliance for allowable costs.

Questioned Cost: Unknown

Context: We selected a sample of two employees for four pay periods each for CDBG and Section 8 to test payroll internal controls and compliance. Our review identified 8 out of the 13 timesheets had no indication of supervisory review and approval, and no further support can be provided to ascertain that the timesheet is accurate and valid for direct program administration to request for Federal award reimbursement.

Repeat of a Prior-Year Finding: No

Recommendation: We recommend the City to strengthen their procedures in place in relation to the timesheet approval process. Only properly reviewed and approved timesheets should be processed by payroll.

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

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation and has already taken steps to implement new policies, procedures and systems that address and mitigate this finding.

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

Corrective Action Plan: The City has adopted and implemented a new Payroll system. The new payroll system operates on an ADP platform which allows for supervisory review and approval of each employee's time card. Additionally, the city is developing a Grants Project-Based reporting policy and procedure that complies with OMB's Uniform Guidance (2 CFR 200) to address payroll approval.

In the meantime, the Grants and City Controller's departments will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2020

Responsible Person: Delmonsha Green, Housing Authority Director, Aubrey Relf, City Grants Manager and Rafaela King, Controller

2018-005 – Allowable Costs/Cost Principles – Lack of Drawdown Supporting Documentation (MW, NC)

Federal Program Title:	Community Development Block Grants/Entitlement Grants
Federal Catalog Number:	14.218
Federal Agency:	U.S. Department of Housing and Urban Development
Pass-Through Entity:	Not applicable
Federal Award Number and Year:	B-17-MC-06-0515 – 2018
Category of Finding:	Allowable Costs/Cost Principles

Criteria: The Office of Management and Budget (OMB) 2 CFR Part 200, Appendix XI, *Compliance Supplement 2017*, sections 3.2-B-12 and 3.2-B-14, respectively, state:

“The individual State/local government/Indian tribe departments or agencies (also known as “operating agencies”) are responsible for the performance or administration of Federal awards. In order to receive cost reimbursement under Federal awards, the department or agency usually submits claims asserting that allowable and eligible costs (direct and indirect) have been incurred in accordance with 2 CFR part 200, subpart E.”

“Costs did not consist of improper payments, including (1) payments that should not have been made or that were made in incorrect amounts (including overpayments and underpayments) under statutory, contractual, administrative, or other legally applicable requirements” and “costs were adequately documented.”

Condition: The City does not maintain adequate supporting documentation for its IDIS drawdown requests to explain and support program reimbursement requests. The City does not have a system in place for the ongoing tracking of drawdowns in line with a regular review and reconciliation of the general ledger. We noted a difference of \$84,286 between City recorded expenditures per the general ledger and the total drawdowns for the current program year in IDIS. Upon further review, we noted a difference of \$33,086 between the IDIS drawdowns and the total award expenditures per the general ledger that could not be reconciled. In addition, the City was not able to provide adequate documentation for administrative costs of \$37,727.

Cause: Lack of internal controls over the logging of drawdown records prior to processing the vouchers for reimbursement in IDIS.

Effect or Potential Effect: The oversight of the drawn voucher in IDIS for Federal grant reimbursement exposes the City to underlying implications that such transactions may get through without appropriate review and authorization. This may lead to the posting of unallowed transactions that would be noncompliant to the program requirements.

Questioned Cost: CDBG Administration drawdown of \$70,813.

Context: Upon the review of the current year IDIS drawdowns to the actual award expenditures per the general ledger, an irreconcilable difference of \$33,086 was noted related to administrative costs. Further review led to a voucher submitted to IDIS for administrative costs that did not get recorded in the City's internal running log of drawdowns and did not have supporting documentation. A form of support was provided not in a timely manner, i.e. a month after initial request, indicating a lack of internal controls over the maintenance and reconciliation of actual IDIS drawdowns and the running drawdown log.

Repeat of a Prior-Year Finding: No

Recommendation: We recommend the City maintain complete and accurate supporting documentation for IDIS drawdowns to provide support that only allowable costs are being claimed for reimbursement.

This addresses COSO's Control Activities, Principle 12: deploys through policies & procedures and Information & Communication, Principle 13: obtains and uses quality information, Principle 15: communicates externally.

Management Response and Corrective Action Plan

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

Corrective Action Plan: The Controller's office will work with the Grants Division to implement tracking procedures, recording accounting procedures and processes, monthly IDIS reconciliation process and creation of a centralized database that tracks all IDIS drawdown requests. The Grants Division will incorporate this new procedure and process into a new CDBG procedures manual. The City will create a procedures manual that documents policies and procedures designed to serve as the system of internal controls required by OMB's Uniform Guidance (2 CFR 200).

In the meantime, the Grants and City Controller's departments will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2021

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

2018-006 – Equipment and Real Property Management – Maintenance of Property Records (MW, NC)

Federal Program Title:	Community Development Block Grants/Entitlement Grants
Federal Catalog Number:	14.218
Federal Agency:	U.S. Department of Housing and Urban Development
Pass-Through Entity:	Not applicable
Federal Award Number and Year:	B-17-MC-06-0515 – 2018
Category of Finding:	Equipment and Real Property Management

Criteria: The Office of Management and Budget (OMB) 2 CFR Part 200, Appendix XI, *Compliance Supplement 2017*, section 3.2-F-1 states:

“Non-Federal entities other than States must follow 2 CFR sections 200.313(c) through (e) which require that:

Property records must be maintained that include a description of the property, a serial number or other identification number, the source of funding for the property (including the Federal award identification number), who holds title, the acquisition date, cost of the property, percentage of Federal participation in the project costs for the Federal award under which the property was acquired, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sales price of the property (2 CFR section 200.313(d)(1)).

A physical inventory of the property must be taken and the results reconciled with the property records at least once every 2 years (2 CFR section 200.313(d)(2)).

A control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of the property. Any loss, damage, or theft must be investigated (2 CFR section 200.313(d)(3)).

Adequate maintenance procedures must be developed to keep the property in good condition (2 CFR section 200.313(d)(4)).”

Condition: The City does not maintain property records of all equipment and real property acquired or improved through Federal funds. The City has not performed a physical inventory of property acquired with federal funds within the past two years. We were therefore unable to test items from these records to ascertain that physical inspections of equipment were conducted, equipment is appropriately safeguarded, property records are maintained, and dispositions were properly handled per Federal awarding agency disposition instructions.

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

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

Questioned Cost: None

Context: The City was not able to provide evidence of a detailed listing for property records in relation to equipment purchased with Federal funds. A fire engine was indicated to have been purchased in the current year in relation to the Public Facilities Improvements Project as noted in the IDIS CDBG Activity Summary Report. Equipment acquisitions were also reported in prior years.

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

Recommendation: We recommend the City maintain complete property records, which include a description, serial number or other identification number, source, title holder, acquisition date, cost, percentage of Federal participation in the cost, location, use and condition, and any ultimate disposition data including the date of disposal and sale price of the property. In addition, we recommend the City perform a physical inspection of property acquired with federal funds at least once every two years.

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

Management Response and Corrective Action Plan

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

Corrective Action Plan: The City Controller's department will establish procedures over the maintenance of property and equipment records and the Grants Division will create an equipment database and incorporate the City Controller's Office procedures into a new CDBG procedures manual that is created based on the system of internal controls required by OMB's Uniform Guidance (2 CFR 200). These records will include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date, cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, any ultimate disposition data including the date of disposal and sale price of the property, purchase policies for physical equipment purchased with federal funds and creation of an annual non-physical inventory process and a bi-annual comprehensive physical inventory.

In the meantime, the City will take steps to address the specific findings noted above.

Planned Implementation Date: June 30, 2021

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

2018-007 – Reporting (MW, NC)

Federal Program Title:	Section 8 Housing Choice Vouchers
Federal Catalog Number:	14.871
Federal Agency:	U.S. Department of Housing and Urban Development
Pass-Through Entity:	Not applicable
Federal Award Number and Year:	CA-071 – 2018
Category of Finding:	Reporting

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

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

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

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

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

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

Condition: The Housing Authority did not submit the required annual FASS-PH and 60002 Section 3 Summary reports for FY 2017-2018 to HUD. In addition, an audited FASS-PH has not been submitted to HUD since FYE 2010 and an unaudited FASS-PH has not been submitted to HUD since FYE 2012.

Cause: Lack of internal control over the preparation and submission of the FASS-PH and 60002 Section 3 reports. The City has not had financial audits completed for fiscal years after June 30, 2014.

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

Questioned Cost: None

Context: The Housing Authority did not submit the required annual FASS-PH and 60002 Section 3 reports to HUD. The City has not filed the FASS-PH report since June 30, 2010.

Repeat of a Prior-Year Finding: 2017-007, 2016-004, 2015-006, 2014-001, 2013-011

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

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

Management Response and Corrective Action Plan

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

Corrective Action Plan: The City Controller's Office will work with the Local Housing Authority Department to create a policy and procedure to ensure the timely submission of all financial reporting and reimbursement requests. The new procedures will require monthly review and updates of these reports in preparation for the submission of the annual report. This will include training of appropriate staff in the Controller's Office and Grant Division and training of various city staff to be involved with each grant program to ensure compliance with terms of the grant and compliance with the OMB's Uniform Guidance (2 CFR 200).

In the meantime, the Grants Division and City Controller's Office will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2020

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

2018-008 – Special Tests and Provisions – Operating Transfers and Administrative Fees (MW, NC)

Federal Program Title:	Section 8 Housing Choice Vouchers
Federal Catalog Number:	14.871
Federal Agency:	U.S. Department of Housing and Urban Development
Pass-Through Entity:	Not applicable
Federal Award Number and Year:	CA-071 – 2018
Category of Finding:	Special Tests and Provisions – Operating Transfers and Administrative Fees

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

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

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

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

Effect or Potential Effect: Use of funds for unallowed costs. The Housing Authority is not in compliance with grant requirements.

Questioned Costs: \$108,104. \$77,542 for professional services and \$30,562 in HAP administrative fees over reimbursed to the City. These amounts are based on the OIG audit report dated July 11, 2019.

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

Repeat of a Prior-Year Finding: 2017-010

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

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

Management Response and Corrective Action Plan

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

Corrective Action Plan: The City Controller's Office will work with the Local Housing Authority Department to create a policy and procedure to ensure the timely submission of all financial reporting and reimbursement requests. The new procedures will require monthly review and updates of these reports in preparation for the submission of the annual report. Including but not limited to conducting public hearings, completing, maintaining, and properly agendaing notices of completion, and proper preparation and submission of the FASS-PH report. This will include training of appropriate staff in the Controller's Office and Grant Division and training of various city staff to be involved with each grant program to ensure compliance with terms of the grant and compliance with the OMB's Uniform Guidance (2 CFR 200).

In the meantime, the Grants Division and City Controller's Office will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2021

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

2018-009 – Special Tests and Provisions – Housing Quality Standards Inspections & HQS Enforcement (SD, NC)

Federal Program Title:	Section 8 Housing Choice Vouchers
Federal Catalog Number:	14.871
Federal Agency:	U.S. Department of Housing and Urban Development
Pass-Through Entity:	Not applicable
Federal Award Number and Year:	CA-071 – 2018
Category of Finding:	Special Tests and Provisions – Housing Quality Standards Inspections & HQS Enforcement

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

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

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

Condition: Our review identified six (6) re-inspections out of the total sixteen (16) that were performed were completed after the required 30-day time period. Our review also identified one required inspection for the year that had not been conducted.

Cause: The HQS re-inspections were not performed in a timely manner due to delays on the abated status on the property or more focus on other urgent inspections. The high volume of requested inspections and the shortage of staff during the audit examination period were also factors.

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

Questioned Cost: None

Context: Of the sixty (60) participant files reviewed, fifteen (15) required re-inspection. Of those 15, the City failed to perform re-inspections for six (6) participants within the 30-day time period.

Repeat of a Prior-Year Finding: 2017-008, 2016-005, 2015-007, 2014-002, 2013-012

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

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

Management Response and Corrective Action Plan

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

Corrective Action Plan: The Compton Housing Authority (CHA) has taken an assertive approach to correct the above finding by revising the CHA's Administrative Plan. The CHA has determined that it would be more attainable that re-inspections must be completed no more than 45 days instead of 30 days. This modification to the CHA policies and procedures will ensure that the CHA meets the program's requirement and any ramifications on possible loss of subsidies due to loss of grant funding.

In addition to revising the CHA Policies and Procedures, the CHA has updated and modified our inspection letters. In each letter, the CHA emphasized the importance of the precise time frame, which must be met for inspections or re-inspections, in order for the unit to meet the Housing Quality Standards and continue to qualify for the program without any break in the Housing Assistance Payment (HAP).

Planned Implementation Date: New policy effective September 1, 2019

Responsible Person: Delmonsha Green, Housing Director

2018-010 – 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 – 2018
Category of Finding:	Special Tests and Provisions – Rolling Forward Equity Balances

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

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

Condition: The Housing Authority is required to properly account for program activity. We were unable to obtain the housing assistance payments (HAP) equity account roll-forward for the year ended June 30, 2018.

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, 2018.

Repeat of a Prior-Year Finding: 2017-009, 2016-006, 2015-008, 2014-003, 2013-013

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

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

Management Response and Corrective Action Plan

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

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

Planned Implementation Date: June 30, 2020

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

2018-011 – Filing of Single Audit Report (MW, NC)

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

Condition: The City did not complete the audit and submit the Single Audit Reporting Package (the City's audited financial statements and single audit reports) for the fiscal years ended June 30, 2012, 2013, 2014, 2015, 2016, 2017, and 2018 within nine months after the end of audit period or March 31, 2013, 2014, 2015, 2016, 2017, 2018, and 2019 respectively.

Cause: The City has been severely behind on its recording and reconciliations for financial transactions. 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 financial statement audits could not be completed.

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

Questioned Cost: None

Context: The Single Audit Reporting Package has not been submitted within nine months for the past seven years. The 2018 Single Audit Reporting Package is past due.

Repeat of a Prior-Year Finding: 2017-011, 2016-007, 2015-010, 2014-009, 2013-005, 2012-005

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

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

Management Response and Corrective Action Plan

City's Response: The City has submitted Single Audit packets without audited financial statements for the years ended June 30, 2014 through 2017. The City expects to file its fiscal year ending 2019 Single Audit on time.

Corrective Action Plan: City Management and Controller are continuing to work with auditors to ensure delinquent reports are submitted as soon as possible and that the fiscal year ending 2019 report can be submitted in a timely manner.

Planned Implementation Date: June 30, 2020

Responsible Person: Craig J. Cornwell, City Manager and Rafaela King, Controller

2018-012 – Schedule of Expenditures of Federal Awards (Schedule) Preparation (MW)

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

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

Condition: The draft SEFA prepared by the City for audit reported both an incorrect and incomplete breakdown of its CDBG program expenditures for the current fiscal year under audit as they pertain to individual grant IDs. The City is reporting both an incorrect and incomplete breakdown of its CDBG program expenditures for the current fiscal year under audit as they pertain to individual grant IDs per the PR03 CDBG Activity Summary Report submitted to IDIS. The City initially provided a single line item for grant year for 2017, and later a breakdown by grant year for 2017 and 2018 upon further inquiry with the City. The breakdown, however, did not agree with the PR03 report in relation to the irreconcilable difference noted in finding 2018-005. Review of IDIS CDBG Activity Summary Report indicates that breakdown should relate to grant IDs for years 2014, 2015, and 2017.

In addition, the draft SEFA did not include amounts paid to subrecipients or loans.

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

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

Questioned Cost: None

Context: The client-prepared SEFA reports incorrect program identification numbers for CDBG expenditures, does not include amounts provided to subrecipients, and does not include loans.

Repeat of a Prior-Year Finding: 2017-012, 2016-008, 2015-011, 2014-010, 2013-006

Recommendation: We recommend the City implement grant award tracking procedures, which provide information on which expenditures were drawn down from which grant award ID for an accurate reporting of the breakdown of expenditures. The Grants Division should be involved in the preparation and review of the draft SEFA to ensure completeness and accuracy.

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

Management Response and Corrective Action Plan

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

Corrective Action Plan: The City Controller's Office and the Grants Division will work together to in the preparation of the SEFA. The Grants Division will be responsible for reporting to the City Controller's Office all Federal grants received by the City, including the Grantor Agency, Grant ID number, Grant Award amount and Grant Program description. The City Controller's office will be responsible for preparation of the SEFA with the Independent Auditors, tracking all federal grant award expenditures and coordinating internal review of the SEFA.

These policies and procedures will be incorporated within the Grants Division procedures manual and the City Controller's Office policies and procedures. The policies and procedures will include but not limited to the assignment of authority and responsibility, reconciliation, and review of the SEFA.

In the meantime, the City Controller Office will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2020

Responsible Person: Craig J. Cornwell, City Manager, Rafaela King, Controller and Aubrey Relf, Grants Manager

CITY OF COMPTON
SCHEDULE OF FINANCIAL STATEMENT AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2018

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.

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

Management Response and Corrective Action Plan

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

Corrective Action Plan: The Controller's Office has hired additional staff and senior level accountants and assigned them to bring current all bank reconciliations and other accounting functions. The Controller has made significant progress in catching up on all bank reconciliations. As part of the process, the department has implemented two key attributes and checks to assist in the internal controls. The first is ensuring that all transactions are recorded as they occur. The second is having daily checks on deposits made to the bank against the cash receipts log received from the Treasurer's Office. Any discrepancies are addressed at the moment irrespective of the bank reconciliation which is conducted by an additional person.

This higher level of experience is expected to help in assuring the day to day operations of the department occur timely and are more accurate. As the process moves along, new policies & procedures are being implemented. The City will document these policies and procedures which will be designed to serve as a system of internal controls required by OMB's Uniform Guidance (2 CFR 200). In the meantime, the City will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2020

Responsible Person: Rafaela King, Controller

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 Controller's Office experienced severe staff turnover in recent years. The Controller's Office has since hired additional staff and senior level accountants and assigned them the regular review of cash balances and the initiation of transfers in response.

This higher level of experience is expected to help in assuring the day to day operations of the department occur timely and are more accurate. As the process moves along, new policies & procedures are being implemented. The City will document these policies and procedures which will be designed to serve as a system of internal controls required by OMB's Uniform Guidance (2 CFR 200).

Planned Implementation Date: June 30, 2021

Responsible Person: Craig J. Cornwell, City Manager and Rafaela King, Controller

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.

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

Management Response and Corrective Action Plan

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

Corrective Action Plan: The Controller's Office has hired additional staff and senior level accountants and assigned them to bring current all reconciliations and other accounting functions. This higher level of experience is expected to help in assuring the day to day operations of the department occur timely and are more accurate. The Accounts Receivable function was decentralized out of the Controller's Office several years ago. Thus there was no client interaction from the Controller's Office staff to manage the Accounts Receivable functions. The Controller intends to centralize the Accounts Receivable function in the Controller's Office in order to ensure proper record keeping and that reconciliations happen on a regular and consistent basis.

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: Rafaela King, Controller

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.

This addresses COSO's Control Environment, Principle 4: demonstrates commitment to competency, Principle 5: enforces accountability, and Control Activities, Principle 10: selects and develops control activities, Principle 12: deploys through policies & procedures.

Management Response and Corrective Action Plan

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

Corrective Action Plan: The Controller's Office has hired additional staff and senior level accountants and assigned them to bring current all reconciliations and other accounting functions. This higher level of experience is expected to help in assuring the day to day operations of the department occur timely and are more accurate.

The Grants Division will create and implement a Loan Receivable system that includes tracking procedures, recording payments and reimbursements for all Loans receivables for State and Federal grants. The procedures will include a monthly IDIS and Loan reconciliation process and creation of a centralized database for all Loans associated with State and Federal grants. The Grants Division will incorporate this new procedure and process into a new CDBG procedures manual and share this system with the City Controller's Office. The City's new procedures manual is designed to serve as the system of internal controls required by OMB's Uniform Guidance (2 CFR 200).

In the meantime, the City will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2021

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

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.

This addresses COSO's Control Environment, Principle 4: demonstrates commitment to competency, Principle 5: enforces accountability, and Control Activities, Principle 10: selects and develops control activities, Principle 12: deploys through policies & procedures.

Management Response and Corrective Action Plan

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

Corrective Action Plan: The Grants 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: Aubrey Relf, City Grants Manager, and Rafaela King, Controller

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.

This addresses COSO's Control Environment, Principle 4: demonstrates commitment to competency, Principle 5: enforces accountability, and Control Activities, Principle 10: selects and develops control activities, Principle 12: deploys through policies & procedures.

Management Response and Corrective Action Plan

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

Corrective Action Plan: The Controller's Office has hired additional staff and senior level accountants and assigned them to bring current all reconciliations and other accounting functions. This higher level of experience is expected to help in assuring the day to day operations of the department occur timely and are more accurate.

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

2018-019 – 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.

This addresses COSO's Control Environment, Principle 4: demonstrates commitment to competency, Principle 5: enforces accountability, and Control Activities, Principle 10: selects and develops control activities, Principle 12: deploys through policies & procedures.

Management Response and Corrective Action Plan

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

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

Planned Implementation Date: June 30, 2021

Responsible Person: Water Department, Rafaela King, Controller

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.

This addresses COSO's Control Environment, Principle 4: demonstrates commitment to competency, Principle 5: enforces accountability, and Control Activities, Principle 10: selects and develops control activities, Principle 12: deploys through policies & procedures.

Management Response and Corrective Action Plan

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

Corrective Action Plan: A few years ago, staff recorded an adjusting journal entry without any supporting documentation that turned out to be incorrect and was carried forward. The correction has been made. Going forward, Balance Sheet accounts will be reviewed on a more frequent basis prior to year-end and to ensure transactions are recorded correctly.

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

Planned Implementation Date: June 30, 2020

Responsible Person: Rafaela King, Controller

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.

This addresses COSO's Control Environment, Principle 4: demonstrates commitment to competency, Principle 5: enforces accountability, and Control Activities, Principle 10: selects and develops control activities, Principle 12: deploys through policies & procedures.

Management Response and Corrective Action Plan

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

Corrective Action Plan: The Controller's Office has hired additional staff and senior level accountants and assigned them to bring current all reconciliations and other accounting functions. This higher level of experience is expected to help in assuring the day to day operations of the department occur timely and are more accurate. Interfund balance review will be added to the year-end closing checklist to ensure this task is not missed due to staff turnover. As the process moves along, new policies & procedures are being implemented. The City will document these policies and procedures which will be designed to serve as a system of internal controls required by OMB's Uniform Guidance (2 CFR 200). In the meantime, the City will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2021

Responsible Person: Rafaela King, Controller

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 was unable to make the payment due to the current hardship of the City's financial condition. The City is diligently continuing efforts reduce its general fund deficit by implementing cost saving measures in response for the enhanced management of expenditures and revenue generation. City management will review the current repayment plan and work on a realistic repayment schedule to adhere to.

Planned Implementation Date: June 30, 2021

Responsible Person: Craig J. Cornwell, City Manager and Rafaela King, Controller

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.

This addresses COSO's Control Environment, Principle 4: demonstrates commitment to competency, Principle 5: enforces accountability, and Control Activities, Principle 10: selects and develops control activities, Principle 12: deploys through policies & procedures.

Management Response and Corrective Action Plan

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

Corrective Action Plan: The City intends to hire an outside company to prepare inventory of Capital Assets. Monthly and year end closing schedules have been created and are continually being added to as issues arise. 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: Rafaela King, Controller

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.

This addresses COSO's Control Environment, Principle 4: demonstrates commitment to competency, Principle 5: enforces accountability, and Control Activities, Principle 10: selects and develops control activities, Principle 12: deploys through policies & procedures.

Management Response and Corrective Action Plan

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

Corrective Action Plan: Staff will work with the City Manager's Office and the Planning Department to ensure all property has been captured and updated. We will have the outside company verify as part of the capital asset updates. 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, 2020

Responsible Person: Rafaela King, Controller

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.

This addresses COSO's Control Environment, Principle 5: enforces accountability, and Control Activities, Principle 10: selects and develops control activities, Principle 12: deploys through policies & procedures, Information and Communication, Principle 13: obtains and uses quality information.

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, 2020

Responsible Person: Rafaela King, Controller

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.

This addresses COSO's Control Environment, Principle 4: demonstrates commitment to competency, Principle 5: enforces accountability, and Control Activities, Principle 10: selects and develops control activities, Principle 12: deploys through policies & procedures.

Management Response and Corrective Action Plan

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

Corrective Action Plan: The Controller's Office has hired additional staff and senior level accountants and assigned them to bring current all reconciliations and other accounting functions. This higher level of experience is expected to help in assuring the day to day operations of the department occur timely and are more accurate. All staff in the Controller's Office will be scheduled for training in governmental accounting as classes become available. Three staff members have attended CSMFO intermediate training. The Controller and Deputies will attend training at conferences and other courses as they become available. The department has implemented procedures to ensure all closing entries that need to be reversed are processed at the same time as the original entry to ensure the reversal is recorded timely. 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, 2020

Responsible Person: Rafaela King, Controller

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.

This addresses COSO's Control Environment, Principle 4: demonstrates commitment to competency, Principle 5: enforces accountability, and Control Activities, Principle 10: selects and develops control activities, Principle 12: deploys through policies & procedures.

Management Response and Corrective Action Plan

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

Corrective Action Plan: The Controller's Office has hired additional staff and senior level accountants and assigned them to bring current all reconciliations and other accounting functions. This higher level of experience is expected to help in assuring the day to day operations of the department occur timely and are more accurate. All staff in the Controller's Office will be scheduled for training in governmental accounting as classes become available. Three staff members have attended CSMFO intermediate training. The Controller and Deputies will attend training at conferences and other courses as they become available. The department has implemented procedures to ensure all closing entries that need to be reversed are processed at the same time as the original entry to ensure the reversal is recorded timely. 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, 2020

Responsible Person: Rafaela King, Controller

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.

This addresses COSO's Control Environment, Principle 4: demonstrates commitment to competency, Principle 5: enforces accountability, and Control Activities, Principle 10: selects and develops control activities, Principle 12: deploys through policies & procedures.

Management Response and Corrective Action Plan

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

Corrective Action Plan: The Controller's Office has hired additional staff and senior level accountants and assigned them to bring current all reconciliations and other accounting functions. This higher level of experience is expected to help in assuring the day to day operations of the department occur timely and are more accurate. Procedures were created to ensure all accrued liabilities are identified and recorded was put into place at the end of fiscal year 2019. All expenses incurred are now in separate batches to ensure the liability is recorded in the proper year. 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, 2019

Responsible Person: Rafaela King, Controller

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.

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

Management Response and Corrective Action Plan

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

Corrective Action Plan: The purchasing/contract management functions are still being developed and refined. Retentions Payable review will be assigned to this division to maintain as they will also be charged with maintaining the Capital Assets schedule. As the process moves along, new policies & procedures are being implemented. The City will document these policies and procedures which will be designed to serve as a system of internal controls required by OMB's Uniform Guidance (2 CFR 200). In the meantime, the City will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2020

Responsible Person: Rafaela King, Controller

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 Controller's Office has hired additional staff and senior level accountants and assigned them to bring current all reconciliations and other accounting functions. This higher level of experience is expected to help in assuring the day to day operations of the department occur timely and are more accurate. All staff in the Controller's Office will be scheduled for training in governmental accounting as classes become available. Three staff members have attended CSMFO intermediate training. The Controller and Deputies will attend training at conferences and other courses as they become available. The department has implemented procedures to ensure all closing entries that need to be reversed are processed at the same time as the original entry to ensure the reversal is recorded timely. 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: Craig J. Cornwell, City Manager and Rafaela King, Controller

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 Manager's Office will work closely together with the Controller's Office for a continued effort in the preparation of the annual budget to reflect and incorporate special revenue funds' expected budgets. The City's administration will adhere to using further itemization for a greater detail on budgeted line items for special revenue funds. The City will also continue its recent practice of quarterly budgetary updates at City Council meetings where a comparison between budget and actual expenditures are presented.

Planned Implementation Date: June 30, 2021

Responsible Person: Craig J. Cornwell, City Manager and Rafaela King, Controller

2018-032 – Tax Revenues Earned but Unavailable (MW)

Criteria: For governmental funds, tax revenues receivable that have not been received during the measurement period should be recorded as earned but unavailable.

Condition: The amount recorded as tax revenues earned but unavailable as of June 30, 2018 was overstated by \$4.9 million, because an entry was made to record the current year unavailable tax revenue, but the prior year balance had not been reversed.

Cause: Year-end accruals should generally be reversed at the beginning of the next fiscal year. When accruals or deferral are recorded, the ending general ledger balance should be reviewed to ensure that the ending balance is correct. Inadequate staff training and ineffective supervision and review.

Effect or Potential Effect: Revenue earned by unavailable and the related revenue accounts could be materially misstated.

Repeat of a Prior-Year Finding: No

Recommendation: The City should implement and maintain procedures to review year-end accruals and deferrals, including tax revenue earned but unavailable to ensure that ending balances recorded are appropriate.

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

Management Response and Corrective Action Plan

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

Corrective Action Plan: The Controller's Office has hired additional staff and senior level accountants and assigned them to bring current all reconciliations and other accounting functions. This higher level of experience is expected to help in assuring the day to day operations of the department occur timely and are more accurate. The department has implemented procedures to ensure all closing entries that need to be reversed are processed at the same time as the original entry to ensure the reversal is recorded timely.

All staff in Controller's Office will be scheduled for training in governmental accounting as classes become available. Three staff members have attended CSMFO intermediate training. The Controller and Deputies will attend training at conferences and other courses as they become available.

As the process moves along, new policies & procedures are being implemented. The City will document these policies and procedures which will be designed to serve as a system of internal controls required by OMB's Uniform Guidance (2 CFR 200). In the meantime, the City will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2020

Responsible Person: Rafaela King, Controller

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 Department 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 Department 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.

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

Management Response and Corrective Action Plan

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

Corrective Action Plan: The Controller's Office has hired additional staff and senior level accountants and assigned them to bring current all reconciliations and other accounting functions. This higher level of experience is expected to help in assuring the day to day operations of the department occur timely and are more accurate. The department has implemented procedures to ensure all closing entries that need to be reversed are processed at the same time as the original entry to ensure the reversal is recorded timely. The Controller's Office is working closely with the grants division to ensure grant revenues and receivables are recorded properly.

All staff in Controller's Office will be scheduled for training in governmental accounting as classes become available. Three staff members have attended CSMFO intermediate training. The Controller and Deputies will attend training at conferences and other courses as they become available. As the process moves along, new policies & procedures are being implemented. The City will document these policies and procedures which will be designed to serve as a system of internal controls required by OMB's Uniform Guidance (2 CFR 200). In the meantime, the City will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2020

Responsible Person: Rafaela King, Controller

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.

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

Management Response and Corrective Action Plan

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

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

Planned Implementation Date: June 30, 2020

Responsible Person: Rafaela King, Controller

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.

This addresses COSO's Control Environment, Principle 4: demonstrates commitment to competency, Principle 5: enforces accountability, and Control Activities, Principle 10: selects and develops control activities, Principle 12: deploys through policies & procedures.

Management Response and Corrective Action Plan

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

Corrective Action Plan: All journal entries are now reviewed by a Deputy Controller prior to posting. Furthermore, to become more knowledgeable of GASB standards updates, all general ledger staff will be sent for training on Intermediate Government Accounting as classes are available during this fiscal year. 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, 2020

Responsible Person: Rafaela King, Controller

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.

This addresses COSO's Control Environment, Principle 3: establishes appropriate authorities and responsibilities, Principle 5: enforces accountability, and Control Activities, Principle 10: selects and develops control activities.

Management Response and Corrective Action Plan

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

Corrective Action Plan: The City is in the process of catching up on all financial statement issuances. Once caught up, the city will remain in compliance with bond covenants and provisions. The continuing disclosure requirements have been added to the year-end closing checklist to ensure nothing is missed. 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, 2020

Responsible Person: Rafaela King, Controller

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: As noted in the California State Controller review report on the City's administrative and internal accounting controls in March 2018, the City is diligently continuing to reduce its current general fund deficit by adhering to a long-term plan to eliminate fund deficits. Such actions have been underway, such as implementing cost saving measures in response for the enhanced management of expenditures and revenue generation. New revenue enhancements and their implementation are being developed in order to capture expected expenditures of the City.

Planned Implementation Date: June 30, 2021

Responsible Person: Craig J. Cornwell, City Manager and Rafaela King, Controller

2018-038 – Payroll – 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 has hired a licensed CPA as Deputy Controller with extensive payroll experience. The Deputy Controller is currently cleaning up payroll areas and training staff in all payroll-related matters. In addition, the City is also in the process of replacing the Payroll Supervisor position with another skilled accountant to ensure compensation made to City employees are for actual qualifying merit and step increases. The Payroll Department is currently auditing and fixing all errors in the system to ensure the retro payments can be paid through the system when possible. Changes in rates are monitored through HR and are not processed in Payroll without properly executed documentation. The City will also establish and document policies and procedures designed to serve as a system of internal controls required by OMB's Uniform Guidance (2 CFR 200). In the meantime, the Human Resources and City Controller department will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2020

Responsible Person: Craig J. Cornwell, City Manager and Rafaela King, Controller

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 Controller's Office has been undertaking the task of assessing its current processes and has implemented policies and procedures to segregate the identified incompatible function above over to the Human Resources Department. The City will ensure that these financial processes are reflected within the City's written policies and procedures.

Planned Implementation Date: June 30, 2020

Responsible Person: Craig J. Cornwell, City Manager and Rafaela King, Controller

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.

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

2017-001 – Reporting (MW, NC)

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

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

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

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

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

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

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

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

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

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

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

Questioned Cost: No costs identified

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

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

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

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

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

Management Response and Corrective Action Plan

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

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

Planned Implementation Date: June 30, 2020

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

Current Status: In progress

E+P's Comment 2018: Repeat Finding 2018-001

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

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

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

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

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

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

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

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

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

Questioned Cost: None

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

Repeat of a Prior-Year Finding: No

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

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

Management Response and Corrective Action Plan

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

Corrective Action Plan:

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

Planned Implementation Date: June 30, 2021

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

Current Status: In progress

E+P's Comment 2018: Repeat Finding 2018-002

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

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

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

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

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

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

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

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

Questioned Cost: None

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

The loans receivable general ledger balance does not appear to be updated when payments are received. The recorded balance at June 30, 2018 is the same as June 30, 2017.

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

Repeat of a Prior-Year Finding: No

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

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

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

Management Response and Corrective Action Plan

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

Corrective Action Plan:

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

Planned Implementation Date: June 30, 2021

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

Current Status: In progress

E+P's Comment 2018: Repeat Finding 2018-003

2017-004 – Subrecipient Monitoring (SD, NC)

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

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

"A pass-through entity (PTE) must:

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

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

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

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

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

Questioned Cost: None

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

Repeat of a Prior-Year Finding: No

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

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

Management Response and Corrective Action Plan

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

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

Planned Implementation Date: June 30, 2021

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

Current Status: In progress

E+P's Comment 2018: Internal control policies and procedures have not been provided for review.

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

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

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

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

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

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

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

Questioned Cost: None

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

Repeat of a Prior-Year Finding: No

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

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

Management Response and Corrective Action Plan

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

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

Planned Implementation Date: June 30, 2021

Responsible Person: Aubrey Relf, Grants Manager

Current Status: In progress

E+P's Comment 2018: Internal control policies and procedures have not been provided for review.

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

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

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

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

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

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

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

Questioned Cost: None

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

Repeat of a Prior-Year Finding: No

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

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

Management Response and Corrective Action Plan

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

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

Planned Implementation Date: June 30, 2021

Responsible Person: Aubrey Relf, Grants Manager

Current Status: In progress

E+P's Comment 2018: Internal controls policies and procedures have not been provided for review.

2017-007 – Reporting (MW, NC)

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

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

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

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

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

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

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

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

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

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

Questioned Cost: None

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

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

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

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

Management Response and Corrective Action Plan

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

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

Planned Implementation Date: June 30, 2020

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

Current Status: In progress. The City management, Controller, Housing department and auditors have met with HUD to resolve issue of acceptance of Single Audit (prior year) reports. Staff continues to follow directions from HUD.

E+P's Comment 2018: Repeat Finding 2018-007

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

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

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

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

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

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

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

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

Questioned Cost: None

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

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

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

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

Management Response and Corrective Action Plan

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

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

Planned Implementation Date: June 30, 2020

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

Current Status: The Compton Housing Authority (CHA) has taken an assertive approach to correct the above finding by revising the CHA's Administrative Plan. The CHA has determined that it would be more attainable that re-inspections must be completed no more than 45 days instead of 30 days. This modification to the CHA policies and procedures will ensure that the CHA meets the program's requirement and any ramifications on possible loss of subsidies due to loss of grant funding. The new policy was effective beginning September 1, 2019.

In addition to revising the CHA Policies and Procedures, the CHA has updated and modified our inspection letters. In each letter, the CHA emphasized the importance of the precise time frame, which must be met for inspections or re-inspections, in order for the unit to meet the Housing Quality Standards and continue to qualify for the program without any break in the Housing Assistance Payment (HAP).

E+P's Comment 2018: Repeat Finding 2018-009

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

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

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

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

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

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

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

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

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

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

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

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

Management Response and Corrective Action Plan

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

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

Planned Implementation Date: June 30, 2020

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

E+P's Comment 2018: Repeat Finding 2018-010

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

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

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

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

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

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

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

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

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

Repeat of a Prior-Year Finding: No

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

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

Management Response and Corrective Action Plan

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

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

Planned Implementation Date: June 30, 2021

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

Current Status: In progress

E+P's Comment 2018: Repeat Finding 2018-008

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

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

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

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

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

Questioned Cost: None

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

Repeat of a Prior-Year Finding: 2016-007, 2015-010, 2014-009, 2013-005, 2012-005

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

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

Management Response and Corrective Action Plan

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

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

The City management, Controller, Housing Department, and auditors have met with HUD to resolve issue of acceptance of Single Audit (prior year) reports. Staff continues to follow directions from HUD.

Planned Implementation Date: June 30, 2020

Responsible Person: Craig J. Cornwell, City Manager and Rafaela King, Controller

E+P's Comment 2018: Repeat Finding 2018-011

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

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

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

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

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

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

Questioned Cost: None

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

Repeat of a Prior-Year Finding: 2016-008, 2015-011, 2014-010, 2013-006

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

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

Management Response and Corrective Action Plan

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

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

Planned Implementation Date: June 30, 2020

Responsible Person: Rafaela King, Controller

Current Status: In progress

E+P's Comment 2018: Repeat Finding 2018-012. The City has changed implementation date from June 30, 2019 to June 30, 2020.

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

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

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

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

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

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

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

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

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

Questioned Cost: Not reportable

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

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

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

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

Management Response and Corrective Action Plan

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

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

Planned Implementation Date: June 30, 2021

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

Current Status: In progress

E+P's Comment 2018: We concur with current status.

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

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

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

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

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

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

Questioned Cost: \$750,035.

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

Repeat of a Prior-Year Finding: No

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

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

Management Response and Corrective Action Plan

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

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

Planned Implementation Date: June 30, 2020

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

Current Status: No update

E+P's Comment 2018: Not tested in 2018. Internal control policies and procedures have not been provided for review.

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

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

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

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

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

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

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

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

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

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

Questioned Cost: Unknown amount for purchase of equipment

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

Repeat of a Prior-Year Finding: 2014-007

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

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

Management Response and Corrective Action Plan

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

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

Planned Implementation Date: June 30, 2020

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

E+P's Comment 2018: Repeat finding 2018-006

2015-004 – Cash Management (SD, NC)

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

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

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

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

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

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

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

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

Repeat of a Prior-Year Finding: No

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

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

Management Response and Corrective Action Plan

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

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

Planned Implementation Date: June 30, 2020

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

Current Status: No update

E+P's Comment 2018: Internal control policies and procedures have not been provided for review.

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

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

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

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

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

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

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

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

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

Repeat of a Prior-Year Finding: No

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

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

Management Response and Corrective Action Plan

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

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

Planned Implementation Date: June 30, 2020

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

Current Status: No update

E+P's Comment 2018: Internal control policies and procedures have not been provided for review.

2015-009 – General Program (SD, NC)

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

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

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

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

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

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

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

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

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

Repeat of a Prior-Year Finding: No

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

This addresses COSO's Control Activities, Principle 12: deploys through policies & procedures and Monitoring Activities, Principle 16: conducts ongoing and/or separate evaluations.

Management Response and Corrective Action Plan

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

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

Planned Implementation Date: June 30, 2020

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

E+P's Comment 2018: Finding cleared

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

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

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

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

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

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

Questioned Cost: None

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

Repeat of a Prior-Year Finding: 2014-009, 2013-005, 2012-005

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

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

Management Response and Corrective Action Plan

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

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

Planned Implementation Date: June 30, 2020

Responsible Person: Craig J. Cornwell, City Manager and Rafaela King, Controller

E+P's Comment 2018: Repeat finding 2018-011

2014-004 – Subrecipient Monitoring (MW, NC)

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

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

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

(1) Monitor the subrecipient's use of federal awards through reporting, site visits, regular contact, or other means to provide reasonable assurance that the subrecipient administers Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

(2) Ensure that subrecipients expending \$500,000 in federal awards during the subrecipient's fiscal year have met the audit requirements of this part for that fiscal year.

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

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

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

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

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

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

Repeat of a Prior-Year finding: 2013-009

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

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

Management Response and Corrective Action Plan

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

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

Planned Implementation Date: June 30, 2020

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

Current Status: No update

E+P's Comment 2018: Internal control policies and procedures have not been provided for review.

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

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

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

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

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

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

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

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

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

Repeat of a Prior-Year finding: 2013-010

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

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

Management Response and Corrective Action Plan

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

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

Planned Implementation Date: June 30, 2020

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

Current Status: No update

E+P's Comment 2018: Internal control policies and procedures have not been provided for review.

2013-015 – Reporting (SD, NC)

Federal Program Title:	Congressionally Mandated Projects
Federal Catalog Number:	66.202
Federal Agency:	U.S. Environmental Protection Agency- Office of the Chief Financial Officer
Pass-Through Entity:	Not applicable
Federal Award Number and Year:	XP-96965001-2013; XP-OOT80701-2012
Category of Finding:	Reporting

Criteria: OMB Circular A-102 Common Rule requires that non-Federal entities receiving Federal awards (e.g., the City) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

Per the administrative and programmatic conditions in the grants agreement for award number XP-96965001, the City is required to comply with the following requirements:

1. The Financial Status Report covering the period from "project/budget period start date" to September 30 of each calendar year shall be submitted to the Grants Management Office, no later than December 31 of the same calendar year.
2. The recipient agrees to complete and submit to the Grants Management Office, a Minority Business Enterprise/Woman Business Enterprise (MBE/WBE) Utilization Report (EPA Form 5700-52A), within 30 days after the end of the Federal fiscal year, i.e., by October 30 of each calendar year. Negative reports are required.
3. The recipient shall submit quarterly progress reports to the U.S. Environmental Protection Agency Project Officer within 30 calendar days after the end of each Federal fiscal quarter (January 30, April 30, July 30, and October 30).

Per the administrative and programmatic conditions in the grants agreement for award number XP-OOT80701, the City is required to comply with the following requirements:

1. The final Federal Financial Report covering the entire project period shall be submitted within 90 days after the end of the project period according to 40 CFR Part 31.23(b) and 31.41(b).
2. The recipient agrees to complete and submit to the Grants Management Office, a MBE/WBE Utilization Report (EPA Form 5700-52A), within 30 days after the end of the semi-annual reporting period; i.e., by April 30 and October 30 of each calendar year. Negative reports are required.
3. Semi-annual technical performance reports must be submitted within 30 days following the end of each six-month period and must include documentation of the costs incurred during the reporting period.

Condition: During our audit of the program, we noted the following:

1. (SD, NC) The "recipient share of expenditures" in one Financial Status Report for award number XP-96965001 did not agree with the accounting record.
2. (SD, NC) The following reports were not submitted by the due date.
 - a. Award number XP-96965001 - Financial Status Report: The due date was December 31, 2012, but the City submitted it on July 23, 2013.
 - b. Award number XP-OOT80701 - Final Federal Financial Report: The due date was August 13, 2013, but the City submitted it on August 27, 2013.
 - c. (NC) The City was not able to provide two selected MBE/WBE Utilization Reports and three selected performance reports.

Cause: Lack of formal policies and procedures over preparation and submitting the required reports.

Effect: Failure to reporting the accurate amount on the Financial Status Report, submitting the reports on a timely basis, and submitting the required reports may result in non-compliance with the OMB Circular A-102 Common Rule and the grant agreements.

Questioned Costs: Not applicable because the recipient share of expenditure in the Financial Status Report was not federally funded and the MBE/WBE Utilization Reports and performance reports do not include federal expenditures.

Context: Seven out of the seven reports tested, we noted the following:

1. One report did not agree with the accounting record regarding the recipient shared of expenditure.
2. Two reports were not submitted on a timely basis.
3. Five reports were not provided to us in order to verify that the reports were submitted and included the required information.

Recommendation: We recommend the City establish and enforce policies and procedures over report preparation to ensure that all amounts are accurate and the required reports were submitted.

Management Response and Corrective Action Plan

The City agrees with the recommendations to establish and enforce policies and procedures over report preparation to ensure that all amounts are accurate and the required reports are submitted. Upon entering into a grant contract, the City department responsible for grant management will complete a checklist identifying pertinent grant contract information, grant financial and progress/performance reporting requirements based on the specific grant contract requirements, assess and assign reporting responsibilities, and develop a schedule of reporting timelines. Completed grant checklists shall be submitted to the City Controller to initiate accounting setup and recordkeeping. The expected implementation date is January 2, 2016.

The responsible official to oversee that grant checklists are completed and submitted will be the City Controller.

City's Response: Due to continued staff turnover there has been very little progress in addressing the findings.

Corrective Action Plan: The City will continue to take the above mentioned steps to address the specific finding noted above. The City will also document policies and procedures designed to serve as the system of internal controls required by OMB's Uniform Guidance (2 CFR 200).

Planned Implementation Date: June 30, 2020

Responsible Person: Rafaela King, Controller

Current Status: No update

E+P's Comment 2018: Not tested as a major program. Internal control policies and procedures have not been provided for review.

2013-017 – Reporting (SD, NC)

Federal Program Title:	ARRA – Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to Units of Local Government
Federal Catalog Number:	16.804
Federal Agency:	U.S. Department of Justice
Pass-Through Entity:	City of Los Angeles
Federal Award Number and Year:	C-118365-2009
Category of Finding:	Reporting

Criteria: The OMB Circular A-102 Common Rule requires that non-Federal entities receiving Federal awards (e.g., the City) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

Condition: The City must include *all* expenditures incurred during the year on the Report of Expenditure – Summary Sheet. However, The City failed to include camera installation fee in the amount of \$113,574 in the report.

In addition, the amount for County of Los Angeles Sheriff's services on the Report of Expenditure - Summary Sheet was \$72,590 while the general ledger showed \$72,593 which is a \$3 difference.

Cause: Lack of formal policies and procedures over preparation of the report.

Effect: Failure to document labor costs incurred relating to camera installation and incorrect computation of expenditures may result in not being in compliance with grant requirements.

Questioned Costs: Not applicable because the camera installation fee was an allowable expenditure and the reported expenditure is less than the actual amount.

Context: Out of two samples tested,

- 1) One did not have labor cost related to camera installation included on the Expenditure Report - Summary Sheet;
- 2) One did not report the correct expenditure amount.

Recommendation: We recommend the City establish and enforce policies and procedures over report preparation to ensure that all applicable costs are included on the Report of Expenditures - Summary Sheet and the amounts are correctly computed.

Management Response and Corrective Action Plan

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

Corrective Action Plan: The Controller's Office will establish procedures for reviewing the accuracy of the Report of Expenditure – Summary Sheet. We will work with the Grants Manager to ensure compliance and information is captured and reviewed. The City will also establish policies and procedures which will be designed to serve as the system of internal controls required by OMB's Uniform Guidance (2 CFR 200). In the meantime, the Grants Manager and the City Controller will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2020

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

Current Status: No update

E+P's Comment 2018: Not tested as a major program. Internal control policies and procedures have not been provided for review.

2013-018 – Cash Management (MW)

Federal Program Title:	JAG Program Cluster
Federal Catalog Number:	16.738 and 16.804
Federal Agency:	U.S. Department of Justice
Pass-Through Entity:	CFDA 16.738 - N/A CFDA 16.804 - City of Los Angeles
Federal Award Number and Year:	CFDA 16.738 - 2008-DJ-BX-0265; 2009-DJ-BX-0471; 2010 - DJ-BX-1301; 2011-DJ-BX-2829 CFDA 16.804 - C-118365 - 2009
Category of Finding:	Cash Management

Criteria: U.S. DEPARTMENT OF JUSTICE, OFFICE OF JUSTICE PROGRAMS FINANCIAL GUIDE SECTION III - POST AWARD REQUIREMENTS:

3.1 Payments: Drawing what is only needed.

Your organization should request funds upon immediate disbursement/reimbursement requirements. Funds will not be paid in a lump sum, but rather disbursed over time as project costs are incurred or anticipated (with the exception of block grant programs such as the Byrne Justice Assistance Grant (JAG) Program, Juvenile Accountability Block Grant (JABG) Program, and State Criminal Assistance Program (SCAAP) awards, which may be drawn or paid out in a lump sum).

Fund requests from subrecipients create a continuing cash demand on award balances of the State. States should keep in mind that idle funds in the hands of subrecipients will impair the goals of effective cash management.

You should develop written procedures for cash management of funds to ensure that Federal cash on hand is kept at or near zero.

Office of Management and Budget (OMB) Circular A-102 § .21(i) Interest earned on advances:

Grantees and subgrantees shall promptly, but at least quarterly, remit interest earned on advances to the federal agency.

SUBRECIPIENT AGREEMENT CONTRACT C-118365 SECTION III PAYMENT:

301. Payment of Grant Funds and Method of Payment

C: Interest Income: Subrecipient must account for all interest income earned from the Recovery Act JAG 09 Grant. In accordance with the Office of Justice Programs (OJP) financial guidelines, interest earned on JAG funds is considered program income, and must be expended only on allowable purpose areas under these programs. Subrecipient will maintain records of and account for any interest earned on Recovery Act JAG funds. In order to reprogram and expend interest earned, subrecipient must submit a Budget Modification Request to the City for approval prior to expending the interest amount. Interest earned not expended by the close of the Grant period must be returned to the City to be returned to the grantor no later than 90 days after the end of the Grant period.

Condition: The City does not have written policies and procedures for cash management of fund to ensure that federal cash on hand is kept at or near zero. Although the City requested and received an approval for the extension of the American Recovery and Reinvestment Act of 2009 (ARRA) JAG program through April 30, 2013 from the City of Los Angeles, the earned but unexpended interest income was returned to the City of Los Angeles on December 10, 2014, 134 days after the July 29, 2013 due date.

There is no evidence that the City remitted any interest earned but not expended for the non-ARRA JAG funding awarded by the U.S. Department of Justice.

Cause: Lack of formal policies and procedures over cash management.

Effect: Failure to establish written policies and procedures for cash management, remittance of interest earned but unexpended for non-ARRA funding awarded by the U.S. Department of Justice, and late return of earned but unexpended interest income for ARRA funding awarded by the City of Los Angeles within the required due date results in non-compliance with post award requirements of Section III of the U.S. Department of Justice, OMB A-102 § __.21(i) Interest earned on advances, the OJP Financial Guide and Section III of the subrecipient agreement between the City and City of Los Angeles and may lead to a reduction or discontinuance of federal assistance in future grant periods.

Questioned Costs: The amount of interest income earned but unexpended related to non-ARRA funding awarded by the U.S. Department of Justice.

Context: The City was not able to provide a copy of the written policies and procedures on cash management, evidence that interest earned for non-ARRA awards was returned, and late remittance of earned but unexpended interest income at the close out of the grant.

Recommendation: We recommend the City develop and establish written policies and procedures on cash management and strengthen internal controls to ensure timely remittance of unexpended interest income to the grantor.

Management Response and Corrective Action Plan

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

Corrective Action Plan: The Grants Manager together with the City Controller will ensure that written policies and procedures are developed and established regarding cash management and strengthen internal controls to ensure timely remittance of unexpended interest income to the grantor. The policies and procedures will be designed to serve as the system of internal controls required by OMB's Uniform Guidance (2 CFR 200). In the meantime, the Grants Manager and the City Controller will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2021

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

Current Status: No update

E+P's Comment 2018: Not tested as a major program. Internal control policies and procedures have not been provided for review.

2012-014 – CFDA 14.239 HOME Investment Partnership Program - Matching, Level of Effort, and Earmarking (MW, NC)

Condition: In accordance with the grant requirements, the City may expend no more than ten percent of the fiscal year HOME basic formula allocation plus any funds received for its HOME administrative and planning costs. Our review identified that the City incurred and claimed administrative and planning costs in excess of ten percent of the fiscal year HOME basic formula allocation plus any funds received.

Recommendation: We recommend the City establish and enforce its policies and procedures over monitoring expenses charged to the HOME program to ensure earmarking requirements are met.

Management Response and Corrective Action Plan

City's Response: Due to continued staff turnover there has been very little progress in addressing the findings.

Corrective Action Plan: The Home Program is now being handled by the Grants Unit because of the additional personnel and consultants in the Grants Unit. This change has strengthened controls regarding the HOME program. The City Controller will work with the Grants Manager to establish and document policies and procedures designed to serve as a system of internal controls required by OMB's Uniform Guidance (2 CFR 200). The Grants Division will be responsible for the enforcement of policies and procedures.

Planned Implementation Date: June 30, 2021

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

Current Status: No update

E+P's Comment 2018: Not tested as a major program. Internal control policies and procedures have not been provided for review.

2012-015 – CFDA 14.239 HOME Investment Partnership Program – Reporting (MW, NC)

Condition: The City received \$416,508 from U.S. Department of Housing and Urban Development for its HOME program during fiscal year 2012, which was used to fund the First-time Homebuyer's Program and the Residential Rehabilitation Program. However, the City was unable to provide the Form HUD 60002, Section 3 Summary Report upon our request.

Recommendation: We recommend the City establish and enforce its policies and procedures over the preparation and submission of the Form HUD 60002, Section 3 Summary Report to ensure the performance reporting requirements are met.

Management Response and Corrective Action Plan

City's Response: Due to continued staff turnover there has been very little progress in addressing the findings.

Corrective Action Plan: The Home Program is now being handled by the Grants Unit because of the additional personnel and consultants in the Grants Unit. This change has strengthened controls regarding the HOME program. The City Controller will work with the Grants Manager to establish and document policies and procedures designed to serve as a system of internal controls required by OMB's Uniform Guidance (2 CFR 200). The policies will include procedures for the timely preparation and submission of all HUD related forms including Form HUD 60002, Section 3 Summary Report. The Grants Division will be responsible for the enforcement of policies and procedures.

Planned Implementation Date: June 30, 2021

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

Current Status: No update

E+P's Comment 2018: Not tested as a major program. Internal control policies and procedures have not been provided for review.

2012-016 – CFDA 14.239 HOME Investment Partnership Program - Procurement, Suspension and Debarment (SD)

Condition: The City was unable to provide the procurement documentation on the contractors of HOME Residential Rehabilitation projects selected.

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

Management Response and Corrective Action Plan

City's Response: Due to continued staff turnover there has been very little progress in addressing the findings.

Corrective Action Plan: The Home Program is now being handled by the Grants Unit because of the additional personnel and consultants in the Grants Unit. This change has strengthened controls regarding the HOME program. The City Controller will work with the Grants Manager to establish and document policies and procedures designed to serve as a system of internal controls required by OMB's Uniform Guidance (2 CFR 200). The Contract Compliance Officer and Purchasing Manager that will be hired by July 1, 2019 will include checking for suspension and debarment of contractors used in HOME-funded projects as part of their policies and procedures. The Grants Division will be responsible for the enforcement of policies and procedures.

Planned Implementation Date: June 30, 2021

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

Current Status: No update

E+P's Comment 2018: Not tested as a major program. Internal control policies and procedures have not been provided for review.

2012-017 – CFDA 14.239 HOME Investment Partnership Program – Special Tests and Provisions – Housing Quality Standards Inspections (SD)

Condition: The City was unable to provide documentation that identifies HOME assisted rental housing on which the on-site inspections are due, resulting in an unknown population to be tested.

Recommendation: We recommend the City establish and enforce its policies and procedures over the preparation and maintenance of documentation that identifies those units for which housing on-site inspections are due to ensure housing quality standards requirements are met.

Management Response and Corrective Action Plan

City's Response: Due to continued staff turnover there has been very little progress in addressing the findings.

Corrective Action Plan: The Home Program is now being handled by the Grants Unit because of the additional personnel and consultants in the Grants Unit. This change has strengthened controls regarding the HOME program. The City Controller will work with the Grants Manager to establish and document policies and procedures designed to serve as a system of internal controls required by OMB's Uniform Guidance (2 CFR 200). The policies and procedures established for the HOME Investment Partnership Program will include procedures to ensure compliance with all HOME requirements established under CFDA 14.239. The Grants Division will be responsible for the enforcement of policies and procedures.

Planned Implementation Date: June 30, 2021

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

Current Status: No update

E+P's Comment 2018: Not tested as a major program. Internal control policies and procedures have not been provided for review.

2012-018 – CFDA 14.239 HOME Investment Partnership Program – Cash Management (MW)

Condition: The City has unused program income in the amount of approximately \$623,000 at June 30, 2012. Pursuant to the grant requirements, the City must disburse the HOME funds in the local account of the HOME Investment Trust Fund prior to requesting HOME funds in the United States Treasury account.

Recommendation: We recommend the City establish and enforce its policies and procedures over the cash management requirements to ensure the HOME funds in the local account of the HOME Investment Trust Fund are used prior to requesting HOME funds in the United States Treasury account.

Management Response and Corrective Action Plan

City's Response: Due to continued staff turnover there has been very little progress in addressing the findings.

Corrective Action Plan: The Home Program is now being handled by the Grants Unit because of the additional personnel and consultants in the Grants Unit. This change has strengthened controls regarding the HOME program. The City Controller will work with the Grants Manager to establish and document policies and procedures designed to serve as a system of internal controls required by OMB's Uniform Guidance (2 CFR 200). The policies and procedures established for the HOME Investment Partnership Program will include procedures to ensure compliance with all HOME requirements established under CFDA 14.239. The Grants Division will be responsible for the enforcement of policies and procedures.

Planned Implementation Date: June 30, 2021

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

Current Status: No update

E+P's Comment 2018: Not tested as a major program. Internal control policies and procedures have not been provided for review.

**CITY OF COMPTON
SCHEDULE OF PRIOR AUDIT FINDINGS
FINANCIAL STATEMENTS**

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.

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

Management Response and Corrective Action Plan

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

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

Planned Implementation Date: June 30, 2020

Responsible Person: Rafaela King, Controller

Current Status: To be implemented June 30, 2019

E+P's Comment 2018: Repeat finding 2018-013

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.

Planned Implementation Date: June 30, 2021

Responsible Persons: Triphenia Simmons, Assistant City Manager and Craig J. Cornwell, City Manager

Current Status: In progress

Management Comment: A new IT consultant will be assisting the City and auditors in addressing these findings.

E+P's Comment 2018: Repeat finding 2018-047

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.

This addresses COSO's Control Environment, Principle 4: demonstrates commitment to competency, and Principle 5: enforce accountability.

Management Response and Corrective Action Plan

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

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

Planned Implementation Date: June 30, 2019

Responsible Person: Rafaela King, Controller

Current Status: To be implemented June 30, 2019

E+P's Comment 2018: Repeat finding 2018-014

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.

This addresses COSO's Control Environment, Principle 4: demonstrates commitment to competency, and Principle 5: enforce accountability.

Management Response and Corrective Action Plan

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

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

Planned Implementation Date: June 30, 2019

Responsible Person: Rafaela King, Controller

Current Status: To be implemented June 30, 2019

E+P's Comment 2018: Repeat finding 2018-014

2015-013 – Cash Transfers (MW)

Criteria: Physical cash transfers should be properly approved, tracked, and recorded in the general ledger (GL) in a timely manner to ensure cash GL balances reflect actual balances.

Condition: Transfers between Local Agency Investment Fund (LAIF) and checking accounts are not communicated or recorded as they take place. Instead, transfers are recorded during the bank reconciliation process. However, since the general checking account hasn't been reconciled since August 2014, there are multiple million dollar transfers that have not been recorded to date.

Cause: There is a lack of communication between City Treasurer's Office and City Controller's Office. Also, vacant key positions and high management turnover allowed for bank reconciliations to fall behind.

Effect or Potential Effect: Cash GL accounts are materially misstated and cannot be relied upon.

Repeat of a Prior-Year Finding: No

Recommendation: The City should establish proper policies and procedures that address the approval, handling, and recording of cash transfers between bank accounts.

This addresses COSO's Control Environment, Principle 5: enforces accountability, Control Activities, Principle 12: deploys through policies & procedures and Information & Communication, Principle 15: communicates externally.

Management Response and Corrective Action Plan

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

Corrective Action Plan: The Controller's Office has hired additional staff and senior level accountants who are CPAs and assigned them to reconcile the more complex bank accounts. This higher level of experience is expected to help in assuring the day to day operations of the department occur timely and are more accurate. As the process moves along, new policies & procedures are being implemented. Cash transfers are now being recorded as they happen as opposed to during the bank reconciliation process. The City will also document these policies and procedures which will be designed to serve as a system of internal controls required by OMB's Uniform Guidance (2 CFR 200). In the meantime, the City will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2019

Responsible Person: Douglas Sanders, City Treasurer and Rafaela King, Controller

Current Status: Completed

Management Comment: The Treasurer's Department and Controller's Office have implemented a system to ensure all general ledger staff are notified once transfers have been completed. Transfers between accounts (with the exception of LAIF and Investments) are authorized via a signed memo from the Controller's Office before initiation. General ledger staff now enters transactions via journal entry once confirmation is received as opposed to waiting for month or year end.

E+P's Comment 2018: Policies and procedures have not been provided for review.

2015-014 – Cash Disbursement – Review and Approval Process (MW)

Criteria: Invoices should go through the proper review and approval process prior to cash disbursement to ensure accuracy and validity of invoice.

Condition: Invoices were not thoroughly reviewed prior to payment. Of twenty-three (23) haphazardly sampled transactions, the City processed one (1) invoice that did not foot, yet the City proceeded with paying the (higher) total invoice amount.

Cause: Poor review during approval process caused the City to process incorrect amount.

Effect or Potential Effect: Overpayment for services/goods contributing to fund deficit.

Repeat of a Prior-Year Finding: No

Recommendation: The City should strengthen its review procedures and provide necessary training for staff emphasizing the need to scrutinize invoices for accuracy. Any discrepancies should be resolved with the vendor prior further processing the invoice for payment.

This addresses COSO's Control Environment, Principle 4: demonstrates commitment to competence and Control Activities, Principle 12: deploys through policies & procedures.

Management Response and Corrective Action Plan

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

Corrective Action Plan: The City has hired a Deputy Controller to oversee the accounts payable functions. A process has been established and implemented to ensure that the accounts payable edit list is reviewed prior to printing checks. Any discrepancies are pulled from the batch and corrected before proceeding with the printing of checks. The Deputy Controller signs off on the batch edit report once review has been completed. The City will also establish and document policies and procedures designed to serve as a system of internal controls required by OMB's Uniform Guidance (2 CFR 200). In the meantime, the City will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2020

Responsible Person: Rafaela King, Controller

Current Status: Completed

E+P's Comment 2018: Policies and procedures have not been provided for review.

2015-015 – Cash Disbursement – Payments Based on Quotes (MW)

Criteria: Per City policy, payments must be processed on original invoices only.

Condition: Payments were made based only on quotes, not original invoices. Of twenty-five (25) randomly sampled cash disbursements, the City processed one (1) transaction on a quote.

Cause: Lack of enforcement of City policy or lack of documentation of the exception.

Effect or Potential Effect: Potential payment of unauthorized expenditure or double payment for services/goods.

Repeat of a Prior-Year finding: 2014-031

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

This addresses COSO's Control Activities, Principle 12: deploys through policies & procedures and Information & Communication, Principle 14: communicates internally.

Management Response and Corrective Action Plan

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

Corrective Action Plan: The Controller's staff now reviews requisitions and warrant requests prior to submitting to accounts payable staff for input. The checks are further reviewed by the Budget Officer, and Controller (or Deputy) prior to the Controller signing the checks. The City will also establish and document policies and procedures designed to serve as the system of internal controls required by OMB's Uniform Guidance (2 CFR 200). In the meantime, the City Controller department will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2019

Responsible Person: Rafaela King, Controller

Current Status: Completed

E+P's Comment 2018: Policies and procedures have not been provided for review.

2015-016 – Cash Disbursement – Payments Processed without Supporting Documentation (MW)

Criteria: Request of Warrants are used for expenses that have already been incurred prior to having a purchase requisition and purchase order. These requests along with their supporting documentation have to go through City Council and get approved before Accounts Payable is to issue payment.

Condition: Payments were processed on Request of Warrant without supporting invoices present. Of twenty-five (25) randomly sampled cash disbursements, the City processed two (2) transactions on a Request of Warrant without the supporting invoice present.

Cause: Weak controls over procurement procedures and cash disbursement.

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

Repeat of a Prior-Year Finding: No

Recommendation: The City should strengthen its procurement policies and internal controls over cash disbursements.

This addresses COSO's Control Activities, Principle 12: deploys through policies & procedures and Information & Communication, Principle 14: communicates internally.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation and has since stopped issuing Request of Warrants. Now, expenses that have been occurred prior to approval, go directly to Council along with a Staff Report prior to a warrant being processed.

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

Planned Implementation Date: June 30, 2019

Responsible Person: Rafaela King, Controller

Current Status: Completed

E+P's Comment 2018: Policies and procedures have not been provided for review.

2015-017 – Cash Disbursement – Sensitive Information (MW)

Criteria: City should protect City funds by safeguarding sensitive information from potential malicious activities.

Condition: Sensitive bank information (such as account and routing numbers) are printed on check copies.

Cause: There was lack of awareness of exposure.

Effect or Potential Effect: There is sufficient information and signatures on the check copies that opens up the risk of an individual to attempt and potentially succeed in negotiating the check copy again.

Repeat of a Prior-Year Finding: No

Recommendation: The City should ensure to conceal any sensitive information on duplicate of documentation to prevent any unauthorized and/or fraudulent transactions.

This addresses COSO's Risk Assessment, Principle 8: considers the potential for fraud in assessing risks.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation and notes that this has been addressed and sensitive bank information is no longer printed on check copies.

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

Planned Implementation Date: June 30, 2019

Responsible Person: Rafaela King, Controller

Current Status: Completed

E+P's Comment 2018: Policies and procedures have not been provided for review.

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.

This addresses COSO's Control Environment, Principle 4: demonstrates commitment to competence and Control Activities, Principle 12: deploys through policies & procedures.

Management Response and Corrective Action Plan

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

Corrective Action Plan: The Controller plans on hiring a Purchasing Manager by July 1, 2019, who will be assigned to maintain capital asset records. The City will also establish and document policies and procedures designed to serve as the system of internal controls required by OMB's Uniform Guidance (2 CFR 200). In the meantime, the City Controller department will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2021

Responsible Person: Rafaela King, Controller

Current Status: No update

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.

This addresses COSO's Control Environment, Principle 4: demonstrates commitment to competence and Control Activities, Principle 12: deploys through policies & procedures.

Management Response and Corrective Action Plan

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

Corrective Action Plan: The Controller plans on hiring a Purchasing Manager by July 1, 2019, who will be assigned to maintain capital asset records. The City will also establish and document policies and procedures designed to serve as the system of internal controls required by OMB's Uniform Guidance (2 CFR 200). In the meantime, the City Controller department will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2021

Responsible Person: Rafaela King, Controller

Current Status: No update

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.

This addresses COSO's Control Activities, Principle 12: deploys through policies & procedures and Information & Communication, Principle 13: uses relevant, quality information.

Management Response and Corrective Action Plan

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

Corrective Action Plan: Physical inventory of all assets will be scheduled to be done by the Purchasing Manager, who is expected to be hired by July 1, 2019. The Purchasing Manager will be in charge of keeping updated records of capital assets. The City will also establish and document policies and procedures designed to serve as the system of internal controls required by OMB's Uniform Guidance (2 CFR 200).

Planned Implementation Date: June 30, 2021

Responsible Person: Rafaela King, Controller

Current Status: No update

2015-021 – Construction in Progress – Lack of Status Reports (SD)

Criteria: Progress billings for ongoing construction should be properly reviewed to ensure that the City only pays for actual work completed.

Condition: Progress billings lack job status reports, but were still processed for payment. This suggests poor and inadequate due diligence review of the progress billings prior to payment.

Cause: Lack of scrutiny in reviewing progress billings and poor supervisory review during approval process.

Effect or Potential Effect: Potential overpayment of contracts and overstatement of expenses.

Repeat of a Prior-Year Finding: No

Recommendation: The City should strengthen review procedures for invoices to ensure that City is only paying for actual work performed by contractors.

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

Management Response and Corrective Action Plan

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

Corrective Action Plan: The Controller plans on hiring a Contract Compliance Officer by July 1, 2019 who will work with project managers to ensure that the above mentioned criteria is met. Also, the Controller plans on having regular meetings with Public Works to review financial status on all CIP projects along with reviewing all invoices prior to submission for payment. The City will also establish and document policies and procedures designed to serve as the system of internal controls required by OMB's Uniform Guidance (2 CFR 200). In the meantime, the City Controller department will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2021

Responsible Person: Rafaela King, Controller

Current Status: No update

2015-022 – Construction in Progress – Retentions (SD)

Criteria: Retentions held for constructions in progress should be properly recorded.

Condition: Retentions payable were not recorded. Of twenty-three (23) haphazardly sampled transactions, the City processed four (4) construction in progress invoices for which they did not account for the retention amount as retention payable.

Cause: It appeared that failure to record the retention payable was due to inadequate review of the account classification assigned on the invoice. That is partly due to the vacancies of key positions in the department.

Effect or Potential Effect: Failure to record retention payable could lead to understatement of expenses and payables. It could also affect budgeting due to the information gap of the outstanding amount.

Repeat of a Prior-Year Finding: No

Recommendation: The City should strengthen review procedures for invoices. Also, construction in progress should be separately tracked to ensure that all retention liabilities are properly recorded, tracked, and cleared as appropriate.

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

Management Response and Corrective Action Plan

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

Corrective Action Plan: All CIP invoices will be reviewed by the Contract Compliance Officer (expected to be hired by July 1, 2019) prior to submission for payment. In the meantime, the Deputy Controller will be reviewing all CIP related retentions and payables for proper accounting. GL staff will be reviewing retention payable balances on a monthly basis for accuracy. The City will also establish and document policies and procedures designed to serve as the system of internal controls required by OMB's Uniform Guidance (2 CFR 200).

Planned Implementation Date: June 30, 2021

Responsible Person: Rafaela King, Controller

Current Status: No update

Management Comment: Training is needed for all staff in affected departments.

2015-023 – Retentions Payable (SD)

Criteria: Retentions held for construction in progress should be continuously monitored and tracked.

Condition: The retention payable schedule still had outstanding balances dating back as far as 2006.

Cause: It appears that retention liabilities were being paid by the City, however, instead of releasing the payables the disbursements were recorded as capital outlay expense.

Effect or Potential Effect: Expenses are recorded twice; once during establishment of the retention payable and again when the cash disbursement is made. As a result, expenses and/or capital assets were overstated.

Repeat of a Prior-Year Finding: No

Recommendation: The City should establish procedures, assign staff, and provide adequate training to properly record and track retention payable. The City should establish policies and procedures to ensure that when an invoice for a retention is paid, the retention payable is relieved in the same period.

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

Management Response and Corrective Action Plan

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

Corrective Action Plan: All CIP invoices will be reviewed by the Contract Compliance Officer (expected to be hired by July 1, 2019) prior to submission for payment. In the meantime, the Deputy Controller will be reviewing all CIP related retentions and payables for proper accounting. GL staff will be reviewing retention payable balances on a monthly basis for accuracy and will also reconcile the retention accounts to ensure all payments related to CIP projects are correct and the amount held is appropriate. Retention accounts will be reviewed on a timely basis to make sure retentions are released upon the completion of projects with the Notice of Completion as supporting documentation. The City will also establish and document policies and procedures designed to serve as the system of internal controls required by OMB's Uniform Guidance (2 CFR 200). In the meantime, the City will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2020

Responsible Person: Rafaela King, Controller

Current Status: No update

2015-024 – Long-term Debt – Government-wide (MW)

Criteria: While long-term debt is not recorded in fund accounting, the City has to present them in government-wide statements. The City should maintain long-term debt records on a regular periodic basis.

Condition: The City has separate government-wide funds in the general ledger to keep track of government-wide balances, such as long-term debt and capital assets. However, the City does not periodically update and maintain these GL accounts.

Cause: There was no designated staff assigned to maintain these GL accounts and the City's delinquency in the financial audits allowed the City to fall behind and overlook the need to review and update these GL balances.

Effect or Potential Effect: City doesn't effectively track long-term debt balances in the general ledger, which allows for more errors and makes reconciling at year end more time-consuming.

Repeat of a Prior-Year Finding: No

Recommendation: The City should maintain government-wide funds during the fiscal year or at least on a period basis. This would aid in better overview of outstanding obligations and can contribute to more effective and accurate budgeting.

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

Management Response and Corrective Action Plan

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

Corrective Action Plan: The Controller's Office will assign specific accounting staff to maintain the long-term debt accounts and keep the long-term debt schedules current. The City will also establish and document policies and procedures designed to serve as the system of internal controls required by OMB's Uniform Guidance (2 CFR 200). In the meantime, the City Controller department will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2020

Responsible Person: Rafaela King, Controller

Current Status: No update

2015-025 – Long-term Debt – Discount on Bonds (SD)

Criteria: Discount on bonds are required to be amortized over the life of the long-term debt. Proprietary and fiduciary funds report using full accrual basis of accounting and therefore should record these items in their GL. While governmental funds don't record long-term debt and other related liabilities (discounts, premiums, deferred gains/losses on refunding), reporting of these items are required for governmental activities in the government-wide statements, therefore, records should be maintained on a regular periodic basis.

Condition: The City properly amortized discounts on bonds for proprietary funds. However, it failed to do so for fiduciary funds and government-wide funds.

Cause: City staff appear to have weak governmental accounting knowledge and lack of guidance from supervisors. In addition, lack of review of annual financial statements allowed inconsistencies like this to remain undetected.

Effect or Potential Effect: Expenses are misstated.

Repeat of a Prior-Year Finding: No

Recommendation: The City should have month end and/or year-end checklists to ensure that all routine journals are prepared, approved, and posted. Periodic reviews of the financial statements would also allow the detection of unusual items (no movement in long-term obligations and related accounts).

This addresses COSO's Control Activities, Principle 12: deploys through policies & procedures and Information & Communication, Principle 13: uses relevant, quality information.

Management Response and Corrective Action Plan

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

Corrective Action Plan: The City has created and implemented monthly and annual checklists to ensure all reporting and journal entries are prepared, approved, and posted on a regular basis. Currently, the Deputy Controller reviews all journal entries and makes sure there is adequate supporting documentation prior to approval and posting. The City will also establish and document policies and procedures designed to serve as the system of internal controls required by OMB's Uniform Guidance (2 CFR 200).

Planned Implementation Date: June 30, 2019

Responsible Person: Rafaela King, Controller

Current Status: No update

2015-026 – Accruals (SD)

Criteria: Accruals should be properly reversed in the beginning of the following FY.

Condition: Accruals were not properly reversed/adjusted after year end.

Cause: High turnover in personnel and the City's delinquency in audits has resulted in significant difficulty for current staff to retrieve older documentation.

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

Repeat of a Prior-Year Finding: No

Recommendation: Review of year end balances would have allowed the City to discover the error due to the unusual balance in one account and a zero change from one year to the other.

This addresses COSO's Control Activities, Principle 10: selects and develops control activities and Information & Communication, Principle 13: uses relevant, quality information.

Management Response and Corrective Action Plan

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

Corrective Action Plan: Accruals are now being set up with a corresponding journal entry to reverse at the time of entry. The Deputy Controller is oversees this process. The City will also establish and document policies and procedures designed to serve as the system of internal controls required by OMB's Uniform Guidance (2 CFR 200).

Planned Implementation Date: June 30, 2019

Responsible Person: Rafaela King, Controller

Current Status: Corrected

E+P's Comment 2018: Similar issued found in 2018 audit.

2015-027 – Rubbish Assessment – Proprietary (SD)

Criteria: Assessments should be separately tracked by using a separate (unique) revenue code.

Condition: The City recorded rubbish assessment revenues gross with other rubbish revenue. Total rubbish assessments collected for the year is not easily accessible upon request.

Cause: It appears that City staff has not been instructed to separately track assessments for rubbish.

Effect or Potential Effect: Enterprise fund's revenue might be misstatement due to inadequate tracking and recording of assessment revenue.

Repeat of a Prior-Year Finding: No

Recommendation: The City should maintain a separate revenue code for assessment proceeds.

This addresses COSO's Control Activities, Principle 10: selects and develops control activities and Information & Communication, Principle 14: communicates internally.

Management Response and Corrective Action Plan

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

Corrective Action Plan: The Controller's Office will ensure that separate revenue accounts are used. The City is now separating the Rubbish department from the Water department also. Separate staff will allow for more accountability and assist in ensuring the management of both departments track the revenues in their respective areas/departments. The City will also establish and document policies and procedures designed to serve as the system of internal controls required by OMB's Uniform Guidance (2 CFR 200). In the meantime, the City will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2020

Responsible Person: Rafaela King, Controller

Current Status: In progress

2015-028 – Accrued Payroll (MW)

Criteria: Accrued payroll should be calculated and posted to ensure proper cutoff of payroll expenses.

Condition: The City recorded the payroll expenses in the appropriate fiscal year, however it failed to create a liability. Instead, the City credited cash as of year-end when in fact cash wasn't disbursed until July or later of the following fiscal year.

Cause: Weak accounting personnel and lack of proper supervision and review allowed incorrect entries to be posted.

Effect or Potential Effect: Cash and accrued payroll are significantly understated as of year-end.

Repeat of a Prior-Year Finding: No

Recommendation: The City should provide proper training to staff to allow them perform their day-to-day duties effectively. Adequate and timely review of the journals prior to posting would also allow for errors to be detected and corrected in a timely manner.

This addresses COSO's Control Environment, Principle 4: demonstrates commitment to competence and Control Activities, Principle 12: deploys through policies & procedures.

Management Response and Corrective Action Plan

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

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

Planned Implementation Date: June 30, 2019

Responsible Person: Rafaela King, Controller

Current Status: Completed

E+P's Comment 2018: Repeat finding 2018-030

2015-029 – Accrued Expenses (MW)

Criteria: Expenses incurred but not paid as of year-end should be accrued, to ensure proper cutoff of expenses.

Condition: There were several items that were inappropriately included/excluded from the fiscal period. Upon testing subsequent cash disbursement, we noted that accounts payable and accrued expenses were understated by \$373,147 (net) due to improper cutoff.

Cause: Errors appear to be mainly due to oversight by staff and reviewer. There were also instances where service periods were within the following fiscal period, yet a liability was incorrectly included in the current period based on the resolution and/or budget approval.

Effect or Potential Effect: Expenses are recorded in the incorrect fiscal period causing either over/understatement of expenses. The errors also resulted in capital assets/construction in progress being capitalized in the wrong period.

Repeat of a Prior-Year Finding: No

Recommendation: The City should provide adequate training to staff how to properly determine cutoff. Adequate and timely review of accrual journals and their supporting documentation should be able to detect any errors prior to posting.

This addresses COSO's Control Environment, Principle 4: demonstrates commitment to competence and Control Activities, Principle 12: deploys through policies & procedures.

Management Response and Corrective Action Plan

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

Corrective Action Plan: The City has hired a Deputy Controller, who is in charge of accounts payable and is working with the Deputy Controller in charge of the general ledger staff. They are working to come up with a process to bring Accounts Payable, GL and accrued expenses together whereas the Accounts payable staff will be trained to understand the significance of the process and general ledger staff will review the work to ensure it is complete and accurate. The City will also establish and document policies and procedures designed to serve as the system of internal controls required by OMB's Uniform Guidance (2 CFR 200).

Planned Implementation Date: June 30, 2019

Responsible Person: Rafaela King, Controller

Current Status: Completed

Management Comment: Prior year invoices are now processed separate batches to ensure the expense is recorded in the correct fiscal year.

E+P's Comment 2018: Repeat finding 2018-031

2015-030 – Cash Disbursement – Inadequate Review (MW)

Criteria: Partial payment forms should agree to supporting documentation, incl. purchase requisition, purchase order, and invoice.

Condition: For one item tested, the amount stated on the partial payment form differed from the amount on the supporting documentation.

Cause: Inadequate review of disbursement prior to approval of checks.

Effect or Potential Effect: Potential effects include overpayment of an invoice or short payment of an invoice that might potentially result in late and/or penalty fees.

Repeat of a Prior-Year Finding: No

Recommendation: The City should ensure that proper review is being performed prior to check disbursement.

This addresses COSO's Control Activities, Principle 12: deploys through policies & procedures and Information & Communication, Principle 14: communicates internally.

Management Response and Corrective Action Plan

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

Corrective Action Plan: The City will create a signature line on the partial payment form for the Controller to sign that will ensure that the review process is the same as for other check review processes. Partial payment forms have to be signed prior to going to accounts payable staff. The City will also establish and document policies and procedures designed to serve as the system of internal controls required by OMB's Uniform Guidance (2 CFR 200). In the meantime, the City Controller department will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2020

Responsible Person: Rafaela King, Controller

Current Status: Completed

E+P's Comment 2018: To be tested in fiscal year ended June 30, 2019 audit.

2015-031 – Cash Disbursement – Inadequate Supporting Documentation (MW)

Criteria: Supporting documentation should be attached to check copies for subsequent review of disbursements.

Condition: There were instances where only partial support was attached to the check copy, which were insufficient to determine the validity, accuracy, and reasonableness of the expense. Of twenty-five (25) randomly sampled cash disbursements, the City processed one (1) transaction where only partial supporting documentation was present with the check copy.

Cause: City staff is not adequately trained to determine if supporting documentation is missing.

Effect or Potential Effect: Payment of unauthorized and/or invalid expenses.

Repeat of a Prior-Year Finding: No

Recommendation: The City should strengthen its review procedures to ensure that sufficient supporting documentation is attached to the check requests. Also, additional training for staff is encouraged to allow detection of issues and corrective action to be set in motion sooner.

This addresses COSO's Control Environment, Principle 4: demonstrates commitment to competence and Information & Communication, Principle 13: uses relevant quality information.

Management Response and Corrective Action Plan

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

Corrective Action Plan: The City has hired a Deputy Controller who is in charge of accounts payable. The Deputy Controller reviews the support for all checks before they are submitted for signature to ensure it is complete and accurate. The City will also establish and document policies and procedures designed to serve as the system of internal controls required by OMB's Uniform Guidance (2 CFR 200). In the meantime, the City Controller department will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2020

Responsible Person: Rafaela King, Controller

Current Status: Completed

E+P's Comment 2018: Policies and procedures not have not been provided for review.

2015-032 – Cash Disbursement – General Ledger Object Code Usage (SD)

Criteria: Classification of disbursements should appear reasonable and representative of the nature of the expense.

Condition: There were instances where general ledger object codes used do not appear to be reasonable and/or representative of the service/goods described in the invoice.

Cause: Could have been caused due to oversight and inadequate review.

Effect or Potential Effect: Misstatement of expense subgroups and potential effect on budget.

Repeat of a Prior-Year Finding: No

Recommendation: The City should strengthen its review procedures to include detection of classification errors as a review objective. Also, additional training for staff to help them better determine the appropriate classification is strongly encouraged.

This addresses COSO's Control Environment, Principle 4: demonstrates commitment to competence and Information & Communication, Principle 14: communicates internally.

Management Response and Corrective Action Plan

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

Corrective Action Plan: The Controller staff will work with all departments to train them on the correct general ledger account numbers to use to ensure consistency throughout the City. The Controller staff will also work with the Budget Officer during the budget process to ensure all departments with similar expenses are using the same object code and the budget supports the true definitions. Departments will also be trained to request budget modifications when necessary. The City will also establish and document policies and procedures designed to serve as the system of internal controls required by OMB's Uniform Guidance (2 CFR 200). In the meantime, the City Controller department will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2020

Responsible Person: Rafaela King, Controller

Current Status: In progress

E+P's Comment 2018: Policies and procedures have not been provided for review.

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.

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

Management Response and Corrective Action Plan

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

Corrective Action Plan: The administrative staff in the City Manager's Office monitors the City's one (1) issued credit card. The Controller will work with the staff in the City Manager's Office to ensure all charges are being pre-approved when possible. The City will also establish and document policies and procedures designed to serve as the system of internal controls required by OMB's Uniform Guidance (2 CFR 200). In the meantime, the City Controller department will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2021

Responsible Person: Rafaela King, Controller

Current Status: In progress

E+P's Comment 2018: Policies and procedures have not been provided for review.

2015-034 – Water Exception Report Document Retention (BP)

Criteria: Financial statement related reports should be maintained until the financial statement audit has been completed.

Condition: Water department currently only retains meter reading exception reports for a couple of months. E+P was unable to review any of the reports pertaining to FY 2015 and 2016.

Cause: The City's document retention policy is only for a few months.

Effect or Potential Effect: Review of such reports are no longer possible at a later time.

Repeat of a Prior-Year Finding: No

Recommendation: The City should consider extending the document retention policy to accommodate any subsequent record reviews/audits.

This addresses COSO's Control Activities, Principle 12: deploys through policies & procedures and Information & Communication, Principle 13: uses relevant, quality information.

Management Response and Corrective Action Plan

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

Corrective Action Plan: The City Controller's Office will recommend to the City Manager and the City Clerk that a new/updated retention policy is developed and this finding is addressed in the policy. The City will also document these policies and procedures and design them to serve as the system of internal controls required by OMB's Uniform Guidance (2 CFR 200). In the meantime, the City Controller department will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2021

Responsible Person: Brian Dickinson, Municipal Water Manager

Current Status: No update

2015-035 – Meter Readings Lost (BP)

Criteria: Financial statement related reports should be adequately backed up and retained until the financial statement audit has been completed.

Condition: Previous meter readings were unavailable for testing/review due to update in reading software and equipment.

Cause: The City didn't save, back up, and/or retain data from old meter reading software and equipment.

Effect or Potential Effect: Review of such reports are no longer possible at a later time.

Repeat of a Prior-Year Finding: No

Recommendation: The City should ensure that updates to newer software and/or upgrades to more advanced equipment doesn't compromise prior data. Prior data should have been securely transitioned to new software or retained in another accessible format to allow easy access to legacy information.

This addresses COSO's Control Activities, Principle 12: deploys through policies & procedures and Information & Communication, Principle 13: uses relevant, quality information.

Management Response and Corrective Action Plan

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

Corrective Action Plan: The City Controller's Office will recommend to the City Manager and the City Clerk that a new/updated retention policy is developed and this finding is addressed in the policy. The City will also work with the new Water General Manager to ensure he understands the importance of keeping historical data until after the issuance of the audit report. The City will document these policies and procedures and design them to serve as the system of internal controls required by OMB's Uniform Guidance (2 CFR 200). In the meantime, the City Controller department will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2021

Responsible Person: Brian Dickinson, Municipal Water Manager

Current Status: No update

2015-036 – Accounts Receivable – Supporting Documentation (SD)

Criteria: The City should maintain supporting documentation until the financial statement audit has been completed.

Condition: The City was not able to provide requested supporting documents for accounts receivable balance.

Cause: High turnover in personnel and the City's delinquency in audits has resulted in high difficulty for current staff to retrieve older documentation.

Effect or Potential Effect: Review of supporting documentation at a later time is no longer possible.

Repeat of a Prior-Year Finding: No

Recommendation: The City should establish and implement a systematic filing system, as well as a document retention policy.

This addresses COSO's Control Activities, Principle 11: selects and develops control activities and Information & Communication, Principle 13: uses relevant, quality information.

Management Response and Corrective Action Plan

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

Corrective Action Plan: Currently, accounts receivable is not centralized. The Controller's Office intends to centralize all accounts receivable functions into the Controller's Office in order to maintain adequate records. The City will also establish and document policies and procedures designed to serve as the system of internal controls required by OMB's Uniform Guidance (2 CFR 200). In the meantime, the City Controller department will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2021

Responsible Person: Rafaela King, Controller

Current Status: No update

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.

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

Management Response and Corrective Action Plan

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

Corrective Action Plan: The Controller's Office has implemented a filing system for all accounts payable activities. This allows for easy retrieval of needed documentation. The credit card supporting documentation has been increased for all charges and are now attached to all statements ready for payment. The City will also document policies and procedures designed to serve as the system of internal controls required by OMB's Uniform Guidance (2 CFR 200).

Planned Implementation Date: June 30, 2019

Responsible Person: Rafaela King, Controller

Current Status: No update

2015-038 – City and ICMS Water Bills (MW)

Criteria: The City and its divisions should pay for their water usage to ensure that the water fund's cost are sufficiently covered.

Condition: The City and the Street Maintenance Division (formerly Infrastructure Construction & Maintenance Services) were not paying or accruing their water bills.

Cause: Unknown

Effect or Potential Effect: The water fund might generate a deficit due to the cost generated for City utility usage for which no revenue is generated.

Repeat of a Prior-Year Finding: No

Recommendation: The City and ICMS division should be paying for their water usage to ensure that the water fund's cost are adequately covered by matching revenue.

This addresses COSO's Control Activities, Principle 10: selects and develops control activities and Information & Communication, Principle 14: communicates internally.

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation and believes that this has been addressed already.

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

Planned Implementation Date: June 30, 2019

Responsible Person: Brian Dickinson, Municipal Water Manager

Current Status: Completed

EP's Comment 2018: Policies and procedures implemented, but not yet tested.

2015-039 – Credit Cards – Classification of Late and Penalty Charges (BP)

Criteria: While late and other penalty charges should be avoided as much as possible, incurred late and other penalty charges should be tracked and analyzed periodically.

Condition: The City classifies late and other penalty charges as “Special Department” expenses, which makes tracking them difficult.

Cause: Lack of review of credit card processing resulted in oversight and failure to apply corrective action, i.e. revision of GL account to be used.

Effect or Potential Effect: By classifying late and other penalty charges as “Special Department” expenses, it makes it difficult for supervisory personnel to detect such charges and take corrective action.

Repeat of a Prior-Year Finding: No

Recommendation: The City should record late and other penalty charges in a separate object code for more effective tracking purposes. Periodic review of such accounts should be performed to ensure that unnecessary expenses can be prevented going forward.

This addresses COSO’s Control Activities, Principle 12: deploys through policies & procedures and Information & Communication, Principle 13: uses relevant, quality information.

Management Response and Corrective Action Plan

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

Corrective Action Plan: The City Controller’s Office will create an object code for late charges and penalties to allow for easy identification and tracking of such expenditures. The City will also establish and document policies and procedures designed to serve as the system of internal controls required by OMB’s Uniform Guidance (2 CFR 200).

Planned Implementation Date: June 30, 2020

Responsible Person: Rafaela King, Controller

Current Status: Completed

EP’s Comment 2018: To be tested in fiscal year ended June 30, 2019 audit.

2014-011 – Financial Statement Reporting (MW)

Criteria: City financial statements should periodically be reviewed by City Management to allow for timely discovery of significant variances from budgets and expected results and the development of corrective actions to address such variances.

Condition: The City does not have adequate internal controls to ensure accurate and complete financial statements. The City's management does not review the City's financial statements on a periodic basis and does not investigate significant variances from budgets and expected results.

Cause: Due to the vacancies of key positions in the City Controller's Office, financial statements are not periodically prepared in a timely manner. Therefore, financial statements are not periodically reviewed.

Effect or Potential Effect: Significant variances from budget and expected results could remain undetected, which would result in poor performance during the fiscal year.

Repeat of a Prior-Year Finding: No

Recommendation: The City should fill key positions to enable the timely preparation for City financial statements. The City should, then, periodically review and document the review of financial statements. Also, the City should perform a periodic budget to actual analysis to keep track of the City's fiscal position. This would allow management to make any necessary amendments to the budget in a timely and documented manner.

Timely and accurate financial statements are a prerequisite for understanding the City's financial position as well as for making cost effective management decisions impacting future financial performance of the City. Financial information needs to be comprehensive, timely, and accurate. This recommendation addresses COSO's Control Environment, Principle 4: demonstrates a commitment to competence and Information & Communication, Principle 13: uses relevant, quality information, and Principle 14: communicates internally.

Management Response and Corrective Action Plan

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

Corrective Action Plan: During 2018, the City has filled key positions and continues to fill other vacant positions in the Controller's Office. The additional staff will help ensure the timely preparation of reports. Budget versus actual review and reporting will happen on a monthly basis to ensure compliance with the budget and allow management to make any necessary changes timely. The City will also establish and document policies and procedures designed to serve as the system of internal controls required by OMB's Uniform Guidance (2 CFR 200). In the meantime, the City Controller department will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2020

Responsible Person: Rafaela King, Controller

Current Status: In progress

EP's Comment 2018: Policies and procedures have not been provided for review.

2014-012 – Internal Control over Journal Entries – Review and Approval (MW)

Criteria: Journal entries should be properly reviewed and approved by an appropriate person prior to posting.

Condition: E+P noted that journal entries are not properly reviewed and approved prior to posting or at least lacking the documentation of review and approval.

Cause: Due to vacancies in key positions in the City Controller's Office and the time constraint, there are instances of poor and insufficient review.

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

Repeat of a Prior-Year Finding: No

Recommendation: All journal entries should be reviewed and approved by initial/signature of an appropriate level prior to posting. The process of preparing and posting of journal entries should be formalized in a policy establishing different levels of approvals.

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

Management Response and Corrective Action Plan

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

Corrective Action Plan: The City has hired a Deputy City Controller who is assigned to review all journal entries created by staff. The Deputy Controller is also responsible for making sure there is adequate support documentation and posting all journal entries. The City will also establish and document policies and procedures designed to serve as the system of internal controls required by OMB's Uniform Guidance (2 CFR 200).

Planned Implementation Date: June 30, 2019

Responsible Person: Rafaela King, Controller

Current Status: Completed

EP's Comment 2018: Policies and procedures have not been provided for review.

2014-013 – Internal Control over Journal Entries – Supporting Documentation (MW)

Criteria: Each journal entry should have sufficient supporting documentation attached to allow reviewer to determine the accuracy, reasonableness, and appropriateness of the entry prior to approval.

Condition: Journal entries that are to be posted do not have sufficient supporting documentation for the reviewer to properly approve.

Cause: Insufficient supporting documentation are attached to the journal entry.

Effect or Potential Effect: Incorrect entries could be posted due to the insufficient documentation available during review.

Repeat of a Prior-Year Finding: No

Recommendation: Adequate support that explains the purpose of the journal entry and from where the amounts are derived should be attached to the journal voucher to ensure existence and accuracy.

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

Management Response and Corrective Action Plan

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

Corrective Action Plan: The City has hired a Deputy City Controller who is assigned to review all journal entries created by staff. The Deputy Controller is also responsible for making sure there is adequate support documentation and posting all journal entries. The City will also establish and document policies and procedures designed to serve as a system of internal controls required by OMB's Uniform Guidance (2 CFR 200).

Planned Implementation Date: June 30, 2019

Responsible Person: Rafaela King, Controller

Current Status: No update

2014-014 – Internal Control over Journal Entries – Maintenance of Records (MW)

Criteria: Each journal entry posted should be assigned a unique, sequential number to fully account for each entry.

Condition: Journal entries that are posted are not numbered, filed, and maintained in a consistent manner. The total population of journal entries are, therefore, not tracked by the City. City staff was also unable to provide journal entry supporting documentation for FY14 and FY15 as they could not be located in the journal binder.

Cause: Journal numbers consist of the inputting staff's initials and manually generated numbers. There is no auto-generated sequential numbering of the journal voucher, which makes accounting for completeness difficult.

Effect or Potential Effect: City cannot determine the total number of journal entries posted.

Repeat of a Prior-Year Finding: No

Recommendation: The process of preparing journal entries should be formalized in a policy. Items that can be included in the policy are who can prepare journal entries, who can approve, dollar limits to approvals, what supporting documentation should be attached, how the entries are numbered and filed for future reference etc.

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

Management Response and Corrective Action Plan

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

Corrective Action Plan: The City is reviewing the limitations of the financial software. Once the capacity is determined for automation of sequential numbering, the City will establish a policy regarding the numbering system. The journal entries are filed and maintained in binders organized annually based on the current numbering system. The City will also establish and document policies and procedures designed to serve as a system of internal controls required by OMB's Uniform Guidance (2 CFR 200).

Planned Implementation Date: June 30, 2020

Responsible Person: Rafaela King, Controller

Current Status: No update

2014-015 – EFT Journal Entries (MW)

Criteria: Journal entries should be reviewed and approved by the Controller or a supervisory position. All journal entries should be accompanied by a full explanation and reference to adequate supporting data.

Condition: Journal entries for EFT disbursements, such as monthly Section 8 payments, are not being reviewed and documented as approved by the Controller or a supervisor position prior to posting.

Cause: Due to the vacancies in key positions in the Controller's Office, EFT journal entries are posted without the Controller's or supervisor's review.

Effect or Potential Effect: Due to the nature of EFT entries, the lack of review and approval could result in significant errors that could materially misstate the financial statements.

Repeat of a Prior-Year Finding: No

Recommendation: EFT journal entries should be documented as reviewed and approved by the Controller or appropriate personnel prior to posting and disbursement.

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

Management Response and Corrective Action Plan

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

Corrective Action Plan: The City has hired a Deputy City Controller who is assigned to review all journal entries created by staff. The deputy is also responsible for ensuring there is adequate support documentation and posting all journal entries. The City will also establish and document policies and procedures designed to serve as a system of internal controls required by OMB's Uniform Guidance (2 CFR 200). In the meantime, the City Controller department will continue to take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2019

Responsible Person: Rafaela King, Controller

Current Status: No update

2014-016 – EFT Upload .txt File (MW)

Criteria: EFT upload .txt file should be reviewed and approved by the Controller or any supervisory position prior to being uploaded to the bank, then sent to the Treasurer's office to subsequently confirm the correct amount was disbursed.

Condition: The EFT file being uploaded to the bank is a .txt file that can be easily altered. The City employee that uploads the file is in the City Controller's Office and is the same person who confirms the total EFT amount with the Treasurer's Office. The Treasurer's office does not receive a copy of the original report from the Local Housing Authority to ensure that the EFT was for the proper amount.

Cause: The Total EFT amount is currently being confirmed by the same person preparing the upload.

Effect or Potential Effect: If there were any unauthorized alterations to the EFT upload file, there are no controls in place to detect such.

Repeat of a Prior-Year Finding: No

Recommendation: The Treasurer's Office should confirm the EFT amount from an independent source or the original source document to ensure the accuracy of the EFT request.

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

Management Response and Corrective Action Plan

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

Corrective Action Plan: The City will write a policy regarding the review and upload of the .txt file that will involve the Treasurer's Office and Housing to ensure the correct amount is approved prior to the upload. The City will also establish and document policies and procedures designed to serve as a system of internal controls required by OMB's Uniform Guidance (2 CFR 200). In the meantime, the City Controller and City Treasurer Department will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2020

Responsible Person: Rafaela King, Controller and Douglas Sanders, City Treasurer.

Current Status: No update

2014-017 – Payroll Submission (MW)

Criteria: The payroll submission should be reviewed and approved by the Controller or a supervisory position prior to being submitted to payroll service vendor.

Condition: Payroll submissions are not being reviewed and approved by the Controller or any supervisor position prior to submitting to ADP, which increases the risk of inaccurate payroll.

Cause: There is no control in place to approve a payroll submission to the payroll service vendor before payroll is processed.

Effect or Potential Effect: Errors will not be detected and employees may receive an incorrect compensation.

Repeat of a Prior-Year Finding: No

Recommendation: Payroll should be documented as reviewed and approved by appropriate personnel prior to submission to the payroll service vendor.

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

Management Response and Corrective Action Plan

City's Response: The City concurs with the recommendation. The City will establish and document policies and procedures to ensure that payroll submissions to ADP are reviewed and approved of by a supervisor prior to submission.

Corrective Action Plan: The City hired a Deputy Controller to oversee and supervise the payroll department. The Deputy Controller reviews the payroll edit batch prior to submission to ADP. The City will also establish and document policies and procedures designed to serve as a system of internal controls required by OMB's Uniform Guidance (2 CFR 200).

Planned Implementation Date: June 30, 2019

Responsible Person: Rafaela King, Controller

Current Status: No update

2014-018 – Payroll Posting (MW)

Criteria: The posting of payroll should be completed within a timely manner to ensure that the City financial statements are accurate.

Condition: Payroll journal entries are not being posted timely and are at least three weeks behind, which could lead to materially misstated City financial statements and budget analysis due to incomplete payroll expenditures.

Cause: The accountant does not post payroll expenditures until a report has been generated by ADP, which the accountant obtains from payroll.

Effect or Potential Effect: The City financial statements may be materially misstated due to incomplete and inaccurate payroll expenditures.

Repeat of a Prior-Year Finding: No

Recommendation: Payroll journal entries should be prepared, reviewed, approved and posted to the general ledger in a timely manner to ensure accuracy of the financial statements.

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

Management Response and Corrective Action Plan

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

Corrective Action Plan: The City hired additional accounting staff. The payroll posting function is processed biweekly and reviewed prior to posting by one of the Deputy Controllers. The City will also establish and document policies and procedures designed to serve as a system of internal controls required by OMB's Uniform Guidance (2 CFR 200). In the meantime, the City Controller department will continue to take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2019

Responsible Person: Rafaela King, Controller

Current Status: No update

2014-019 – Payroll Account Numbers (SD)

Criteria: Payroll object codes generated by payroll service vendor should be followed by the City Accountant to ensure a consistent and accurate payroll expense.

Condition: Payroll general ledger account numbers generated by ADP are not always followed. The City accountant has the ability to make changes to the system journal entry import file based on the City's budget, i.e. reallocate overtime expenses from one fund to another.

Cause: Employee profiles are not regularly updated with current % allocations, per budget document.

Effect or Potential Effect: The City financial statements may be materially misstated because payroll expenditures may not be complete and accurate.

Repeat of a Prior-Year Finding: No

Recommendation: ADP's cost allocation function should be fully utilized to eliminate any manual adjustments. If manual adjustments are still necessary, appropriate supporting documentation of review and approval should be attached. If the revised general ledger account posting will be used consistently in the future, then ADP's cost allocation codes should be modified.

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

Management Response and Corrective Action Plan

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

Corrective Action Plan: The City hired a Deputy Controller with extensive payroll and ADP experience. The Deputy Controller has been auditing all payroll and HR entries in the database and is making corrections to ensure the correct cost allocations and profile setups are in the financial software and the account numbers are transferred to ADP. Other payroll-related errors, including object codes, are also being corrected to ensure the posting is correct in the financial software. The City will also establish and document policies and procedures designed to serve as a system of internal controls required by OMB's Uniform Guidance (2 CFR 200). In the meantime, the City Controller department will continue to take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2020

Responsible Person: Rafaela King, Controller

Current Status: No update

2014-020 – Employee Punch-in (SD)

Criteria: City employees are required to punch in and punch out every day to accurately record their hours worked in a day.

Condition: Employees are capable of punching in for other employees using their employee ID. The City does not seem to be utilizing the biometric employee punch-in feature. Also, the departments are inconsistent with the punch-in/out requirements. While some departments punch-in/out for lunch, others don't and the system automatically deducts an hour from the total hours logged for the day.

Cause: There is no secondary security that prevents employees from entering another employee's ID.

Effect or Potential Effect: Employees could be paid for time that they are not actually present.

Repeat of a Prior-Year Finding: No

Recommendation: The City should require employees to register their fingerprint in the system so that employees will use a dual punch-in that requires their employee code and fingerprint to eliminate the opportunity for employees to punch-in for other employees.

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

Management Response and Corrective Action Plan

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

Corrective Action Plan: The City will consider the use of fingerprinting as a secondary security measure in regards to timeclocks. This will be a meet and confer issue and will be addressed after all other possibilities are waived. The City will also establish and document policies and procedures designed to serve as a system of internal controls required by OMB's Uniform Guidance (2 CFR 200). In the meantime, the City Controller department will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2020

Responsible Person: Rafaela King, Controller

Current Status: No update

2014-021 – Labor Cost Allocation Budget Approval (MW)

Criteria: The approved labor cost allocation should be used to properly allocate the time of employees that work on multiple projects.

Condition: The fiscal year labor cost allocation budget used by payroll to enter employee fund and account allocations into ADP does not show documentation of approval and review by the Controller, budget department, and department manager of the affected departments.

Cause: E+P was not able to determine if the labor cost allocation went through the proper approval path.

Effect or Potential Effect: The incorrect funds could be charged with payroll expenditures that does not belong to them, which becomes more significant for federal grant programs.

Repeat of a Prior-Year Finding: No

Recommendation: The labor cost allocation budget should show which department it was prepared by, and documentation of review and approval from the Controller, budget department, and the affected department to ensure accuracy of the document and input into ADP.

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

Management Response and Corrective Action Plan

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

Corrective Action Plan: The labor cost allocation accounts are now included on employees' PA101 forms. Any changes to employee allocations are now entered by HR and verified by payroll once the executed copy has been received. The PA101 forms are signed by HR, the Budget Officer, and the Controller, along with the Department Head, City Manager, and employee. The City will establish and document policies and procedures designed to serve as a system of internal controls required by OMB's Uniform Guidance (2 CFR 200).

Planned Implementation Date: June 30, 2019

Responsible Person: Rafaela King, Controller

Current Status: No update

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.

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

Management Response and Corrective Action Plan

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

Corrective Action Plan: The City's management staff and Department Heads do not use timecards. Management submits Leave Request Sheets upon absence. The attendance for management is 'exception based'. Any leave requests are preapproved and submitted to the managers. The City will establish and document policies and procedures designed to serve as a system of internal controls required by OMB's Uniform Guidance (2 CFR 200).

Planned Implementation Date: June 30, 2019

Responsible Person: Rafaela King, Controller

Current Status: No update

2014-023 – Fire Department Time Cards (SD)

Criteria: City employees should be aware of the hours submitted on their behalf and should be documented by signature.

Condition: City's fire department maintains a roster for their scheduling. A designated time keeper transfers the roster to time cards that are submitted to payroll. Employees don't always get to see submitted time sheet which also lacks employee signature.

Cause: Due to the nature of the firefighters' schedule, the time keeper summarizes the roster in the time cards and submits them often prior to the employees review for accuracy.

Effect or Potential Effect: City employees could be compensated for inaccurate time due to poor reporting controls.

Repeat of a Prior-Year Finding: No

Recommendation: The City should establish policies and procedures that ensure that time cards submitted to the City Controller's Office are accurate by requiring not only the department head, but also the employees to review and approve/sign the time cards prior to submission to the City Controller's Office.

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

Management Response and Corrective Action Plan

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

Corrective Action Plan: The City Controller's Office and Payroll Department are closely monitoring the timekeeping issues associated with the Fire Department. The Chief and Controller are considering installing timeclocks at the fire stations to alleviate the mishaps with payroll-related activities. The City will also establish and document policies and procedures designed to serve as a system of internal controls required by OMB's Uniform Guidance (2 CFR 200). In the meantime, the City Controller department will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2020

Responsible Person: Rafaela King, Controller

Current Status: No update

2014-024 – Vacation and Overtime (SD)

Criteria: City employees shall be compensated for actual hours worked.

Condition: There was an instance when a fire department employee was paid 17 hours of overtime in addition to 112 hours of vacation in one pay period.

Cause: City employees are currently compensated overtime for getting called in to work during their scheduled vacation.

Effect or Potential Effect: Improper use of public funds due to excessive and unreasonable compensation to City employees.

Repeat of a Prior-Year Finding: No

Recommendation: The City should establish policies and procedures that define whether employees on vacation can be called in for work. If such instances are allowed per City policy, there should be sufficient support attached to the time cards to allow for appropriate accounting. However, we recommend that employees should not be paid overtime in addition to vacation time. Instead, employees could be entitled to keep vacation time or get paid at their regular hourly rate.

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

Management Response and Corrective Action Plan

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

Corrective Action Plan: The City has hired a Deputy Controller to oversee and supervise the payroll department. The Deputy City Controller monitors and rejects all incorrect time submissions related to the Fire Department. All misuse and improper recording of vacation, holiday, additional pay, etc. is being heavily scrutinized and corrective policies are being written. The City will also establish and document policies and procedures designed to serve as a system of internal controls required by OMB's Uniform Guidance (2 CFR 200). In the meantime, the City Controller department will continue to take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2019

Responsible Person: Rafaela King, Controller

Current Status: No update

2014-025 – Payroll Allocation (SD)

Criteria: City should be able to review ADP provided reports and determine the reasonableness of general ledger (GL) accounts being charged.

Condition: City does not have a control in place to ensure that payroll posted to the GL is according to the properly allocated. City relies on ADP's allocation and no documentation of review has been noted. E+P was not able to trace employee payroll to GL.

Repeat of a Prior-Year Finding: No

Cause: City is currently mostly relying on ADP's GL allocation report with the exception that some funds are modified based on the budget.

Effect or Potential Effect: There could be a classification issue that could result in a misstatement of the financial statements. As for the federal grants, this issue also might lead to charging unallowable costs against the federal grants accounts.

Recommendation: The City should periodically review ADP reports to determine if the allocation provided by ADP reflect the City's allocation budget. The City should also have policies and procedures in place that require periodic review of employee cost allocation information contained in the ADP reports to ensure all updates are accounted for.

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

Management Response and Corrective Action Plan

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

Corrective Action Plan: The City hired two Deputy Controllers. One is in charge of payroll and ADP, and the other is in charge of the general ledger. The deputies are working closely with staff and ADP to correct all general ledger postings and to ensure all account numbers being used by ADP and uploaded to the general ledger are accurate. The City will also establish and document policies and procedures designed to serve as a system of internal controls required by OMB's Uniform Guidance (2 CFR 200). In the meantime, the City Controller department will continue to take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2019

Responsible Person: Rafaela King, Controller

Current Status: No update

2014-026 – Payroll Accrued Liabilities (BP)

Criteria: The City should limit its liability by having defined rules regarding maximum sick time accruals.

Condition: The City allows employees to accrue unlimited sick time, for which the City records accrued liabilities.

Cause: Per City policy, employees can accrue 12 days of sick time per year, which may be accumulated indefinitely and without limit.

Effect or Potential Effect: The City could be restricting City funds for liabilities for which it has no legal obligation to accrue.

Repeat of a Prior-Year Finding: No

Recommendation: The City should revise its policies to establish a maximum sick time accrual to limit the City's liabilities.

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

Management Response and Corrective Action Plan

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

Corrective Action Plan: All City MOA have stipulations on the maximum payout allowed based on years of service and which bargaining group. The City has a policy in place by each bargaining unit. The City will also establish and document policies and procedures designed to serve as a system of internal controls required by OMB's Uniform Guidance (2 CFR 200).

Planned Implementation Date: June 30, 2019

Responsible Person: Rafaela King, Controller

Current Status: No update

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.

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

Management Response and Corrective Action Plan

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

Corrective Action Plan: The Payroll Department is currently auditing and fixing all errors in the system to ensure the retro payments can be paid through the system when possible. Changes in rates are monitored through HR and are not processed in Payroll without properly executed documentation. The City will also establish and document policies and procedures designed to serve as a system of internal controls required by OMB's Uniform Guidance (2 CFR 200). In the meantime, the Human Resources and City Controller department will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2020

Responsible Person: Jesenia Sanchez, Human Resources Analyst and Rafaela King, Controller

Current Status: No update

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.

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

Management Response and Corrective Action Plan

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

Corrective Action Plan: The City has hired additional HR staff to handle the paperwork associated with hiring new staff. The Controller's Office is reviewing and filing all HR-related documents received from HR for all employees. Employee files are kept in the Payroll Department files under lock and key. The City will also establish and document policies and procedures designed to serve as a system of internal controls required by OMB's Uniform Guidance (2 CFR 200).

Planned Implementation Date: June 30, 2019

Responsible Person: Jesenia Sanchez, Human Resources Analyst and Rafaela King, Controller

Current Status: Not started

2014-029 – HR Forms – I-9 (BP, NC)

Criteria: Per immigration law, all employers must complete and retain I-9 forms for every person they hire within three business days after the employee begins work for pay for employment after November 6, 1986. The forms have to be retained for three years after the date of hire, or one year after the date of employment ends – whichever is later.

Condition: I-9 forms were not available in the employee files for some selected City employees.

Cause: Current HR personnel was unable to locate requested I-9 forms.

Effect or Potential Effect: Failure to complete and retain I-9 forms for every employee is considered a violation of federal law.

Repeat of a Prior-Year Finding: No

Recommendation: The City should ensure that all HR documents are available prior to having a new City employee start and maintain such documents in the employee files for documentation purposes. For City employees that are still employed by the City to date, the City should work on getting these files completed and filed.

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

Management Response and Corrective Action Plan

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

Corrective Action Plan: The City has hired additional HR staff to handle the paperwork associated with hiring new staff. The City will also establish and document policies and procedures designed to serve as a system of internal controls required by OMB's Uniform Guidance (2 CFR 200). In the meantime, the Human Resources and City Controller department will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2019

Responsible Person: Jesenia Sanchez, Human Resources Analyst and Rafaela King, Controller

Current Status: Not started

2014-030 – HR Forms – I-9 Review of Information (BP, NC)

Criteria: Per immigration law, all employers must complete and retain I-9 forms for every person they hire within three business days after the employee begins work for pay for employment after November 6, 1986. The forms have to be retained for three years after the date of hire, or one year after the date of employment ends – whichever is later.

Condition: There are instances where I-9 forms are present, but there is no documentation of City staff reviewing and verifying information.

Cause: Current HR personnel was not present during period being audited and could not provide an explanation as to why Section 2 of the form was not completed.

Effect or Potential Effect: Failure to complete and retain I-9 forms for every employee is considered a violation of federal law.

Repeat of a Prior-Year Finding: No

Recommendation: The City should ensure that there are policies and procedures in place that define how HR documents should be processed during the hiring process. Consequently, the City should also ensure that such policies are actually being followed by the HR Department. For City employees that are still employed by the City to date, the City should work on getting these files completed and filed.

This addresses COSO's Control Activities, Principle 12: deploys through policies & procedures and Monitoring Activities, Principle 16: conducts ongoing and/or separate evaluations.

Management Response and Corrective Action Plan

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

Corrective Action Plan: The City has hired additional HR staff to handle the paperwork associated with hiring new staff. The City will also establish and document policies and procedures designed to serve as a system of internal controls required by OMB's Uniform Guidance (2 CFR 200). In the meantime, the Human Resources and City Controller department will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2019

Responsible Person: Jesenia Sanchez, Human Resources Analyst and Rafaela King, Controller

Current Status: Not started

2014-031 – Internal Control over Cash Disbursements – Payment Processed from Statement (SD)

Criteria: City policy requires that all payments be supported by original invoices.

Condition: Per City policy, payments can only be made from original invoices. We identified that a payment was supported only by a statement instead of an original invoice.

Cause: City policy was not properly enforced and payment was still processed on a statement.

Effect or Potential Effect: Duplicate payments could be made for the same service or product.

Repeat of a Prior-Year Finding: No

Recommendation: The City should implement monitoring procedures to ensure that daily operations are conducted according to City Policies. In instances where deviations from City policies are necessary, properly documented support, including approval of such deviation from the department manager should be attached.

This addresses COSO's Control Activities, Principle 12: deploys through policies & procedures and Monitoring Activities, Principle 16: conducts ongoing and/or separate evaluations.

Management Response and Corrective Action Plan

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

Corrective Action Plan: The Controller's staff now reviews requisitions and warrant requests prior to submitting to accounts payable staff for input. The checks are further reviewed by the Budget Officer, and Controller (or Deputy) prior to the Controller signing the checks. The City will also establish and document policies and procedures designed to serve as the system of internal controls required by OMB's Uniform Guidance (2 CFR 200). In the meantime, the City Controller department will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2019

Responsible Person: Rafaela King, Controller

Current Status: No update

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 by first issuing a City general bank account check in the system and then cutting and printing another check for the same amount on Successor Agency check stock. The updated check information was not recorded in the system. The checks issued by the City Controller's Office from the general account were not properly voided and still show as outstanding checks in the accounting system.

Cause: The City wasn't entering Successor Agency checks in the accounting system and resulted in entering a "void" general checking account check instead. However, these "voided" checks still show as outstanding in the system.

Effect or Potential Effect: Expenses could be materially understated if additional Successor Agency checks were cut, but were not entered in the system. Also, due to the general checks never getting voided or cleared, the City cannot rely on its outstanding checks report for bank reconciliation purposes. Potential misstatement of cash balances due to improper journal entries to clear City checks.

Repeat of a Prior-Year Finding: No

Recommendation: All checks cut from City managed bank accounts should be accounted for in the accounting system. The City should establish a policy defining the necessity to use the appropriate check stock for the related expenditures and have each accounted for in the accounting system as is. The City should also review and correct any outstanding checks related to Successor Agency checks.

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

Management Response and Corrective Action Plan

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

Corrective Action Plan: The City is reviewing all capabilities of the financial software system including the ability to manage multiple check stocks for various accounts in order to eliminate the manual check process for the Successor Agency. The City will also establish and document policies and procedures designed to serve as a system of internal controls required by OMB's Uniform Guidance (2 CFR 200). In the meantime, the City Controller department will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2019

Responsible Person: Rafaela King, Controller

Current Status: No update

2014-033 – Internal Control over Cash Disbursements – Signor of Checks (SD)

Criteria: Check signing authorization should take proper segregation of duties into consideration.

Condition: There were instances when a check was signed by an accountant instead of the (Deputy) Controller or other supervisory level personnel.

Cause: Due to the key vacancies within the department, a resolution was passed that authorized the Accountant I to sign checks.

Effect or Potential Effect: Misappropriation of assets through unauthorized cash disbursements caused by lack of segregation of duties.

Repeat of a Prior-Year Finding: No

Recommendation: The City should establish appropriate alternate signers in the absence of the Controller. In instances where the appropriate alternate signer is also not available, a comprehensive explanation and proper documentation of support authorizing and validating another City staff's signature should be attached.

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

Management Response and Corrective Action Plan

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

Corrective Action Plan: All check signers are authorized by City Council via resolution. Heavy turnover of the management in the Controller's Office required a third signer with consistency. The Accountant I would only sign checks in the absence of the Controller and the Deputy Controller. The City will establish and document policies and procedures designed to serve as a system of internal controls required by OMB's Uniform Guidance (2 CFR 200).

Planned Implementation Date: June 30, 2019

Responsible Person: Rafaela King, Controller

Current Status: No update

2014-034 – Internal Control over Procurement (MW)

Criteria: Per City policy, bids and proposals are required for transactions of an estimated cost of \$7,500 or over and the selection of consultants and contractors.

Condition: Bidding package and requested quotes were not available for review for samples selected for testing. The City Controller's Office does not get a copy of the comparative quotes or bidding results that are used to verify that proper purchasing procedures set by City policy were followed.

Cause: Bidding information are maintained in the requesting department and there are no copies available in the City Clerk's office.

Effect or Potential Effect: Lack of policy enforcement could result in opportunity for favoritism, corruption, and fraud.

Repeat of a Prior-Year Finding: No

Recommendation: City should have procedures, controls, and personnel in place that ensure purchasing procedures being conducted are per City Policy.

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

Management Response and Corrective Action Plan

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

Corrective Action Plan: The City is centralizing the Purchasing Department within the Controller's Office. All bids will be maintained in the Purchasing Division. Other procedures will be written as the department gets staff hired as the centralization takes place. The City will also establish and document policies and procedures designed to serve as a system of internal controls required by OMB's Uniform Guidance (2 CFR 200).

Planned Implementation Date: June 30, 2020

Responsible Person: Rafaela King, Controller

Current Status: No update

2014-035 – Internal Control over Cash Disbursements – Lack of Documented Approvals (SD)

Criteria: City policy and good internal controls require that invoices be approved prior to payment.

Condition: Our testing identified instances where invoices without properly documented approval have been processed for payment.

Cause: The Department heads do not appear to be following the City's approval process for certain reoccurring payments.

Effect or Potential Effect: Unauthorized expenditures could be paid resulting in misuse of City funds.

Repeat of a Prior-Year Finding: No

Recommendation: The City should implement procedures that help prevent cash disbursements for unauthorized expenditures. Adequate review procedures by the requesting department managers and approving officials should be documented by signature or initials. In instances such as reoccurring bills for utilities, communication, etc., proper language should be added to the City Policy for proper documentation.

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

Management Response and Corrective Action Plan

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

Corrective Action Plan: The City has stopped using Council warrants to pay unauthorized bills. All payments that are issued now require multiple signatures. In the event an invoice is created and received, authorizing action is obtained from City Council via staff report and resolution. In the meantime, the City Controller department will continue to take steps to address the specific finding noted above. The City will also establish and document policies and procedures designed to serve as a system of internal controls required by OMB's Uniform Guidance (2 CFR 200).

Planned Implementation Date: June 30, 2019

Responsible Person: Rafaela King, Controller

Current Status: No update

2014-036 – Internal Control over Cash Disbursements – Verification of Remittance Addresses (SD)

Criteria: Payments should only be sent to verified remittance addresses.

Condition: The remittance address on the statement received differed from what is on the purchase requisition and purchase order. The check was sent to the address noted on the purchase requisition and purchase order without further explanation.

Cause: There are no procedures in place that defines the need to verify conflicting remittance addresses.

Effect or Potential Effect: Late payment fees due to delayed remittance or misappropriation of public funds due to illegitimate vendors.

Repeat of a Prior-Year Finding: No

Recommendation: The City should have policies and procedures addressing the proper handling of situations like this to prevent late payments due to incorrect remittance addresses or misappropriation of City funds due to illegitimate vendors. Documentation of support verifying the used address should be attached.

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

Management Response and Corrective Action Plan

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

Corrective Action Plan: The City is assessing the current financial policies and procedures manual and will include the process on verifying and updating remittance addresses to ensure the correct vendor is paid timely. The City will also establish and document policies and procedures designed to serve as a system of internal controls required by OMB's Uniform Guidance (2 CFR 200). In the meantime, the City Controller department will take steps to address the specific finding noted above. In the meantime, the City Controller department will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2019

Responsible Person: Rafaela King, Controller

Current Status: No update

2014-037 – Internal Control over Expenditures – Processing of Duplicate Invoices (SD)

Criteria: The accounting system should not allow the input of duplicate invoice numbers.

Condition: The accounting system warns users if a duplicate entry of an invoice from a vendor is about to be entered. However, the user has the ability to override the warning and proceed with the input of the transaction.

Cause: City staff has the ability to ignore warning and proceed with the input of duplicate invoice numbers.

Effect or Potential Effect: Risk of duplicate payment of an invoice and overstatement of expenses.

Repeat of a Prior-Year Finding: No

Recommendation: The City should eliminate override capabilities from City staff to mitigate the risk of double payment of invoices. In instances where the account numbers are used as invoice references, which causes them to be identical each month, the date of the invoice could be added to allow for a unique invoice reference.

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

Management Response and Corrective Action Plan

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

Corrective Action Plan: The City is setting up training for all Controller's Office staff in operating the accounting system. Any and all instances where staff has the ability to override, cancel, delete, or skip key functions will be corrected to ensure only a supervisor has those responsibilities and only when necessary. The City will also establish and document policies and procedures designed to serve as a system of internal controls required by OMB's Uniform Guidance (2 CFR 200). In the meantime, the City Controller department will continue to take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2019

Responsible Person: Rafaela King, Controller

Current Status: No update

2014-038 – Internal Control over Cash Disbursements – Segregation of Duties (MW)

Criteria: There should be proper segregation of duties in the cash disbursement cycle to reduce the opportunity of fraudulent activities.

Condition: The City staff who is responsible for posting and preparing the checks is the also the one responsible for mailing the checks out.

Cause: Lack of segregation of duties allow one employee to post invoices, prepare checks, and mail out checks.

Effect or Potential Effect: The combination of incompatible responsibilities could result in clerical errors and fraudulent activities.

Repeat of a Prior-Year Finding: No

Recommendation: The City should have one City staff post the disbursements and another prepare and mail the checks. Segregation of authorizing, recording, and custody duties of transactions allows the City to ensure oversight and review to catch errors and to prevent fraud or theft.

This addresses COSO's Control Activities, Principle 10: selects and develops control activities.

Management Response and Corrective Action Plan

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

Planned Implementation Date: June 30, 2019

Responsible Person: Rafaela King, Controller

Current Status: No update

2014-039 – Internal Control over Accounts Payable – Maintenance of Accounts Payable Aging (MW)

Criteria: Per City policies, invoices are to be paid on time to avoid delinquency fees.

Condition: The City does not maintain accounts payable during the fiscal year. Accounts payable is a manual process at fiscal year-end during which the Accountant II goes through subsequent cash disbursements made during the first 90 days of the new fiscal year and determines which expenses belong to the previous fiscal year's accounts payable. Therefore, there is no periodic review and reconciliation of their accounts payable aging report.

Cause: City does not maintain an accounts payable aging. Invoices are usually entered for immediate payment.

Effect or Potential Effect: High risk of error during year end process, which could result in material misstatement of financial statements. Also, expenditures and accounts payable could be understated if payment of the invoice is held up for any reason such as obtaining City Council approval.

Repeat of a Prior-Year Finding: No

Recommendation: The City should utilize its accounting system's accounts payable module. It will allow the City to review, reconcile, and monitor its accounts payable balances throughout the fiscal year for financial reporting and budgeting purposes.

This addresses COSO's Control Activities, Principle 11: selects and develops general controls over technology.

Management Response and Corrective Action Plan

City's Response: The City disagrees with the recommendation because the financial software is not capable of producing an accounts payable aging report.

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

Planned Implementation Date: June 30, 2020

Responsible Person: Rafaela King, Controller

Current Status: No update

2014-040 – Deposit Supporting Documents (MW)

Criteria: The City Controller's Office should be able to reconcile the cash receipts report to each of the supporting documentation.

Condition: The City Treasurer department submits incomplete supporting documentation to the City Controller's Office for daily deposits. Supporting documentation should reconcile to the total deposit made.

Cause: Cash receipt supporting documentation are not centrally filed. For example, water payment receipts are kept in the water department and never reach it to the City Controller's Office.

Effect or Potential Effect: City Controller's Office unable to verify accuracy of posted cash receipt. Also, retrieval of supporting documentation is more challenging due to decentralized filing system.

Repeat of a Prior-Year Finding: No

Recommendation: The City should strengthen its internal control over cash receipts and maintain adequate supporting documentation. This should include centralized filing of supporting documentation by the City's Controller's Office so documents can be readily available when needed. The City Controller's Office should be able to trace all deposits to invoices and/or other documentation.

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

Management Response and Corrective Action Plan

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

Corrective Action Plan: The City's Controller's Office has assigned one staff member to reconcile the cash receipts document received from the Treasurer's Office to the bank account posted amounts on a daily basis to ensure all transactions are recorded in both the bank and general ledger. The City will also establish and document policies and procedures designed to serve as the system of internal controls required by OMB's Uniform Guidance (2 CFR 200).

Planned Implementation Date: June 30, 2019

Responsible Person: Douglas Sanders, City Treasurer and Rafaela King, Controller

Current Status: 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.

E+P Comment: We concur.

2014-041 – Deposit Reconciliation (MW)

Criteria: Deposit slips should be traced to the bank account to confirm the intact deposit of the deposits.

Condition: The City Controller's Office doesn't reconcile the deposit slips from the City Treasurer's office to the bank statements while processing the daily cash receipts for recording into the GL.

Cause: The City Controller's Office was solely reconciling the deposit slip to the general ledger, while the City Treasurer's office was unknowingly reconciling a forged deposit slip to the daily bank statements.

Effect or Potential Effect: Cash deposited into the City's bank accounts were less than what was indicated on the deposit slips. However, the discrepancies remained undetected for years and amounted to roughly 3.7 million total due to the weak controls and poor procedures.

Repeat of a Prior-Year Finding: No

Recommendation: The City Controller's Office should include reconciliation of the daily cash receipt to the bank account in the cash receipt posting procedures and communicate any discrepancies with the City Treasurer's office.

Management Response and Corrective Action Plan

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

Corrective Action Plan: The City's Controller's Office has assigned one staff member to reconcile the cash receipts document received from the Treasurer's Office to the bank account posted amounts on a daily basis to ensure all transactions are recorded in both the bank and general ledger. The City will also establish and document policies and procedures designed to serve as the system of internal controls required by OMB's Uniform Guidance (2 CFR 200).

Planned Implementation Date: June 30, 2019

Responsible Person: Rafaela King, Controller

Current Status: No update

2014-042 – Cash Receipt Segregation of Duties (MW)

Criteria: There should be a segregation of incompatible responsibilities.

Condition: We noted a lack of segregation of duties in the City Treasurer's department as the same individual counted cash, prepared the deposit slip, and reconciled the Springbrook daily deposit reports, which can lead to misappropriation of City funds.

Cause: One individual was performing incompatible responsibilities without any mitigating controls.

Effect or Potential Effect: City was subject to multiple years of embezzlement.

Repeat of a Prior-Year Finding: No

Recommendation: The City Treasurer's department should strengthen its controls over cash receipts by segregating the cash counting process from cash reconciliation by having a different employee count the cash and another employee reconcile it to the daily reports. Policies and procedures need to be updated to reflect the responsibilities by position.

This recommendation addresses COSO's Control Environment, Principle 5: enforces accountability and Control Activities, Principle 10: selects and develops control activities.

Management Response and Corrective Action Plan

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

Corrective Action Plan: The City has revised its cash handling policy to ensure segregation of duties. The City will also establish and document policies and procedures designed to serve as the system of internal controls required by OMB's Uniform Guidance (2 CFR 200).

Planned Implementation Date: June 30, 2019

Responsible Person: Douglas Sanders, City Treasurer and Rafaela King, Controller

Current Status: 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.

E+P Comment: We concur.

2014-043 – Cash Receipt Support (SD)

Criteria: City Controller's Office should maintain adequate supporting documentation of its transactions.

Condition: City Controller's Office was unable to locate cash receipt packages selected as part of the sample.

Cause: There is no consistent filing and storing system in place.

Effect or Potential Effect: City is unable to locate supporting documentation for subsequent review.

Repeat of a Prior-Year Finding: No

Recommendation: The City should strengthen its internal control over cash receipts and maintain adequate supporting documentation. This should include centralize filing of supporting documentation by the City's Controller's Office so documents can be readily available when needed. The City Controller's Office should be able to trace all deposits to invoices and/or other documentation. Controller's Office should establish and document a filing and storing system that enables (new) City staff to locate (older) supporting documentation related to their assigned day-to-day responsibilities as needed.

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

Management Response and Corrective Action Plan

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

Corrective Action Plan: The City's Controller's Office is creating a tracking log to identify the storage location of all boxes of supporting documentation of cash receipts. The current and immediate past fiscal year files will be housed within the Controller's Office. All other years' records will be in off-site storage locations. The City will also establish and document policies and procedures designed to serve as the system of internal controls required by OMB's Uniform Guidance (2 CFR 200). In the meantime, the City Controller department will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2019

Responsible Person: Rafaela King, Controller

Current Status: No update

2014-044 – Internal Controls over Cash Receipts (MW)

Criteria: Cash receipts should be kept in a secure location until deposited.

Condition: Cash receipts are not deposited intact promptly or stored in a secure location.

Cause: Cash is only deposited once a day and the lack of surveillance during lunch breaks or the absence of supervisory position creates an opportunity for theft.

Effect or Potential Effect: Unsupervised cash could easily be misappropriated.

Repeat of a Prior-Year Finding: No

Recommendation: The City should have procedures and security equipment (i.e. security cameras) in place to ensure that cash within the City Treasurer's department are constantly under surveillance. The City should also restrict access to and increase security in the location where cash is stored while waiting for the daily pickup for deposit.

This addresses COSO's Control Activities, Principle 10: selects and develops control activities.

Management Response and Corrective Action Plan

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

Corrective Action Plan: The City has revised its cash handling policy to ensure segregation of duties. The City will also establish and document policies and procedures designed to serve as the system of internal controls required by OMB's Uniform Guidance (2 CFR 200).

Planned Implementation Date: June 30, 2019

Responsible Person: Douglas Sanders, City Treasurer and Rafaela King, Controller

Current Status: Partially implemented. Cameras have been installed in the Treasurer's office. They are currently monitored outside of the Treasurer's office. Additional monitors are being installed in the Treasurer's office for monitoring. There are two cash drops per day by the cashiers, one before lunch and one before breaks to minimize the amount of cash held in each register. Furthermore, all cash drops are reviewed and signed off with dual custody.

E+P Comment: We concur.

2014-045 – Bank Reconciliations (MW)

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

Condition: Bank reconciliations are not prepared and reviewed in a timely manner.

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

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

Repeat of a Prior-Year Finding: No

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

This addresses COSO's Control Environment, Principle 4: demonstrates commitment to competency, and Principle 5: enforce accountability.

Management Response and Corrective Action Plan

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

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

Planned Implementation Date: June 30, 2019

Responsible Person: Rafaela King, Controller

Current Status: No update

2014-046 – Cash Account Adjustments (MW)

Criteria: The cash general ledger accounts should only reflect actual cash transactions and transfers.

Condition: Adjustments of cash accounts are not approved and documented by the appropriate level of management or another appropriate person.

Cause: The City prepared journals against the cash accounts for miscellaneous adjustments.

Effect or Potential Effect: Journals against cash increases the complexity of bank reconciliations. Journal entries should always be associated with actual cash movements, otherwise, the general ledger may be materially misstated.

Repeat of a Prior-Year Finding: No

Recommendation: The City should not be posting journals to cash accounts unless absolutely necessary for specifically approved standardized transactions per City policy. Furthermore, journal entries to cash accounts should be reviewed and approved by the appropriate level before posting. Documentation for support in compliance with policy should be attached to the entry.

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

Management Response and Corrective Action Plan

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

Corrective Action Plan: The City has hired a Deputy City Controller who is assigned to review all journal entries created by staff. The Deputy Controller is also responsible for making sure there is adequate support documentation and posting all journal entries. The City will also establish and document policies and procedures designed to serve as the system of internal controls required by OMB's Uniform Guidance (2 CFR 200).

Planned Implementation Date: June 30, 2019

Responsible Person: Rafaela King, Controller

Current Status: No update

2014-047 – Bank Reconciliations (BP)

Criteria: The City should utilize its accounting information system to become more efficient and effective in preparing timely monthly bank reconciliations.

Condition: The City does not properly utilize ONESolution Accounting System's bank reconciliation function to minimize any calculation or reconciliation errors.

Cause: The City has over 30 bank accounts that it manually reconciles on Excel spreadsheets.

Effect or Potential Effect: Manual bank reconciliation are more time consuming and more susceptible to clerical errors. Also, due to the time constraint and high volume in bank accounts it's easy to fall behind.

Repeat of a Prior-Year Finding: No

Recommendation: The City should take full advantage of the City's accounting system's (ONESolution) capabilities to increase efficiency and reduce human error in the process of preparing bank reconciliations.

This addresses COSO's Control Activities, Principle 11: selects and develops general controls over technology.

Management Response and Corrective Action Plan

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

Corrective Action Plan: The City is setting up training with One Solution for all current and new staff to learn all the functionality of One Solution in order to take advantage of all modules purchased. We will also be looking into purchasing other modules that make the accounting of various functions, including bank reconciliations, more efficient and timely. The City will also establish and document policies and procedures designed to serve as the system of internal controls required by OMB's Uniform Guidance (2 CFR 200). In the meantime, the City Controller department will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2020

Responsible Person: Rafaela King, Controller

Current Status: No update

2014-048– Internal Control over Accounts Receivable (SD)

Criteria: Accounts receivable should be periodically reviewed and analyzed.

Condition: The City does not maintain accounts receivable during the fiscal year. Accounts receivable is a manual process at fiscal year-end during which the Accountant II goes through subsequent cash receipts during the first 90 days of the new fiscal year and determines which revenues belong to the previous fiscal year's accounts receivable. There is no review and reconciliation of accounts receivable and/or receivable aging reports to ensure timely collections.

Cause: The City backs into accounts receivable at YE by going through subsequent cash receipts.

Effect or Potential Effect: Weak controls and procedures increases the chance of error, which could result in a material misstatement of the financial statements and potential loss of City funds due to under collection of receipts.

Repeat of a Prior-Year Finding: No

Recommendation: The City should track business licenses, rents and leases, and other miscellaneous reoccurring revenue to ensure timely collection. The City should also utilize its accounting system's accounts receivable module. It will allow the City to review, reconcile, and monitor its accounts receivable balances throughout the fiscal year for financial reporting and budgeting purposes.

This addresses COSO's Control Activities, Principle 11: selects and develops general controls over technology.

Management Response and Corrective Action Plan

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

Corrective Action Plan: The City's Controller's Office intends to centralize all accounts receivable functions into the Controller's Office in order to maintain adequate records. The City will also establish and document policies and procedures designed to serve as the system of internal controls required by OMB's Uniform Guidance (2 CFR 200). In the meantime, the City Controller department will take steps to address the specific finding noted above.

Planned Implementation Date: June 30, 2021

Responsible Person: Rafaela King, Controller

Current Status: No update

**SCHEDULE OF SCO ADMINISTRATIVE AND INTERNAL ACCOUNTING CONTROLS FINDINGS
FOR THE PERIODS OF JULY 1, 2013 THROUGH JUNE 30, 2016**

2014-049A – General Fund Deficit Balance (MW)

SCO Finding 1 – There is a deficit fund balance in the General Fund

Condition: For the period of July 1, 2009 through June 30, 2016, the City operated with a material deficit amount in its General Fund – an indication that the City's general operations include significant deficit spending.

According to the City Council minutes, beginning in April 12, 2011, the City Council faced scrutiny from citizens for reckless overspending of its General Fund revenues within a period of four years. The General Fund surplus of \$22.4 million at the beginning of FY 2007-08 was totally exhausted, and had become a deficit of \$42. 7 million by FY 2010-11 through overspending an average of \$16.3 million per year. The General Fund shortages for subsequent years were routinely covered by borrowing from other fund accounts, resulting in an estimated deficit of \$38.5 million for the fiscal year ended June 30, 2016. The successive years of operating deficits have caused financial hardship for the City.

The surpluses/deficits in the General Fund balance, as reported in the City's financial records, are as follows:

Fiscal Year (FY)	Beginning Fund Balance	Net Change in Fund Balance	Ending Fund Balance	
FY 2007-08	\$ 22,418,586	\$ (10,638,544)	\$ 11,780,042	Surplus
FY 2008-09	11,780,042	(14,366,552)	(2,586,510)	Deficit
FY 2009-10	(2,586,510)	(12,021,192)	(14,607,702)	Deficit
FY 2010-11	(14,607,702)	(28,117,112)	(42,724,814)	Deficit
FY 2011-12	(42,724,814)	4,813,408	(37,911,406)	Deficit
FY 2012-13	(37,911,406)	1,530,265	(36,381,141)	Deficit
FY 2013-14	(36,381,141)	(106,983)	(36,488,124)	Deficit
FY 2014-15 ¹	(36,488,124)	(6,375,204)	(42,863,328)	Deficit
FY 2015-16 ¹	(42,863,328)	4,366,306	(38,497,022)	Deficit

¹Amounts were calculated from unadjusted trial balances.

As shown above, the City operated with deficit General Fund balances beginning in FY 2008-09, which may suggest that it cannot meet the burden of its current government expenditures. It is essential that the City maintain an adequate General Fund balance to mitigate current and future risks, such as revenue shortfalls and unanticipated expenditures. Fund balances are a crucial consideration in long-term financial planning.

On December 20, 2011, City officials acknowledged that immediate steps were necessary to address the City's General Fund deficit. The City appeared to have slowly reduced the deficit beginning in FY 2011-12; however, the deficit materially increased again in FY 2014-15. On June 17, 2014, the City Council adopted Resolution No. 23,970 to implement a 15-year repayment plan to resolve the deficit. Our review of the City's financial records for FY 2014-15 reflected an estimated deficit increase of \$6.4 million in the City's General Fund, to \$42.9 million.

The Government Finance Officers Association has developed Fund Balance Guidelines for the General Fund, which state that governments should establish a formal policy on the level of unrestricted fund balance that is to be maintained in the General Fund. It further recommends that, at a minimum, general-purpose governments, regardless of size, maintain unrestricted fund balance in their General Fund of no less than two months of regular General Fund operating revenues or regular General Fund operating expenditures.

Recommendation: Although the City has taken certain steps to address its deficit issues, the SCO recommended that it continue these efforts to address its deficit; adhere to its long-term plan to eliminate fund deficits and inter-fund borrowing; and create an appropriate level of General Fund reserves for the future.

Additionally, the City Council should be more disciplined in controlling the City's operational spending. The City should also review all funds with deficit fund balances and determine an appropriate action plan.

E+P concurs with the SCO finding and recommendation.

This addresses COSO's Control Activities, Principle 10: selects and develops control activities. It requires a long-term strategic plan of living within its means supported by revenues and funding options exceeding operating expenses and capital expenditures while meeting loan covenants.

Management Response and Corrective Action Plan

City's Response: The City of Compton disagrees with the State's assertion that the FY 2010-11 deficit of \$42.7 million occurred as a result of overspending an average of \$16.3 million per year. The City's June 30, 2007 Annual Financial Report does reflect a \$22.4 million dollar surplus as the State indicated. However, the City's Internal Service Funds listed a deficit of \$31 million dollars. In contrast, the City's June 30, 2011 Annual Financial Report reflected a \$41.2 million dollar deficit while the City's Internal Service Funds reflected a positive cash balance of \$21.3 million dollars. It is our position that this data highlights the end of the City's practice that occurred over prior decades of carrying forward deficit accounts in the Internal Service Fund but does not represent overspending of actual cash during this time period as indicated by the State.

Furthermore, in 2012, the City sought and obtained with the assistance of Los Angeles County, Tax and Revenue Anticipation Notes (TRANs) financing to cover the City's annual cash flow shortages; thereby ending the need for internal service fund borrowing. TRANs financing continued through June 30, 2016. The City will diligently continue to reduce its current general fund deficit by adhering to a long-term plan to eliminate fund deficits.

Planned Implementation Date: June 30, 2021

Responsible Person: Craig J. Cornwell, City Manager and Rafaela King, Controller

Current Status: 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.

E+P concurs with the SCO finding and recommendation.

This addresses COSO's Control Environment, Principle 1: demonstrates commitment to integrity and ethical values.

Management Response and Corrective Action Plan

City's Response: The City acknowledges the State's recommendation and will continue to review the City's practice of compensation and expense reimbursements that had been in effect since 1975 for ongoing compliance with its City Charter.

It is important to note that the City's Urban Community Development Commission (UCDC) which governs the City's Local Housing Authority still meets on an as needed basis. Its compensation is set by state law at \$75 per meeting attended and a maximum of \$150 a month. Our financial department will continue to research the State's "Other Earnings" notation.

Planned Implementation Date: June 30, 2019

Responsible Person: Craig J. Cornwell, City Manager

Current Status: Completed

EP's Comment 2018: Policies and procedures implemented but not yet tested.

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.

E+P concurs with the SCO finding and recommendation. This addresses COSO's Risk Assessment, Principle 8: assesses fraud risk, and Control Activities, Principle 11: selects and develops general controls over technology.

Management Response and Corrective Action Plan

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

Planned Implementation Date: June 30, 2019

Responsible Person: Douglas Sanders, City Treasurer and Rafaela King, Controller

Current Status: 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.

E+P Comment: The City has not complied with the SCO recommendation that the City update its Policy and Procedures manual to incorporate the recently implemented internal control procedures.

2014-052A – City Council Excessive Expenditures (MW)

SCO Finding 4 – City Council expenditures are substantially higher than those of comparable charter cities within the Los Angeles area

Condition: The expenditures are substantially higher when compared to those of other charter cities of comparable size in area and population within Los Angeles County. For FY 2013-14, FY 2014-15, and FY 2015-16, The SCO's review of the City's budget for its City Council revealed that it is approximately 300 percent greater than the average budget of comparable charter cities as shown in the table below:

City	Population	Area (Square Miles)	Budget		
			FY 2014	FY 2015	FY 2016
Alhambra	83,089	7.63	\$ 332,059	\$ 341,945	\$ 345,634
Burbank	103,340	17.39	515,208	520,059	642,424
Downey	111,772	12.57	325,907	287,412	267,859
Whittier	85,331	14.66	32,967	32,967	32,967
Total			\$ 1,206,141	\$ 1,182,383	\$ 1,288,884
Average			\$ 301,535	\$ 295,596	\$ 322,221
Compton	97,550	10.2	\$ 1,166,376	\$ 1,290,671	\$ 1,345,611
Difference from Other Cities Average Budget			\$ 864,841	\$ 995,075	\$ 1,023,390
Percentage of Difference to Average Budget			286.81%	336.63%	317.60%

Aside from excessive salaries paid to Council Members (see Finding 2014-050A), the largest contributing factor to the City's higher expense for City Council is compensation paid to Council Assistants. Unlike other charter cities, the City has created five Council Assistants – one for each Council Member and one for the Mayor.

The total compensation paid to these Council Assistants for the calendar years 2014, 2015, and 2016 is presented below:

Calendar Year	Regular Earnings	Other Pay and Allowances	Total Pay	Total Benefits	Total Pay and Benefits
2014	\$ 226,567	\$ 21,359	\$ 247,926	\$ -	\$ 247,926
2015	226,565	12,266	238,831	-	238,831
2016	267,284	-	267,284	133,992	401,276
Total	\$ 720,416	\$ 33,625	\$ 754,041	\$133,992	\$ 888,033

The Council Assistant is an unclassified hourly employee (part-time) position according to the City Charter. These Council Assistants work under the general direction of the City Manager or designated management official, with the general purpose of performing administrative support functions for the City Council Members. However, the City Manager does not provide general direction to the Council Assistants. Instead, each Council Assistant works under the general direction of their designated City Council Member and performs tasks for specific programs of that Council Member. These programs are most often specific to the Council Member's own district, and are very seldom, if ever, City-wide. Council Assistants' work hours should be limited to, at most, 36 hours per week. However, in most instances, they work and are paid for 40 hours a week and are occasionally paid for overtime hours.

From the SCO's review of available documents, the SCO cannot determine how the City benefits from the work performed by Council Assistants for its Council Members.

Recommendation: The SCO recommended that the City evaluate the City Council's expenses, including the Council Assistant positions and their relevance and importance to the overall purpose and operation of the City.

E+P concurs with the SCO finding and recommendation.

This addresses COSO's Risk Assessments, Principle 7: identifies and analyzes risk.

Management Response and Corrective Action Plan

City's Response: As cited in the audit, the City lacks the staffing to address all of the constituent concerns that occur in the City. The role of the Council Liaison is critical to service delivery in that it provides a conduit between the Mayor and Council District constituents to the various departments via the City Manager's Office. Their roles are an extension of each City Department's ability to deliver services and assist the City Manager's Office in that delivery. Additionally, the liaisons must be allowed to work flexible schedules to ensure that Mayor and Council Town Halls, special events, and meetings are coordinated with the proper departments.

The City acknowledges that the positions should not work over their 36 hour work week. To address the number of hours worked by the liaisons, administration has been closely monitoring the actual hours worked by the liaisons and have informed the Mayor and Council that the Liaison positions are not to be assigned work in excess of their 36 hour work week and that no overtime will be paid for this position.

Planned Implementation Date: June 30, 2021

Responsible Person: Craig J. Cornwell, City Manager

Current Status: No update

2014-053A – City Council Excessive Expenditures (MW)

SCO Finding 5 – City Council spending of City funds on special projects and events exceeds the approved budget

Condition: Based on the SCO's review of City Council expenses, they determined that the City Council not only received compensation in excess of allowed amounts (see Finding 2014-050A) and incurred additional costs for Council Assistants (see Finding 2014-052A), but it also has incurred expenses for special projects and events in excess of the amounts approved in its budget. During FY 2015-16 and FY 2016-17, the City Council spent a total of \$403,734 on special projects and events, with the breakdown as follows:

Special Projects and Events - Council Expenses

Council Member	FY 2015-16	FY 2016-17	Total
A	\$ 110,478	\$ 36,017	\$ 146,495
B	68,060	46,761	114,821
C	2,776	42,852	45,628
D	4,493	19,751	24,244
E	25,354	32,549	57,903
Joint Program	9,479	-	9,479
City-wide Program	1,505	-	1,505
Other Expenses	3,659	-	3,659
Total	\$ 225,804	\$ 177,930	\$ 403,734
Approved Budget	55,000	125,000	180,000
Expenses in Excess of the Approved Budget	\$ 170,804	\$ 52,930	\$ 223,734
Percentage of Expenses Over Budget Amount	310.55%	42.34%	124.30%

A budget is perhaps the most important managerial tool available to a local government. Because a budget reflects almost all of a local government's activities, it acts as an effective management tool at various stages of governmental activity. However, the City Council appears to ignore its established budgets. As shown above, the City Council spent over the approved budget by \$223,734 during FY 2015-16 and FY 2016-17. This failure to control spending further increases the City's General Fund deficit.

Recommendation: The SCO recommended that the City Council and City Management limit their spending to adopted budget amounts. In addition, the SCO recommended that the City Council regularly request reports from City Management showing a comparison of budgeted to actual expenditures to ensure that the City does not spend in excess of approved budgets.

E+P concurs with the SCO finding and recommendation.

This addresses COSO's Risk Assessments, Principle 7: identifies and analyzes risk, and Information & Communication, Principle 14: communicates internally.

Management Response and Corrective Action Plan

City's Response: The City acknowledges the State's recommendation to limit spending to adopted budget amounts. To that end, the City's administration will propose greater use of line itemization in the upcoming FY 2018-2019 budget for greater detail. The City will also continue its recent practice of quarterly budgetary updates at City Council meetings where a comparison between budget and actual expenditures are presented.

Planned Implementation Date: June 30, 2021

Responsible Person: Craig J. Cornwell, City Manager

Current Status: No update

2014-054A – Purchasing Procedures and Contracting Requirements (MW)

SCO Finding 6 – City officials failed to comply with purchasing procedures and contracting requirements

Condition: During the SCO's review of the City's contracting process from July 1, 2013, through June 30, 2016, the SCO noted that neither City officials nor the City Council complied with the City contracting requirements. Purchases and contracts for supplies, services, and equipment that exceed \$25,000 must be made with a written contract and a written purchase order to the lowest responsible bidder. City officials made numerous questionable decisions by not following the contract process. The SCO identified numerous contracts and transactions that raised questions about the reasonableness and proper usage of public funds, as follows:

- Contracted services were not subjected to competitive bidding – Ron's Maintenance, Inc.:
On October 27, 2015, the City Council adopted Resolution No. 24,248 authorizing the City Manager to enter into a multi-year agreement with Ron's Maintenance, Inc., for City-wide catch basin cleaning services. The City Manager entered into a new two-year contract agreement with Ron's Maintenance, Inc., at \$154,836 per fiscal year. The new contract extended a contract that ended June 30, 2015, to June 30, 2017. The City has consecutively renewed its contract with Ron's Maintenance, Inc., since January 23, 2010, and paid a total of \$946, 178 between July 1, 2011 and June 30, 2017.

The City's initial contract with Ron's Maintenance, Inc. shows that the proposal and contract negotiating process excluded other contractors from bidding on the project. Additionally, the SCO's review of documents suggests that the City did not consider exploring other options or seek bids from other companies. As such, the City failed to comply with the open bidding process as mandated by its contracting requirements.

In addition, during the SCO's review the SCO noted that the City failed to obtain competitive bids for the following contracts:

Vendor Name	Description	Resolution		Contract Amount
		No.	Approval Date	
All-Star Interpreting Services	Interpreting Services	23,984	June 8, 2014	\$ 35,000
	Interpreting Services	24,197	July 28, 2015	35,000
Evan Brooks Associates	Consultant - Grant application	24,072	January 13, 2015	56,100
	Consultant - Traffic engineering services	24,214	September 1, 2015	40,000
New West Landscaping	Landscaping	23,759	May 21, 2013	25,000
	Landscaping	23,759	October 14, 2014	18,000
Urban Graffiti Enterprises, Inc.	Graffiti Removal	23,759	May 21, 2013	25,000
Willdan Financial Services	Comprehensive schedule of fees study	23,908	February 25, 2014	62,260
Total				<u>\$296,360</u>

- The City extended existing contracts without completing a competitive bidding process – Trimming Land Company, Inc.:
On May 18, 2014, the City Council adopted Resolution No. 23,916 to amend an existing contract by increasing the scope of work and compensation by \$454,980, to a total amount of \$654,980 – an increase of 227%. In addition, the City Council adopted Resolution No. 23,856 on November 16, 2015, to extend the contract for another year.

The City amended this contract without completing the competitive bidding process. None of the documents the SCO reviewed provided evidence that City officials conducted a competitive bidding process or considered exploring any other options. Accordingly, this contract extension is not fair and equitable to the City and its residents. As such, City officials violated the City's contracting requirements.

- The City approved contract change orders in violation of the California Public Contract Code. The City approved a change order in the amount of \$1,747,782 to cover additional work for a City-wide traffic signal upgrade project. The change order expanded the scope of work to include additional "potholing" repairs as a result of an underground utility survey. This change order represents a 36% increase over the original contract amount of \$4,922,469. The change order was approved by the City on March 17, 2015; however, work was completed before the change order was approved.

The City adopted the California Public Contract Code as its law governing contract awards relating to street works, and also adopted the Green Book's Standard Specifications for Public Works Construction (Green Book) for construction standard practices, which are widely accepted. City Management asserted that the 36% increase of the contract through a change order was legal and had been approved by the City Manager. City Management further explained that the change order included major "potholing" repairs because the original contract had not included that work.

A change order should only cover increased costs within the original project scope. These additional improvements were not within the scope of the original contract.

These change order practices raise serious concerns and issues relative to the City's compliance with the California Public Contract Code:

- The City failed to comply with its contracting requirements when it approved the change order. The change order increased the contract by \$1,747,782. The City's Financial Policies and Procedures Manual (Section 9.6) references the California Public Contract Code, section 20455, which states that changes to the original contract should not exceed \$150,000.
- By extending project scope through change orders, the City repeatedly circumvented the bidding process. Change orders that alter project scope or exceed \$150,000 should only be awarded after competitive bidding. Contracts not competitively bid as required by Public Contracts Code are void as a matter of law. Moreover, Public Contract Code section 20163 states that "[e]very person who willfully violates the provision of this section is guilty of a misdemeanor."
- The City did not perform a detailed review and analysis of the change order and, therefore, failed to properly exercise its oversight responsibilities. It appears that the City approved change orders by relying on staff recommendations, without independently performing due diligence review of the approval process. All responsible parties appeared to rely on the Public Works Director's recommendations without seeking any input from legal counsel.

As a result of the City's violation of the Public Contract Code, reimbursement of its state and federal projects may be disallowed.

Recommendation: The SCO recommended that the City Council fulfill its fiduciary responsibility by exercising meaningful oversight over the City's affairs. The City also should develop and implement policies and procedures to ensure that its management performs a detailed review and gains full understanding before entering into any type of legally-binding agreement. This is especially critical when approving long-term extensions to existing contracts. All proposed agreements should be presented to the City Council, with full explanations of the services to be provided and the benefits to the City, prior to approval and formal execution.

In future, the City should consult with its legal counsel to ensure that it complies with the Green Book, the Public Contract Code, and all other applicable laws, rules, and regulations. It is imperative that City officials perform due diligence when overseeing and approving City contracts and projects.

E+P concurs with the SCO finding and recommendation.

This addresses COSO's Risk Assessments, Principle 7: identifies and analyzes risk, and Control Activities, Principle 12: deploys through policies and procedures.

Management Response and Corrective Action Plan

City's Response: The City acknowledges the State's recommendation to uphold its obligation to contract within our purchasing regulations. To that end, the City's administration will propose including a Centralized Purchasing Officer to ensure the City is meeting its purchasing and contracting obligations.

Planned Implementation Date: June 30, 2019

Responsible Person: Craig J. Cornwell, City Manager and Rafaela King, Controller

Current Status: Policies and procedures have been approved and are being implemented.

EP's Comment 2018: Policies and procedures have not been provided for review.

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.

E+P concurs with the SCO finding and recommendation.

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

Management Response and Corrective Action Plan

City's Response: The City acknowledges the State's concern regarding the City's use of our warrant system. Consequently, the City will undertake review and updating of our Policies and Procedures regarding our warrant system.

Also, the City administration believes that the increased use of budget line itemization will also serve to minimize the need to use our warrant system.

Finally, the City will review its expenditures to Macias Gini & O'Connell, LLC (MGO) for possible reimbursement of overpaid monies.

Planned Implementation Date: June 30, 2019

Responsible Person: Rafaela King, Controller

Current Status: No update

2014-056A – Lack of Adequate Control over Expenditures Charged to City-issued Credit Cards (MW)

SCO Finding 8 – The City failed to exercise adequate control over expenditures charged to City-issued credit cards

Criteria: Chapter 4, Section 11, of the City's Municipal Code states, in part:

“(1) All purchases made on behalf of the City shall be by purchase order only issued by the City Manager. (2) No purchase order shall be issued by the City Manager except upon a requisition upon which the City Controller shall endorse that there exists an unencumbered appropriation in the fund account against which such purchase is to be charged.

Condition: During the SCO's review, the SCO noted that City Management did not enforce a strict policy for governing City-issued credit cards. From July 1, 2013, through June 30, 2016, City Management charged a total of \$51,695 in expenditures on City-issued credit cards. We reviewed all \$51,695 of the charges, and we found all charges to be questionable.

The City did not provide any policies and procedures governing City-issued credit cards and business-related travel. In addition, the City failed to follow established procedures for making purchases; nor did the City maintain proper documentation to support the charges. The SCO's review found that charges were incurred before purchase orders and purchase requisitions had been fully approved.

The SCO's review found that most of the charges were not supported by original receipts, nor was any justification or reason for the expenditure included to support most of the charges. The questionable expenditures included travel charges, late fees, and miscellaneous charges.

Travel Charges

Questionable expenditures for travel totaled \$24,404, or approximately 47% of total charges to City-issued credit cards. We noted that the purpose for these travel expenses was missing, unclear, excessive, or not properly documented. Some of the questionable charges are as follows:

- On February 10, 2015, \$ 1,193 was charged for airfare to Washington, D.C.; the purpose of the charge was missing and unsupported.
- On May 22, 2015, \$1,028 was charged for lodging in Hartford, Connecticut; it was unclear whether the charge was for City business and no supporting documentation was provided.
- On June 24, 2015, a total of \$1,494 was charged for round-trip airfare to Miami, Florida, and an unknown period of lodging there; there was no record to justify the trip and no supporting documentation.
- On December 12, 2015, \$1,492 was charged for one night of lodging in New York, New York; the charge was unsupported and excessive.
- On June 11, 2016, \$708 was charged for one night of lodging in Las Vegas, Nevada; the charge was unsupported and excessive.

Late Payment Charges

For the period of October 29, 2014, through June 30, 2016, the SCO noted that several late payment and delinquency fees were charged to City-issued credit cards. Late payments and delinquency fees occur when payments are made after the due date. Although late payments and delinquency fees are immaterial within the amount we reviewed, they remain cause for concern if monitoring is not implemented to ensure that invoices are paid in a timely manner.

- The City was charged \$130 on January 28, 2015, and \$305 on July 28, 2015, for late fees. Both charges include additional higher fees incurred because the payments were more than 60 days late.

Miscellaneous

Other miscellaneous expenses totaled \$16,334, or 32%. These expenses lacked documentation – either they were unsupported by expense reports, or there was no documentation of the reasons for the charges – and, in some cases, even receipts were missing. For example:

- On April 29, 2015, charges of \$1,990 to an online office supply warehouse for certificate holders for the City Council; the charges were unsupported.
- On May 30, 2015, charges of \$1,975 for supplies; the SCO could not determine the purpose or type of supplies.
- On December 3, 2015, charges of \$1,274 to an electronics store for a camera; there was no record to justify that this purchase was for City business.

Recommendation: The SCO recommended that the City implement appropriate control measures to ensure proper review and approval of all charges related to meals, lodging, and incidental expenses involving City-issued credit cards. These measures should include:

- A comprehensive travel policy that establishes clear guidance for travel, including the allowable purposes for travel and documentation requirements, and sets limits on the maximum amounts allowable for lodging, meals, and other travel expenses;
- A policy governing circumstances under which business meals are authorized, including documentation requirements, and limits on the maximum amount allowable for business meals; and
- An expedited payment process to avoid late charges. The SCO also recommended that the City review the questionable charges noted above, and determine whether the City officials and employees responsible for these charges should be required to refund the City for all or part of them. Furthermore, the SCO recommended that the City consider performing a review of travel and meal expenses for the period of the SCO's review to determine whether additional refunds should be sought.

E+P concurs with the SCO finding and recommendation.

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

Management Response and Corrective Action Plan

City's Response: The City has an authorized written travel policy consistent with state law and updated as recently as 2016. That being stated, the City will review the State's findings regarding travel and credit card expenses and update/revise our internal control policy as applicable.

Planned Implementation Date: June 30, 2021

Responsible Person: Rafaela King, Controller

Current Status: No update

2014-057A – Bank Reconciliations (MW)

SCO Finding 9 – Bank reconciliations were not performed, reviewed, or approved in a timely manner

Condition: As of November 29, 2017, the City had failed to complete bank reconciliations for the period of July 1, 2014, through June 30, 2017.

Bank reconciliations are effective tools to detect mistakes, errors, and embezzlement if they are prepared in a timely manner, reviewed in detail, and approved by a second person (see Finding 2014-051A). Bank reconciliations also assist in regular monitoring of a City's cash flows, and assure accuracy and timeliness of expenses and deposits.

Recommendation: The SCO recommended that the City establish and implement procedures to ensure that bank reconciliations are completed, reviewed, and approved in a timely manner. In addition, the SCO recommended that the City evaluate its 37 different bank accounts and consider combining some of the less active accounts to shorten the reconciliation process.

The SCO acknowledged that the new management team in the City Controller's Office has been working diligently to process a backlog of bank reconciliations.

E+P concurs with the SCO finding and recommendation.

This addresses COSO's Control Activities, Principle 10: selects and deploys control activities.

Management Response and Corrective Action Plan

City's Response: The City will review the State's recommendation to establish and implement procedures to ensure that bank reconciliations are completed, reviewed and approved in a timely manner. We will also review combining less active bank accounts to shorten the reconciliation process.

Planned Implementation Date: June 30, 2020

Responsible Person: Rafaela King, Controller

Current Status: No update

2014-058A – Segregation of Duties (MW)

SCO Finding 10 – There is lack of segregation of duties

Condition: Proper segregation of duties helps ensure that funds and assets are properly recorded, protected, and appropriated. During the SCO's review of City employee duties for the period of July 1, 2013, through June 30, 2016, the SCO noted that several employees performed incompatible functions, including cash counting, timesheet reporting, and accounts payable.

Cash counting

Cash counting functions were not properly segregated. The initial cash count was not safeguarded from loss through watchful and accountable processes. The former Deputy Treasurer counted cash, prepared daily deposit slips, and performed end-of-day reconciliations. These are incompatible duties; one person should not be responsible for all of them. The cash counting procedure, deposit slip preparation, and reconciliation to computerized total cash receipts generated by the Springbrook System should be executed under close supervision and in full view of two people.

Timesheet reporting

Staff performing time-keeping functions are able to adjust employee timecards without management approval, which leaves timesheet reporting susceptible to abuse. Employees performing the time-keeping function should not be allowed to make changes. This practice may result in inaccurate records for payroll purposes, which decreases the reliability of the financial records.

Any necessary changes to the time attendance record should be completed by a supervisor or manager, to ensure control and proper authorization.

Accounts payable

The City's current process is for the operating departments to assume responsibility for many of the fiscal management functions related to their purchases. The departments' account payable clerks prepare Purchase Requisitions and request Purchase Orders. On some occasions, the clerks were allowed to request payments for billing invoices and to mail warrants for payments, which are incompatible functions. There should be proper separation of duties among the various types of transaction processes (e.g., procurement, accounts payable, and disbursements).

Recommendation: The SCO recommended that the City assess its current processes and implement policies and procedures to segregate incompatible functions.

E+P concurs with the SCO finding and recommendation. This addresses COSO's Control Activities, Principle 10: selects and deploys control activities.

Management Response and Corrective Action Plan

City's Response: The City Treasurer's Office has undertaken the task of assessing its current processes and has implemented policies and procedures to segregate incompatible functions. The City will ensure that these financial processes are reflected within the City's written policies and procedures.

Planned Implementation Date: June 30, 2019

Responsible Person: Douglas Sanders, City Treasurer and Rafaela King, Controller

Current Status: 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.

E+P Comment: We concur.

2014-059A – Petty Cash Fund (MW)

SCO Finding 11 – There is a lack of control over the City’s Petty Cash Fund

Condition: During the SCO’s review, the SCO noted that cash advances granted to City departments, totaling \$15,950, had been recorded in the City's accounting record as Petty Cash Fund. The amount recorded as advanced to City departments exceeded the actual amount available in the Petty Cash Fund. On July 27, 2017, the City Controller's Office conducted a cash count and confirmed that the total petty cash amount was only \$2,497. The City does not have an explanation for the difference of \$13,453.

In addition, the SCO noted several instances in which City employees circumvented the petty cash reimbursement policy. The reimbursement claim form clearly states that petty cash may only be used for items up to \$100. However, the SCO found evidence of purchases in excess of \$100 that had been split into amounts less than \$100, so that employees could be reimbursed from the Petty Cash Fund.

Recommendation: The SCO recommended that the City ensure that policies and procedures relating to petty cash controls are consistently enforced. In addition, the SCO recommended that the City investigate and seek recourse to recover the cash missing from the Petty Cash Fund, and ensure that records are accurate.

E+P concurs with the SCO finding and recommendation.

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

Management Response and Corrective Action Plan

City's Response: The City Controller’s Office will continue to research the difference in petty cash amount and the amount of receipts to come to a conclusion regarding writing off the difference as a loss. The Controller’s Office will also upgrade the petty cash policy to include preventative methods to ensure the policy is not circumvented by splitting reimbursement claim forms and adding a routine to do a physical count of the cash fund as often as quarterly.

Planned Implementation Date: June 30, 2019

Responsible Person: Rafaela King, Controller

Current Status: No update

2014-060A – Fixed Assets (MW)

SCO Finding 12 – The City’s fixed assets were not properly and accurately accounted for

Condition: During the SCO’s review and inquiry with different City personnel, the SCO was informed that physical inventories of City assets were conducted annually. However, after several requests, the City was unable to provide records of when the last physical inventory had been conducted.

All fixed assets owned and purchased by the City should be properly recorded and accounted for in its listing of fixed assets, and included in its Comprehensive Annual Financial Reports (CAFR) and its annual Financial Transaction Reports submitted to the SCO.

An accurate and complete listing of fixed assets is important to City governance and management because it provides information that is essential to:

- Safeguarding fixed assets, for ensuring that assets are properly recorded so that they can be easily located and maintained;
- Financial and managerial reporting, for determining capitalized cost and depreciation;
- Insurance coverage, for recording replacement and insurance values;
- Facilities and administration rate proposals, for recording use, location, funding source, and depreciation; and
- Compliance with reporting requirements, for assuring accountability.

Recommendation: The SCO recommended that the City establish City-wide procedures for fixed asset accounting, management, control, and accountability including:

- Proper financial accounting and reporting in accordance with Generally Accepted Accounting Principles, the Governmental Accounting Standards Board, and other applicable government accounting standards;
- A complete and accurate listing of fixed assets of significant value;
- A description of the responsibilities of stewardship of valuable assets; and
- Maintenance of fixed asset records for the life of each asset, which should be retained in accordance with the City's records retention program.

E+P concurs with the SCO finding and recommendation.

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

Management Response and Corrective Action Plan

City's Response: The City Controller’s Office is working to update the City’s procedures for fixed asset accounting, management, & control process. These processes will be reflected within the City’s written policies and procedures.

Planned Implementation Date: June 30, 2021

Responsible Person: Rafaela King, Controller

Current Status: No update

2014-061A – Administrative Policies and Procedures Manuals (MW)

SCO Finding 13 – The City’s Administrative Policies and Procedures manuals were incomplete and outdated

Condition: During the SCO’s review and inquiry with City Management and several City employees, the SCO noted that the City does not have a process in place to routinely review and update its Administrative Policies and Procedures manuals. Therefore, documentation for completeness, accuracy, and consistency with existing processes is lacking. Specific deficiencies related to the City’s Administrative Policies and Procedures manuals are as follows:

- The Personnel Rules and Regulations Manual, setting forth the policies and procedures related to the City’s employment practices, was last revised in November 1979.
- The Financial Policies and Procedures Manual, last updated on June 30, 2009, was incomplete. The accounting policies did not include a number of important procedures relating to:
 - Financial reporting
 - Information Systems and Technology
 - Reimbursement policies

In addition, although most employees had information on the procedures and processes for their particular assignments, these procedures and processes are outdated. Also, the City does not have comprehensive documentation of the overall procedures and processes for its accounting system. Therefore, most staff members only have an understanding of the accounting system as it relates to their assigned duties.

A well-designed and properly maintained system of accounting policies and procedures enhances both accountability and consistency. The resulting documentation can also serve as a useful training tool for staff. Undocumented and outdated policies and related internal controls result in unclear roles and responsibilities, and lead to improper handling of transactions. Monitoring is an essential element of internal control; this includes verification by management that policies and procedures are regularly updated to adequately address new challenges identified by ongoing risk assessments.

Recommendation: The SCO recommended that the City continue to review and update its Administrative Policies and Procedures manuals to ensure consistency with current processes and organizational structure; and perform periodic and ongoing reviews to ensure proper documentation, accuracy, and completeness in its financial transactions and records. When completed, the updated Administrative Policies and Procedures manuals should be readily available to all responsible employees. The manuals should clearly state the authority and responsibility of all employees, especially the authority to authorize transactions and the responsibility for the safekeeping of assets and records.

E+P concurs with the SCO finding and recommendation.

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

Management Response and Corrective Action Plan

City's Response: The City's administration has prepared an update to the City's Personnel Rules and Regulations. In order to roll out this comprehensive revision of the Rules, the City will introduce changes to the Rules one chapter at a time to the applicable employee union for input and discussion. Subsequently, the proposal will be presented to the City's Personnel Commission for further discussion and implementation. The City Controller's Office is reviewing the City's Financial Policies and Procedures Manual and will update the document accordingly.

Planned Implementation Date: June 30, 2021

Responsible Person: Jesenia Sanchez, Human Resources Analyst, Craig J. Cornwell, City Manager and Rafaela King, Controller

Current Status: In progress

EP's Comment 2018: We concur.

2014-062A – Turnover and Lack of Consistent Leadership (MW)

SCO Finding 14 – Turnover and lack of consistent leadership have hindered operational stability

Condition: During the SCO's review, the SCO noted that the City experienced a high degree of management turnover, which can result in a lack of consistent leadership, lack of operational stability, and inefficient provision of services to its citizens. Between January 1, 2010, and January 18, 2017, nine different individuals served as City Manager. In addition, the City did not have a permanent Controller for the nine months before it hired a permanent Controller on March 20, 2017.

The high turnover has contributed to a lack of leadership and, in some cases, a lack of management oversight. For example, the SCO's review of available documents showed no adjustment of the City's master fee schedule since January 1, 2010. Although there was a public hearing on July 12, 2016, the City did not adjust its master fee schedule until October 10, 2017. Other cities in the area annually adjust their master fee schedule to the Consumer Price Index for the Los Angeles region; however, the City of Compton has not followed suit. The City has not adjusted its master fee schedule in over seven years, resulting in noncollection of badly-needed additional revenue that could potentially have improved the City's financial condition.

The City plans to fill some vacant management positions; however, the position of the City's Human Resources Director has been vacant for over three years, significantly delaying the hiring process for critical positions within several City departments. The City Controller's Office, especially, needs to fill its vacant positions to perform critical functions (e.g., bank reconciliation has not been completed since June 30, 2014); and audited financial statements have not been completed for FY 2014-15, FY 2015-16, and FY 2016-17.

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

E+P concurs with the SCO finding and recommendation. This addresses COSO's Control Environment, Principle 4: demonstrates commitment to competency including succession planning, and Control Environment, Principle 5: enforces accountability.

Management Response and Corrective Action Plan

City's Response: Turnover and lack of Consistent Leadership have hindered Operational Stability.

The current administration quickly identified the concerns with the high turnover in upper management. The need to recruit high quality, committed managers was identified as critical in addressing the challenges facing the City. As a result, all upper level positions are recruited both internally and externally [nationwide] for the most qualified candidate(s).

Additionally, a professional development program is being put in place to identify and mentor middle and upper management personnel to fill in voids when (if) the need arises. The training will consist of personnel management, leadership skills, documentation, ethics, etc. among other topics. Shadowing will also be part of the professional development program.

Planned Implementation Date: June 30, 2020

Responsible Person: Craig J. Cornwell, City Manager and Rafaela King, Controller

Current Status: No update

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.

This addresses COSO's Information & Communication, Principle 13: uses relevant, quality information, Principle 14: communicates internally, and Principle 15: communicates externally.

Management Response and Corrective Action Plan

City's Response: City Council and Management have placed audit completion as the number one financial priority of the City.

The City of Compton has taken steps in the 2017-18 Adopted Budget to expedite completion of the outstanding audited financial statements. These actions include:

- Providing funds to pay for outstanding audits for Fiscal Years 2013- 2017 in the City Controller's Budget. A contract was executed with the Accounting firm of Eadie + Payne for \$850,000 to complete all outstanding financial audits including the 2013-14 Single Audit; the 2014-15 CAFR and Single Audit; 2015-16 CAFR and Single Audit; and 2016-17 CAFR and Single Audit.
- Providing two (2) additional management positions in the Controller's Office to increase the capacity of the audit functions. These positions are a second Deputy Controller and an Accounting Supervisor.
- Funds have been budgeted for "contract resources" to assist with audit preparation.

Following the unexpected resignation of the City Controller hired in March 2017, the City Council moved swiftly to hire a permanent City Controller with a Certified Public Accountant designation and extensive municipal auditing experience. The new Controller was hired to begin her term the next day after the effective date of the former Controller's resignation. This prompt action demonstrates the seriousness and urgency the City places on bringing current all audit responsibilities of the City.

The new City Controller expects to hire two (2) Deputy City Controllers, an Accounting Specialist, an Accountant II and contract for Accounting supervision and audit preparation services within thirty (30) days of her employment, which was February 13, 2018.

Note: *Management disagrees with the ability of the 2013-14 completed CAFR to be withdrawn by MGO. MGO submitted the completed CAFR to the City of Compton on November 17, 2016. The completed 2013-14 CAFR was subsequently placed on the City Council Agenda for the February 28, 2017 City Council Meeting. The City Clerk of the City of Compton subsequently advertised via the City of Compton website and posted the City Council agenda at Compton City Hall on Friday, February 24, 2017, providing Public Notice of the completed Audit Report for the City Council to adopt pursuant to the State of California Open Meeting Laws. The City Council subsequently received and filed the completed 2013-14 CAFR at the February 28, 2017 City Council Meeting per its Agenda. The City's position is that the completed 2013-14 CAFR is a lawfully received document, pursuant to a contract for performance with MGO; and that in every legal respect, the 2013-14 CAFR for the City of Compton has been lawfully submitted by MGO and received by the City of Compton as its official 2013-14 CAFR.*

Planned Implementation Date: June 30, 2020

Responsible Person: Rafaela King, Controller

Current Status: No update

2014-064A – Lack of Adequate Staff Performing Critical Functions (MW)

SCO Finding 16 – The City lacks adequate staff performing critical functions

Condition: The City implemented personnel layoffs and a furlough schedule to control spending. On May 24, 2011, the City Council approved Resolution No. 23,329, declaring the City's revenue shortfall and workforce reduction for FY 2011-12. On June 12, 2012, Resolution No. 23,558 was approved, establishing the FY 2012-13 furlough schedule for City employees. On August 23, 2013, Resolution No. 23,813 was approved further declaring the City's revenue shortfall and workforce reduction for FY 2013-14.

City Management implemented workforce reductions in FY 2011 -12, established a furlough schedule in FY 2012-13, and implemented additional workforce reductions in FY 2013-14. Due to these workforce reductions, some employees were assigned new positions in which they lacked experience and training. In addition, the furlough schedule did not prove effective to operations of City departments. These workforce reductions and furloughs created a deficiency in the internal control due to lack of knowledgeable and experienced staff performing critical functions.

For example:

- For the period of July 1, 2014, through June 30, 2017, the City Controller's Office was not adequately staffed, impeding its ability to carry out its basic accounting functions. As of November 29, 2017, the City Controller's Office has seven vacant positions. The City is far behind schedule in processing transactions, balancing accounts, ensuring that significant accounts are supported by detailed records and ledgers, and preparing annual financial reports. For example, monthly bank reconciliations have not been completed since June 30, 2014 (see Finding 2014-057A).

Additionally, accounting staff did not thoroughly and periodically analyze and reconcile the City's account balances to supporting records. In FY 2013-14, the external auditor made a material correction to errors in the restatement of the beginning balances of the financial statements. For example, the beginning net positions in governmental activities was reduced from \$73.69 million to \$41.54 million, a decrease of \$32.15 million due to correction of errors.

- The Human Resources Department has been operating with vacancies in critical positions, including the Human Resources Director, which has impeded the department's ability to make timely decisions. For example, both hiring new employees and rehiring of previously laid off employees appear to be extremely slow processes.
- The business license fee section of the Building and Safety Department is understaffed, which has led to a loss of substantial revenue from business license fees. Based on the SCO's inquiry, this section is currently staffed with two officers; it was previously staffed by four officers.

Recommendation: The SCO recommended that the City implement a remedial action plan to adequately staff the noted departments. Most importantly, the City Controller's Office should be staffed with qualified and experienced individuals who can contribute immediately to the performance of its accounting functions. In addition, the SCO recommended that the City implement policies to address the importance of experience and proper training of back-up staff when regular staff members are not available. Inexperienced staff may cause material impact in the City's operations in terms of incurring additional costs, delaying the processing of financial transactions, and failing to keep City Management and the City Council updated with accurate information.

This addresses COSO's Control Environment, Principle 4: demonstrates commitment to competency including succession planning, and Control Environment, Principle 5: enforces accountability.

Management Response and Corrective Action Plan

City's Response: City Council and Management have adopted a balanced Budget in FY 2017-18 that provides resources to finance key departmental operations and personnel.

The City of Compton adopted its 2017-18 City Budget with approximately \$1.4 million in additional funds allocated to the City Controller's Office. These actions include:

- Providing \$850,000 in funds to pay for outstanding audits for Fiscal Years 2013-2017 in the City Controller's Budget. The City Council adopted a resolution on January 9, 2018 and a contract was executed on January 24, 2018 with the Accounting firm of Eadie + Payne for \$850,000 to complete all outstanding financial audits including the 2013-14 Single Audit; the 2014-15 CAFR and Single Audit; 2015- 16 CAFR and Single Audit; and 2016-17 CAFR and Single Audit. Funds have been budgeted for "contract resources" to assist with audit preparation.
- Providing five (5) additional management positions in the City Controller's Office to increase the capacity of audit functions, internal financial controls; and fiscal management of the City. These positions include a second Deputy Controller; an Accounting Supervisor; a Contract & Compliance Analyst/Officer; a Budget Analyst; and permanent salary contingency to upgrade an existing staff position (possibly Payroll Supervisor) to Payroll and Accounts Payable Supervisor to oversee Payroll and Accounts Payable.
- Accounting Supervision. The Accounting Supervision is supplemented with a newly adopted Accounting Supervisor. Contract funds have been allocated to supplement City staff in Audit preparation duties.
- Contract Management. The Contract and Compliance Analyst/Officer was added to provide pre-audit contract compliance milestones and to enhance monitoring of contract bidding to ensure compliance with City, state & federal procurement guidelines. The Contract and Compliance Analyst/Officer will assist with Grants & Intergovernmental Funds Oversight & Compliance, minimizing post-program review adverse findings.
- Centralized Purchasing. The City Manager's Budget Message for 2017-18 calls for the creation of Centralized Purchasing. It is contemplated that centralizing purchasing will eliminate most procurement errors by removing this function from decentralized departmental control.

Following the unexpected resignation of the City Controller hired in March 2017, the City Council moved swiftly to hire a permanent City Controller with a Certified Public Accountant designation and extensive municipal auditing experience. The new Controller was hired to begin her term the next day after the effective date of the former Controller's resignation. This prompt action demonstrates the seriousness and urgency the City places on bringing current all audit responsibilities of the City.

The new City Controller expects to hire two (2) Deputy City Controllers and contract for Accounting supervision and audit preparation services within thirty (30) days of her employment, which was February 13, 2018.

- In the area of Human Resources, the City expects a new Human Resources Director to begin serving on February 21, 2018. Since May 2017, City Management hired a new Assistant City Manager with oversight of Administrative Services including Human Resources.

Management has filled a Human Resources Analyst position to expedite recruitment and has hired a contract Human Resources Analyst to expedite classification of new positions and create new class specifications necessary to the proper functioning of the City government. The City has recently completed recruitment of the Human Resources Specialist and will have added one permanent member of this classification on February 15, 2018 and anticipates a second Human Resources Specialist will begin employment with the City of Compton on March 5, 2018.

Planned Implementation Date: June 30, 2020

Responsible Person: Craig J. Cornwell, City Manager

Current Status: No update

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).

E+P concurs with the SCO finding and recommendation.

This addresses COSO's Control Environment, Principle 2: exercises oversight responsibilities; and Monitoring Activities, Principle 16: conducts ongoing and/or separate evaluations and Principle 17: evaluates and communicates deficiencies.

Management Response and Corrective Action Plan

City's Response: The City hired a new Certified Public Accountant with extensive Audit expertise as its new City Controller on February 13, 2018. Our new Controller will lead the revision of policies & procedures to address this matter. The City is committed to implementation of all necessary and appropriate corrective procedures as advised in prior audits.

Planned Implementation Date: June 30, 2021

Responsible Person: Craig J. Cornwell, City Manager and Rafaela King, Controller

Current Status: No update

2014-066A – Lack of Audit Committee (MW)

SCO Finding 18 – The City lacks an established audit committee

Condition: On June 30, 2012, the Los Angeles County Civil Grand Jury (Grand Jury) issued a final report of its findings and recommendations pertaining to county government matters during FY 2011-12. In its report, the Grand Jury recommended to 24 charter cities within Los Angeles County – Compton included – that they establish formal audit committees to provide independent review and oversight for the cities' financial reporting processes, internal controls, and independent auditors.

On November 26, 2012, the City responded to the Grand Jury report regarding the audit committee issue, stating that this recommendation would require further analysis by the City's management, as the City Charter has a built-in mechanism to ensure independence between the Chief Executive and the City Controller. The City has yet to establish a formal audit committee. The purpose of an audit committee is to oversee all aspects of the financial reporting process, including preparation and filing of financial statements, internal control over financial reporting, and related risks. Some of an audit committee's major areas of responsibility include oversight of the internal control system, oversight of the internal audit function and external auditors, review of financial filings, and establishment and oversight of a "whistleblower" process.

As noted in previous findings of this report, the City is not timely in the preparation of needed reports (see SCO Finding 15) and failed to correct prior audit findings (see SCO Finding 17). An audit committee could address most of these issues.

Recommendation: The SCO recommended that the City formally establish an audit committee that will be directly responsible for the appointment, compensation, retention, and oversight of independent auditors engaged for the purpose of issuing audit reports or other independent audit or review services. The audit committee should be formally established through a City resolution.

E+P concurs with the SCO finding and recommendation.

This addresses COSO's Control Environment, Principle 2: exercises oversight responsibilities, and Monitoring Activities, Principle 16: conducts ongoing and/or separate evaluations.

Management Response and Corrective Action Plan

City's Response: The City lacks an established Audit Committee.

City administration is reviewing the 2012 Los Angeles County Grand Jury report, which is the origin of this recommendation. Additionally, staff is working with other Charter cities that were cited in that report as having such an audit committee for best practices.

Planned Implementation Date: June 30, 2021

Responsible Person: Craig J. Cornwell, City Manager

Current Status: Completed

EP's Comment 2018: Policies and procedures have been approved but not yet implemented.

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.

This addresses COSO's Control Environment, Principle 1: demonstrates commitment to integrity and ethical values.

Management Response and Corrective Action Plan

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

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

Planned Implementation Date: June 30, 2021

Responsible Person: Craig J. Cornwell, City Manager

Current Status: No update

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.

This addresses COSO's Control Environment, Principle 1: demonstrates commitment to integrity and ethical values.

Management Response and Corrective Action Plan

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

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

Planned Implementation Date: June 30, 2021

Responsible Person: Craig J. Cornwell, City Manager

Current Status: No update

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.

This addresses COSO's Control Environment, Principle 1: demonstrates commitment to integrity and ethical values.

Management Response and Corrective Action Plan

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

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

Planned Implementation Date: June 30, 2021

Responsible Person: Rafaela King, Controller

Current Status: No update

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.

This addresses COSO's Control Environment, Principle 2: exercises oversight responsibilities, and Control Activities, Principle 12: deploys through policies and procedures.

Management Response and Corrective Action Plan

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

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

Planned Implementation Date: June 30, 2021

Responsible Person: Craig J. Cornwell, City Manager and Rafaela King, Controller

Current Status: No update

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.

This addresses COSO's Control Environment, Principle 4: demonstrates commitment to competency including succession planning, and Control Environment Principle 5: enforces accountability.

Management Response and Corrective Action Plan

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

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

Planned Implementation Date: June 30, 2020

Responsible Person: Craig J. Cornwell, City Manager and Rafaela King, Controller

Current Status: No update

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.

This addresses COSO's Control Environment, Principle 4: demonstrates commitment to competency including succession planning, and Control Environment Principle 5: enforces accountability.

Management Response and Corrective Action Plan

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

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

Planned Implementation Date: June 30, 2021

Responsible Person: Craig J. Cornwell, City Manager

Current Status: No update

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.

This addresses COSO's Control Environment, Principle 4: demonstrates commitment to competency including succession planning, and Control Environment Principle 5: enforces accountability.

Management Response and Corrective Action Plan

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

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

Planned Implementation Date: June 30, 2019

Responsible Person: Craig J. Cornwell, City Manager

Current Status: No update

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.

This addresses COSO's Control Environment, Principle 4: demonstrates commitment to competency including succession planning, and Control Environment Principle 5: enforces accountability.

Management Response and Corrective Action Plan

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

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

Planned Implementation Date: June 30, 2019

Responsible Person: Craig J. Cornwell, City Manager

Current Status: No update

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.

This addresses COSO's Control Environment, Principle 2: exercises oversight responsibilities, and Monitoring Activities, Principle 16: conducts ongoing and/or separate evaluations.

Management Response and Corrective Action Plan

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

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

Planned Implementation Date: June 30, 2021

Responsible Person: Craig J. Cornwell, City Manager and Rafaela King, Controller

Current Status: Completed

EP's Comment 2018: Policies and procedures have been approved but not yet implemented.

2014-076B – Audit Committee (SD)

Criteria: Members of the audit committee are independent from the City Management.

Condition: The Los Angeles County Grand Jury Report for Fiscal Year 2011-12 recommended that the City of Compton establish an audit committee. The City failed to implement this Grand Jury recommendation as of November 29, 2017.

Related Finding(s): SCO Finding 18

Recommendation: We recommend that once the City formally establishes an audit committee, management ensures that its members are independent from City Management.

This addresses COSO's Control Environment, Principle 2: exercises oversight responsibilities, and Monitoring Activities, Principle 16: conducts ongoing and/or separate evaluations.

Management Response and Corrective Action Plan

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

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

Planned Implementation Date: June 30, 2021

Responsible Person: Craig J. Cornwell, City Manager and Rafaela King, Controller

Current Status: Completed

EP's Comment 2018: Policies and procedures have been approved but not yet implemented.

2014-077B – Audit Committee (SD)

Criteria: Audit committee members have sufficient knowledge, experience, and time to serve effectively.

Condition: The Los Angeles County Grand Jury Report for Fiscal Year 2011-12 recommended that the City of Compton establish an audit committee. The City failed to implement this Grand Jury recommendation as of November 29, 2017.

Related Finding(s): SCO Finding 18

Recommendation: We recommend that once the City formally establishes an audit committee, management ensures that the committee members have sufficient knowledge, experience, and time to serve effectively.

This addresses COSO's Control Environment, Principle 2: exercises oversight responsibilities, and Monitoring Activities, Principle 16: conducts ongoing and/or separate evaluations.

Management Response and Corrective Action Plan

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

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

Planned Implementation Date: June 30, 2021

Responsible Person: Craig J. Cornwell, City Manager and Rafaela King, Controller

Current Status: Completed

EP's Comment 2018: Policies and procedures have been approved but not yet implemented.

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.

This addresses COSO's Control Environment, Principle 2: exercises oversight responsibilities, and Monitoring Activities, Principle 16: conducts ongoing and/or separate evaluations.

Management Response and Corrective Action Plan

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

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

Planned Implementation Date: June 30, 2021

Responsible Person: Craig J. Cornwell, City Manager and Rafaela King, Controller

Current Status: Completed

EP's Comment 2018: Policies and procedures have been approved but not yet implemented.

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.

This addresses COSO's Control Environment, Principle 2: exercises oversight responsibilities, and Monitoring Activities, Principle 16: conducts ongoing and/or separate evaluations.

Management Response and Corrective Action Plan

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

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

Planned Implementation Date: June 30, 2021

Responsible Person: Craig J. Cornwell, City Manager and Rafaela King, Controller

Current Status: Completed

EP's Comment 2018: Policies and procedures have been approved but not yet implemented.

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.

This addresses COSO's Control Environment, Principle 2: exercises oversight responsibilities, and Monitoring Activities, Principle 16: conducts ongoing and/or separate evaluations.

Management Response and Corrective Action Plan

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

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

Planned Implementation Date: June 30, 2021

Responsible Person: Craig J. Cornwell, City Manager and Rafaela King, Controller

Current Status: Completed

EP's Comment 2018: Policies and procedures have been approved but not yet implemented.

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.

This addresses COSO's Control Environment, Principle 2: exercises oversight responsibilities, and Monitoring Activities, Principle 16: conducts ongoing and/or separate evaluations.

Management Response and Corrective Action Plan

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

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

Planned Implementation Date: June 30, 2021

Responsible Person: Craig J. Cornwell, City Manager and Rafaela King, Controller

Current Status: Completed

EP's Comment 2018: Policies and procedures have been approved but not yet implemented.

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.

This addresses COSO's Control Environment, Principle 2: exercises oversight responsibilities, and Monitoring Activities, Principle 16: conducts ongoing and/or separate evaluations.

Management Response and Corrective Action Plan

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

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

Planned Implementation Date: June 30, 2021

Responsible Person: Craig J. Cornwell, City Manager and Rafaela King, Controller

Current Status: Completed

EP's Comment 2018: Policies and procedures have been approved but not yet implemented.

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.

This addresses COSO's Control Environment, Principle 4: demonstrates commitment to competency including succession planning, and Control Environment, Principle 5: enforces accountability.

Management Response and Corrective Action Plan

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

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

Planned Implementation Date: June 30, 2021

Responsible Person: Craig J. Cornwell, City Manager

Current Status: No update

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.

This addresses COSO's Control Environment, Principle 4: demonstrates commitment to competency including succession planning, and Control Environment, Principle 5: enforces accountability.

Management Response and Corrective Action Plan

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

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

Planned Implementation Date: June 30, 2021

Responsible Person: Craig J. Cornwell, City Manager

Current Status: No update

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 eservices 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.

This addresses COSO's Control Environment, Principle 4: demonstrates commitment to competency including succession planning, and Control Environment, Principle 5: enforces accountability.

Management Response and Corrective Action Plan

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

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

Planned Implementation Date: June 30, 2021

Responsible Person: Craig J. Cornwell, City Manager

Current Status: No update

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.

This addresses COSO's Control Environment, Principle 2: exercises oversight responsibilities, and Monitoring Activities, Principle 16: conducts ongoing and/or separate evaluations.

Management Response and Corrective Action Plan

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

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

Planned Implementation Date: June 30, 2019

Responsible Person: Craig J. Cornwell, City Manager and Rafaela King, Controller

Current Status: No update

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.

This addresses COSO's Control Environment, Principle 3: establishes structure, authority, and responsibility; and Control Activities, Principle 12: deploys through policies and procedures.

Management Response and Corrective Action Plan

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

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

Planned Implementation Date: June 30, 2021

Responsible Person: Craig J. Cornwell, City Manager and Rafaela King, Controller

Current Status: No update

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, NRN, and external auditors.

This addresses COSO's Control Environment, Principle 2: exercises oversight responsibilities, and Monitoring Activities, Principle 17: evaluates and communicates deficiencies.

Management Response and Corrective Action Plan

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

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

Planned Implementation Date: June 30, 2021

Responsible Person: Craig J. Cornwell, City Manager and Rafaela King, Controller

Current Status: No update

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.

This addresses COSO's Control Environment, Principle 4: demonstrates commitment to competency including succession planning, and Control Environment, Principle 5: enforces accountability.

Management Response and Corrective Action Plan

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

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

Planned Implementation Date: June 30, 2021

Responsible Person: Craig J. Cornwell, City Manager

Current Status: No update

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.

This addresses COSO's Control Environment, Principle 4: demonstrates commitment to competency including succession planning, and Control Environment, Principle 5: enforces accountability, and Risk Assessment, Principle 9: identifies and analyzes significant change.

Management Response and Corrective Action Plan

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

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

Planned Implementation Date: June 30, 2021

Responsible Person: Craig J. Cornwell, City Manager

Current Status: No update

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.

This addresses COSO's Control Environment, Principle 4: demonstrates commitment to competency including succession planning, and Control Environment, Principle 5: enforces accountability.

Management Response and Corrective Action Plan

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

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

Planned Implementation Date: June 30, 2020

Responsible Person: Craig J. Cornwell, City Manager

Current Status: No update

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.

This addresses COSO's Control Environment, Principle 3: establishes structure, authority, and responsibility, Principle 4: demonstrates commitment to competency including succession planning, and Control Environment, Principle 5: enforces accountability.

Management Response and Corrective Action Plan

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

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

Planned Implementation Date: June 30, 2021

Responsible Person: Craig J. Cornwell, City Manager

Current Status: No update

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.

This addresses COSO's Control Activities, Principle 10: selects and develops control activities.

Management Response and Corrective Action Plan

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

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

Planned Implementation Date: June 30, 2021

Responsible Person: Craig J. Cornwell, City Manager and Rafaela King, Controller

Current Status: No update

2014-094B – Human Resources Policies and Practices (BP)

Criteria: Background checks conducted on candidates for employment.

Condition: The Personnel Rules and Regulations were last updated in November 1979, and do not state the requirements for conducting background checks of new employees.

Related Finding(s): SCO Finding 13

Recommendation: We recommend the City continue to review and update its Administrative Policies and Procedures manuals to ensure consistency with current processes and organizational structure; and perform periodic and ongoing reviews to ensure proper documentation, accuracy, and completeness in its financial transaction and records.

This addresses COSO's Control Environment, Principle 3: establishes structure, authority, and responsibility, and Control Activities, Principle 12: deploys through policies and procedures.

Management Response and Corrective Action Plan

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

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

Planned Implementation Date: June 30, 2019

Responsible Person: Jesenia Sanchez, Human Resources Analyst and Cecil W. Rhambo, Jr, City Manager

Current Status: In progress

EP's Comment 2018: We concur.

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.

This addresses COSO's Control Environment, Principle 3: establishes structure, authority, and responsibility, and Control Activities, Principle 10: selects and develops control activities, and Principle 12: deploys through policies and procedures.

Management Response and Corrective Action Plan

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

Corrective Action Plan: The City will establish and document policies and procedures to implement fundamental elements of the Internal Control Integrated Framework (ICIF) and to create policies for major transaction systems and for business processes to establish control standards. These policies and procedures will be designed to serve as the system of internal controls required by OMB's Uniform Guidance (2 CFR 200). The policies and procedures will include expectations for segregation of duties assignment of authority and responsibility, reconciliation, information and communication, and monitoring for persons with responsibility for systems of processes. In the meantime, the City Manager and City Controller department will propose a new Deputy HR Director position and to eliminate one of the analyst positions within the appropriate budget amendments.

Planned Implementation Date: June 30, 2020

Responsible Person: Craig J. Cornwell, City Manager and Rafaela King, Controller

Current Status: In progress

EP's Comment 2018: We concur.

2014-096B – Establishment of Entity-wide Objectives (BP)

Criteria: There are entity-wide objectives that were established by management.

Condition: The County of Los Angeles Civil Grand Jury Report for FY 2011-12 recommended that charter cities, including the City of Compton, develop and adopt a strategic plan that articulates the mission, vision, core values, and priorities for the City. In its response, the City stated that it will implement its plan in the near future.

Related Finding(s): SCO Finding 18

Recommendation: We recommend the City establish an entity-wide strategic plan that articulates the mission, vision, core values, and priorities of the City.

This addresses COSO's Risk Assessment, Principle 6: specifies suitable objectives.

Management Response and Corrective Action Plan

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

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

Planned Implementation Date: June 30, 2020

Responsible Person: Craig J. Cornwell, City Manager and Rafaela King, Controller

Current Status: No update

2014-097B – Establishment of Entity-wide Objectives (BP)

Criteria: City-wide objectives are clearly communicated to all employees, and management obtains feedback signifying that communication has been effective.

Condition: Most of the staff the SCO interviewed were not aware of the City-wide goals and objectives.

Recommendation: We recommend that once the City has established an entity-wide strategic plan to develop and implement a communication medium to clearly communicate this to all employees.

This addresses COSO's Risk Assessment, Principle 6: specifies suitable objectives.

Management Response and Corrective Action Plan

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

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

Planned Implementation Date: June 30, 2020

Responsible Person: Craig J. Cornwell, City Manager

Current Status: No update

2014-098B – Establishment of Entity-wide Objectives (BP)

Criteria: There is a relationship and consistency between the department's operational strategies and the City-wide objectives.

Condition: The County of Los Angeles Civil Grand Jury Report for FY 2011-12 recommended that charter cities, including the City of Compton, develop and adopt a strategic plan that articulates the mission, vision, core values, and priorities for the City. In its response, the City stated that it will implement its plan in the near future.

Related Finding(s): SCO Finding 18

Recommendation: We recommend the City establish a relationship and consistency between the departments' operational strategies and the City-wide objectives.

This addresses COSO's Risk Assessment, Principle 6: specifies suitable objectives.

Management Response and Corrective Action Plan

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

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

Planned Implementation Date: June 30, 2020

Responsible Person: Craig J. Cornwell, City Manager

Current Status: No update

2014-009B – Establishment of Entity-wide Objectives (BP)

Criteria: There is an integrated management strategy and risk assessment plan that considers the City-wide objectives and the relevant sources of risk from internal management factors and external sources, and that establishes a control structure to address those risks.

Condition: The County of Los Angeles Civil Grand Jury Report for FY 2011-12 recommended that charter cities, including the City of Compton, develop and adopt a strategic plan that articulates the mission, vision, core values, and priorities for the City. In its response, the City stated that it will implement its plan in the near future.

The City experienced a high degree of management turnover, which can result in a lack of consistent leadership, operational stability, and efficiency. Between January 1, 2010 and January 18, 2017, nine different individuals served as City Manager. Audit issues noted in prior years' review and audit reports were not corrected. Likewise, recommendations to address the noted issues were not implemented.

Related Finding(s): SCO Finding 14, 18

Recommendation: We recommend the City establish an integrated strategy and risk assessment plan to continuously monitor the City's progress.

This addresses COSO's Risk Assessment, Principle 6: specifies suitable objectives.

Management Response and Corrective Action Plan

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

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

Planned Implementation Date: June 30, 2020

Responsible Person: Craig J. Cornwell, City Manager

Current Status: No update

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.

This addresses COSO's Risk Assessment, Principle 6: specifies suitable objectives, and Principle 7: identifies and analyzes risk.

Management Response and Corrective Action Plan

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

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

Planned Implementation Date: June 30, 2021

Responsible Person: Craig J. Cornwell, City Manager and Rafaela King, Controller

Current Status: No update

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.

This addresses COSO's Risk Assessment, Principle 6: specifies suitable objectives, and Principle 7: identifies and analyzes risk.

Management Response and Corrective Action Plan

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

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

Planned Implementation Date: June 30, 2021

Responsible Person: Craig J. Cornwell, City Manager

Current Status: No update

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.

This addresses COSO's Risk Assessment, Principle 6: specifies suitable objectives, and Principle 7: identifies and analyzes risk, and Monitoring Activities, Principle 16: conducts ongoing and/or separate evaluations, and Principle 17: evaluates and communicates deficiencies.

Management Response and Corrective Action Plan

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

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

Planned Implementation Date: June 30, 2021

Responsible Person: Craig J. Cornwell, City Manager

Current Status: No update

2014-103B – Risk Identification (SD)

Criteria: Management is assessing other factors that may contribute to or increase the risk to which the City is exposed.

Condition: The City experienced a high degree of management turnover, which can result in a lack of consistent leadership, operational stability, and efficiency. Between January 1, 2010 and January 18, 2017, nine different individuals served as City Manager. Audit issues noted in prior years' review and audit reports were not corrected. Likewise, recommendations to address the noted issues were not implemented.

No risk assessment, evaluation, or risk prioritization was completed during our review period.

Related Finding(s): SCO Finding 14

Recommendation: We recommend that City Management assess other factors that may contribute to or increase the risk of which the City is exposed.

This addresses COSO's Risk Assessment, Principle 6: specifies suitable objectives, and Principle 7: identifies and analyzes risk.

Management Response and Corrective Action Plan

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

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

Planned Implementation Date: June 30, 2021

Responsible Person: Craig J. Cornwell, City Manager

Current Status: No update

2014-104B – Risk Identification (SD)

Criteria: Management is identifying risks City-wide and for each significant activity level of the City.

Condition: The City experienced a high degree of management turnover, which can result in a lack of consistent leadership, operational stability, and efficiency. Between January 1, 2010 and January 18, 2017, nine different individuals served as City Manager. Audit issues noted in prior years' review and audit reports were not corrected. Likewise, recommendations to address the noted issues were not implemented.

No risk assessment, evaluation, or risk prioritization was completed during our review period.

Related Finding(s): SCO Finding 14

Recommendation: We recommend that City Management identify risks on a City-wide level, as well as for each significant activity level of the City.

This addresses COSO's Risk Assessment, Principle 6: specifies suitable objectives, and Principle 7: identifies and analyzes risk.

Management Response and Corrective Action Plan

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

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

Planned Implementation Date: June 30, 2021

Responsible Person: Craig J. Cornwell, City Manager and Rafaela King, Controller

Current Status: No update

2014-105B – Risk Analysis (MW)

Criteria: After risks to the City have been identified, management undertakes a thorough and complete analysis of the possible effect.

Condition: The City experienced a high degree of management turnover, which can result in a lack of consistent leadership, operational stability, and efficiency. Between January 1, 2010 and January 18, 2017, nine different individuals served as City Manager. Audit issues noted in prior years' review and audit reports were not corrected. Likewise, recommendations to address the noted issues were not implemented.

No risk assessment, evaluation, or risk prioritization was completed during our review period.

Related Finding(s): SCO Finding 14

Recommendation: We recommend that once the City has a proper risk assessment plan in place, City Management should thoroughly and completely analyze the possible effects of the identified risks.

This addresses COSO's Risk Assessment, Principle 6: specifies suitable objectives, and Principle 7: identifies and analyzes risk, and Monitoring Activities, Principle 16: conducts ongoing and/or separate evaluations, and Principle 17: evaluates and communicates deficiencies.

Management Response and Corrective Action Plan

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

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

Planned Implementation Date: June 30, 2021

Responsible Person: Craig J. Cornwell, City Manager and Rafaela King, Controller

Current Status: No update

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.

This addresses COSO's Risk Assessment, Principle 6: specifies suitable objectives, and Principle 7: identifies and analyzes risk, and Monitoring Activities, Principle 16: conducts ongoing and/or separate evaluations, and Principle 17: evaluates and communicates deficiencies.

Management Response and Corrective Action Plan

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

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

Planned Implementation Date: June 30, 2021

Responsible Person: Craig J. Cornwell, City Manager and Rafaela King, Controller

Current Status: No update

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.

This addresses COSO's Control Environment, Principle 3: establishes structure, authority, and responsibility; and Control Activities, Principle 10: selects and develops control activities, and Principle 12: deploys through policies and procedures.

Management Response and Corrective Action Plan

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

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

Planned Implementation Date: June 30, 2021

Responsible Person: Craig J. Cornwell, City Manager and Rafaela King, Controller

Current Status: No update

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.

This addresses COSO's Control Environment, Principle 3: establishes structure, authority, and responsibility; and Control Activities, Principle 10: selects and develops control activities, and Principle 12: deploys through policies and procedures.

Management Response and Corrective Action Plan

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

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

Planned Implementation Date: June 30, 2021

Responsible Person: Craig J. Cornwell, City Manager and Rafaela King, Controller

Current Status: No update

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.

This addresses COSO's Control Environment, Principle 2: exercise oversight responsibilities, and Principle 3: establishes structure, authority, and responsibility.

Management Response and Corrective Action Plan

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

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

Planned Implementation Date: June 30, 2021

Responsible Person: Craig J. Cornwell, City Manager and Rafaela King, Controller

Current Status: No update

2014-110B – Common Categories of Control Activities (SD)

Criteria: Managers review performance reports.

Condition: There were approvals of budget and budget amendments. However, there were no review of actual to budget costs for FY 2013-14, FY 2014-15, and FY 2015-16. During these fiscal years, audits of the financial statements were not completed.

Recommendation: We recommend that City Management review performance reports to gain an understanding where additional training or other corrective actions are necessary.

This addresses COSO's Control Environment, Principle 2: exercise oversight responsibilities, and Principle 3: establishes structure, authority, and responsibility.

Management Response and Corrective Action Plan

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

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

Planned Implementation Date: June 30, 2020

Responsible Person: Craig J. Cornwell, City Manager and Rafaela King, Controller

Current Status: No update

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.

This addresses COSO's Control Environment, Principle 3: establishes structure, authority, and responsibility, and Control Activities, Principle 10: selects and develops control activities.

Management Response and Corrective Action Plan

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

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

Planned Implementation Date: June 30, 2021

Responsible Person: Craig J. Cornwell, City Manager and Rafaela King, Controller

Current Status: No update

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.

This addresses COSO's Control Environment, Principle 3: establishes structure, authority, and responsibility, and Control Activities, Principle 10: selects and develops control activities, and Monitoring Activities, Principle 16: conducts ongoing and/or separate evaluations.

Management Response and Corrective Action Plan

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

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

Planned Implementation Date: June 30, 2020

Responsible Person: Craig J. Cornwell, City Manager and Rafaela King, Controller

Current Status: No update

2014-113B – Common Categories of Control Activities (BP)

Criteria: For performance indicators, management compares different sets of data and investigate differences.

Condition: There were no documents to show that management had reviewed and compared different sets of data relating to performance indicators.

Recommendation: We recommend that City Management compare different sets of data and investigate differences relating to performance indicators.

This addresses COSO's Information & Communication, Principle 13: uses relevant, quality information.

Management Response and Corrective Action Plan

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

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

Planned Implementation Date: June 30, 2020

Responsible Person: Craig J. Cornwell, City Manager and Rafaela King, Controller

Current Status: No update

2014-114B – Common Categories of Control Activities (MW)

Criteria: Duties are properly segregated among different people to reduce the risk or error or inappropriate actions

Condition: There is lack of segregation of duties such as employees performed incompatible functions, including cash counting, timesheet report and account payable.

Related Finding(s): SCO Finding 10

Recommendation: We recommend that City Management and department heads evaluate if proper segregation of duties are in place. If not, mitigating controls should be developed and implemented to decrease the risk of error or inappropriate actions.

This addresses COSO's Control Activities, Principle 10: selects and develops control activities.

Management Response and Corrective Action Plan

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

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

Planned Implementation Date: June 30, 2019

Responsible Person: Craig J. Cornwell, City Manager, Douglas Sanders, City Treasurer, and Rafaela King, Controller

Current Status: Partially implemented. The Treasurer's office implemented updated policies and procedures effective January 20178 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.

E+P comment: We concur.

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.

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

Management Response and Corrective Action Plan

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

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

Planned Implementation Date: June 30, 2021

Responsible Person: Craig J. Cornwell, City Manager and Rafaela King, Controller

Current Status: No update

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.

This addresses COSO's Information & Communication, Principle 14: communicates internally, and Principle 15: communicates externally.

Management Response and Corrective Action Plan

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

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

Planned Implementation Date: June 30, 2021

Responsible Person: Craig J. Cornwell, City Manager and Rafaela King, Controller

Current Status: No update

2014-117B – Information (SD)

Criteria: Information is provided to the right people in sufficient detail and on time to enable them to carry out their responsibilities efficiently and effectively.

Condition: The comparison of budget to actual that is presented in the external Comprehensive Annual Financial Report was not available for FY 2013-14, FY 2014-15, and FY 2015-16. The audited financial statements for these fiscal years have not been completed. The City has been understaffed due to layoffs and furloughs. This is not a high priority for the City; accordingly, no staff had been assigned to obtain the relevant information for regulatory programs.

Related Finding(s): SCO Finding 15, 16

Recommendation: We recommend that City Management communicate and manifest the importance of timely communication in the policies and employee manuals.

This addresses COSO's Information & Communication, Principle 14: communicates internally, and Principle 15: communicates externally.

Management Response and Corrective Action Plan

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

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

Planned Implementation Date: June 30, 2021

Responsible Person: Craig J. Cornwell, City Manager and Rafaela King, Controller

Current Status: No update

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.

This addresses COSO's Information & Communication, Principle 14: communicates internally, and Principle 15: communicates externally.

Management Response and Corrective Action Plan

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

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

Planned Implementation Date: June 30, 2021

Responsible Person: Craig J. Cornwell, City Manager and Rafaela King, Controller

Current Status: No update

2014-119B – Information (SD)

Criteria: Management supports the development of necessary information systems and show its support by committing appropriate resources.

Condition: The comparison of budget to actual that is presented in the external Comprehensive Annual Financial Report was not available for FY 2013-14, FY 2014-15, and FY 2015-16. The audited financial statements for these fiscal years have not been completed. The City has been understaffed due to layoffs and furloughs. This is not a high priority for the City; accordingly, no staff had been assigned to obtain the relevant information for regulatory programs.

Related Finding(s): SCO Finding 15, 16

Recommendation: We recommend that City Management support the development of necessary information systems, including committing appropriate resources.

This addresses COSO's Control Activities, Principle 11: selects and develops general controls over technology; Information & Communication, Principle 14: communicates internally, and Principle 15: communicates externally.

Management Response and Corrective Action Plan

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

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

Planned Implementation Date: June 30, 2021

Responsible Person: Craig J. Cornwell, City Manager and Rafaela King, Controller

Current Status: No update

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.

This addresses COSO's Information & Communication, Principle 14: communicates internally, and Principle 15: communicates externally.

Management Response and Corrective Action Plan

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

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

Planned Implementation Date: June 30, 2021

Responsible Person: Craig J. Cornwell, City Manager and Rafaela King, Controller

Current Status: No update

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.

This recommendation addresses COSO's Control Environment, Principle 2: Board exercises oversight responsibilities and Monitoring Activities, Principle 17: evaluates and communicates deficiencies.

Management Response and Corrective Action Plan

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

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

Planned Implementation Date: June 30, 2021

Responsible Person: Craig J. Cornwell, City Manager and Rafaela King, Controller

Current Status: No update

2014-122B – Communication (BP)

Criteria: The City employs various forms and means of communicating important information with employee and others.

Condition: The SCO's observation and inquiry suggests that employees receive clear messages from top management; however, management does not receive significant information from employees. For example, billings approved by the City Manager, although questionable due to lack of adequate review and documentation, were never questioned by City employees.

Recommendation: We recommend the City has forms and means of communication in place to be able to communicate important information with employees and others.

This recommendation addresses COSO's Information & Communication, Principle 14: communicates internally.

Management Response and Corrective Action Plan

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

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

Planned Implementation Date: June 30, 2019

Responsible Person: Craig J. Cornwell, City Manager and Rafaela King, Controller

Current Status: No update

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.

This recommendation addresses COSO's Information & Communication, Principle 13: uses relevant, quality information and Control Activities, Principle 11: selects and develops general controls over technology.

Management Response and Corrective Action Plan

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

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

Planned Implementation Date: June 30, 2019

Responsible Person: Craig J. Cornwell, City Manager and Rafaela King, Controller

Current Status: No update

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.

This recommendation addresses COSO's Control Environment, Principle 2: Board exercises oversight responsibility and Monitoring Activities: Principle 16: conducts ongoing and separate evaluations.

Management Response and Corrective Action Plan

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

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

Planned Implementation Date: June 30, 2021

Responsible Person: Craig J. Cornwell, City Manager and Rafaela King, Controller

Current Status: No update

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.

This recommendation addresses COSO's Control Environment, Principle 4: demonstrates a commitment to competence, Information & Communication, Principle 13: uses relevant, quality information, and Monitoring Activities, Principle 16: conducts ongoing and separate evaluations.

Management Response and Corrective Action Plan

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

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

Planned Implementation Date: June 30, 2021

Responsible Person: Craig J. Cornwell, City Manager and Rafaela King, Controller

Current Status: No update

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.

This recommendation addresses COSO's Control Environment, Principle 2: Board exercises oversight responsibility, Monitoring Activities, Principle 17: evaluates and communicates deficiencies, and Control Activities, Principle 12: deploys controls through policies and procedures.

Management Response and Corrective Action Plan

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

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

Planned Implementation Date: June 30, 2021

Responsible Person: Craig J. Cornwell, City Manager and Rafaela King, Controller

Current Status: No update

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.

This recommendation addresses COSO's Control Environment, Principle 2: Board exercises oversight responsibility, and Control Environment, Principle 3: management establishes structures, authority, and responsibilities.

Management Response and Corrective Action Plan

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

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

Planned Implementation Date: June 30, 2020

Responsible Person: Craig J. Cornwell, City Manager and Rafaela King, Controller

Current Status: No update

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.

This recommendation addresses COSO's Control Activities, Principle 10: selects and develops control activities.

Management Response and Corrective Action Plan

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

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

Planned Implementation Date: June 30, 2021

Responsible Person: Rafaela King, Controller

Current Status: No update

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.

This recommendation addresses COSO's Monitoring Activities, Principle 16: conducts ongoing and separate evaluations, and Control Environment, Principle 4: demonstrates a commitment to competence.

Management Response and Corrective Action Plan

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

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

Planned Implementation Date: June 30, 2019

Responsible Person: Rafaela King, Controller

Current Status: No update

2014-130B – On-Going Monitoring (BP)

Criteria: Meetings with employees are used to provide management with feedback on whether internal control is effective.

Condition: City employees cannot remember when the last meeting relating to internal controls was conducted between employees and management.

Recommendation: We recommend the City have periodic internal control meetings with employees to gain insights of the employees' perspective and get some feedback.

This recommendation addresses COSO's Control Environment, Principle 1: demonstrates commitment to integrity and ethical values, and Control Environment, Principle 2: Board exercises oversight responsibility.

Management Response and Corrective Action Plan

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

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

Planned Implementation Date: June 30, 2019

Responsible Person: Craig J. Cornwell, City Manager and Rafaela King, Controller

Current Status: No update

2014-131B – On-Going Monitoring (BP)

Criteria: Employees are regularly asked to state explicitly whether they comply with the City's code of conduct.

Condition: Some of the City staff that the SCO interviewed did not appear to be well-informed about the City Code of Conduct.

Recommendation: We recommend the City emphasize the importance of the City's Code of Conduct and the adherence to it.

This recommendation addresses COSO's Control Environment, Principle 1: demonstrates commitment to integrity and ethical values.

Management Response and Corrective Action Plan

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

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

Planned Implementation Date: June 30, 2019

Responsible Person: Craig J. Cornwell, City Manager and Rafaela King, Controller

Current Status: No update

2014-132B – Separate Evaluation (MW)

Criteria: The scope and frequency of separate internal control evaluations are appropriate for the City.

Condition: Annually, as part of the Comprehensive Annual Financial Report. However, these annual reports were not completed for FY 2013-14, FY 2014-15, and FY 2015-16.

Related Finding(s): SCO Finding 15

Recommendation: We recommend that once an internal control unit has been established that the scope and frequency of separate internal control evaluations to be tailored to the City's circumstances and needs.

This recommendation addresses COSO's Monitoring Activities, Principle 16: conducts ongoing and separate evaluations.

Management Response and Corrective Action Plan

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

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

Planned Implementation Date: June 30, 2021

Responsible Person: Craig J. Cornwell, City Manager and Rafaela King, Controller

Current Status: No update

2014-133B – Separate Evaluation (MW)

Criteria: The evaluations are conducted by the City Auditor's Office, who has sufficient resources, ability, and independence.

Condition: The City does not have a City Auditor's Office.

Recommendation: We recommend that once an internal control unit has been established that the City ensures that they have the necessary resources, ability, and independence.

This recommendation addresses COSO's Control Environment, Principle 2: Board exercises oversight responsibility and Monitoring Activities, Principle 16: conducts ongoing and separate evaluations.

Management Response and Corrective Action Plan

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

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

Planned Implementation Date: June 30, 2021

Responsible Person: Rafaela King, Controller

Current Status: No update

2014-134B – Separate Evaluation (MW)

Criteria: Deficiencies found during separate evaluations are promptly resolved.

Condition: Deputy Treasurer admitted to embezzling money from the City's cash receipts on 12/15/16. The Mayer Hoffman McCann CPA firm reported that it was unable to reach an opinion on whether the City's FY 2010-11 June financial statements were free of material misstatements, due to their inability to obtain sufficient evidence from the Mayor or the City with respect to the Mayor's concerns of fraud on 7/24/12. Governance practices recommended by the FY 2011 -12 Civil Grand Jury Report were not implemented, such as: develop a strategic plan, develop and report on performance measures, develop specific goals for the City's executive and conduct annual evaluation of City's executive. The City Council failed to exercise oversight over the City's financial and operational activities. Prior years' audit and review finding and recommendation were not implemented.

Related Finding(s): SCO Finding 3, 7, 17

Recommendation: We recommend that any deficiencies found during internal audit evaluations are promptly resolved to reduce the risk of subsequent effects.

This recommendation addresses COSO's Control Environment, Principle 2: Board exercises oversight responsibilities, and Monitoring Activities, Principle 17: evaluates and communicates deficiencies

Management Response and Corrective Action Plan

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

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

Planned Implementation Date: June 30, 2021

Responsible Person: Craig J. Cornwell, City Manager and Rafaela King, Controller

Current Status: No update

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.

This recommendation addresses COSO's Monitoring Activities, Principle 16: conducts ongoing and separate evaluates.

Management Response and Corrective Action Plan

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

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

Planned Implementation Date: June 30, 2021

Responsible Person: Craig J. Cornwell, City Manager and Rafaela King, Controller

Current Status: No update

2014-136B – Report Deficiencies (SD)

Criteria: Deficiencies are reported to the person directly responsible and to a person at least one level higher.

Condition: Deputy Treasurer admitted to embezzling money from the City's cash receipts on 12/15/16. The Mayer Hoffman McCann CPA firm reported that it was unable to reach an opinion on whether the City's FY 2010-11 June financial statements were free of material misstatements, due to their inability to obtain sufficient evidence from the Mayor or the City with respect to the Mayor's concerns of fraud on 7/24/12. Governance practices recommended by the FY 2011 -12 Civil Grand Jury Report were not implemented, such as: develop a strategic plan, develop and report on performance measures, develop specific goals for the City's executive and conduct annual evaluation of City's executive. The City Council failed to exercise oversight over the City's financial and operational activities. Prior years' audit and review finding and recommendation were not implemented.

Related Finding(s): SCO Finding 3, 7, 17

Recommendation: We recommend that issues and deficiencies are directly communicated to the responsible personnel and elevated to someone at least a level higher.

This recommendation addresses COSO's Monitoring Activities, Principle 17: evaluates and communicates deficiencies and Control Environment, Principle 3, management establishes structure, authority, and responsibility.

Management Response and Corrective Action Plan

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

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

Planned Implementation Date: June 30, 2020

Responsible Person: Craig J. Cornwell, City Manager and Rafaela King, Controller

Current Status: No update

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.

This recommendation addresses COSO's Monitoring Activities, Principle 17: evaluates and communicates deficiencies, Control Environment, Principle 2, Board exercises oversight responsibility, and Control Environment, Principle 3: management establishes structure, authority, and responsibility.

Management Response and Corrective Action Plan

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

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

Planned Implementation Date: June 30, 2021

Responsible Person: Craig J. Cornwell, City Manager and Rafaela King, Controller

Current Status: No update

CITY OF COMPTON

SCHEDULE OF SCO SPECIAL GAS TAX STREET IMPROVEMENT FUND AUDIT FINDINGS
FOR THE PERIODS OF JULY 1, 2007 THROUGH JUNE 30, 2016

2014-138C – Unallowable Borrowing (MW, NC)

Criteria: Streets and Highways Code section 2101 states, in part:

“...all moneys in the Highway Users Tax Account in the Transportation Tax Fund and hereafter received in the account are appropriated for... (a) The research, planning, construction, improvement, maintenance, and operation of public streets and highways...”

Condition: As of June 30, 2016, the City borrowed \$3,024,755 from its HUTA apportionments; this amount was comprised of \$2,260,802 Due from Other Funds and \$763,953 from Advances to the General Fund. HUTA apportionments are restricted to street-related expenditures only; borrowing is an unallowable activity.

On July 1, 2012, the City advanced \$756,446 to the General Fund from its Transportation Investment Fund, in which the City deposits its Section 2103 HUTA apportionments. As of June 30, 2016, the outstanding advance to the General Fund from the HUTA apportionments, including accrued interest of \$7,507, is \$763,953.

On June 30, 2014, the City borrowed HUTA apportionments totaling \$2,260,802 from its Transportation Investment Fund and its Special Gas Tax Street Improvement Fund to cover the negative cash balances of various special revenue funds.

Recommendation: The SCO recommended that the City transfer \$3,024,755 to the Special Gas Tax Street Improvement Fund to replenish the fund for the unallowable borrowing. In addition, the SCO recommended that the City adopt policies and procedures to prevent any future borrowing of HUTA apportionments.

E+P concurs with the SCO's recommendation; in addition, this recommendation addresses COSO's Control Activities, Principle 12: deploys controls through policies and procedures.

Management Response and Corrective Action Plan

City's Response: ...the City will comply with the Controller's direction to...reimburse the indicated funds as recommended by the State Controller's audit. Finally, the City is in agreement with the State Controller's recommendation to follow internal control policies and procedures....

Planned Implementation Date: June 30, 2021

Responsible Person: Douglas Sanders, City Treasurer and Rafaela King, Controller

Current Status: No update

2014-139C – Unsupported Traffic Congestion Relief Fund Allocations Cost (MW, NC)

Criteria: Revenue and Taxation Code section 7104(e) states, in part:

“Funds allocated to a City, County, or City and County under paragraph (4) or (5) of subdivision (c) shall be used only for street and highway maintenance, rehabilitation, reconstruction, and storm damage repair...”

Revenue and Taxation Code section 7104(f)(7) requires a City to expend its Traffic Congestion Relief Fund allocations within the fiscal year following the fiscal year in which the allocations were made. In addition, the code indicates that funds not expended within that period shall be returned to the SCO.

Condition: The City charged \$652,982 of unsupported costs to its Traffic Congestion Relief Fund allocations for FY 2007-08 and FY 2009-10. Therefore, the costs are unallowable.

The City charged \$166,982 of unsupported contract service costs in FY 2007-08 and allocated \$486,000 of equipment rental shortfall in FY 2009-10 to the Transportation Investment Fund. The City did not support these costs with proper documentation.

Recommendation: The SCO recommended that the City return \$652,982 to the SCO, Attention: Departmental Accounting Office – A/R, P.O. Box 942850, Sacramento, California 94250.

E+P concurs with the SCO’s recommendation; in addition, we recommend the City adopt policies and procedures for proper spending of future Traffic Congestion Relief Fund allocations. This recommendation addresses COSO’s Control Activities, Principle 12: deploys controls through policies and procedures.

Management Response and Corrective Action Plan

City’s Response: ...the City will comply with the Controller’s direction to...return requested funds to the State Controller’s Office....

Planned Implementation Date: June 30, 2019

Responsible Person: Rafaela King, Controller

Current Status: No update

2014-140C – Unsupported Equipment Rental Charges (MW, NC)

Criteria: Streets and Highways Code section 2101 states, in part:

“...all moneys in the Highway Users Tax Account in the Transportation Tax Fund and hereafter received in the account are appropriated for... (a) The research, planning, construction, improvement, maintenance, and operation of public streets and highways....”

Condition: The City charged \$562,208 of unsupported equipment rental charges to its Special Gas Tax Street Improvement Fund for FY 2008-09 through FY 2010-11. Therefore, the costs are unallowable.

The City allocated equipment rental charges at an hourly rate based on usage for each month. The City did not identify how it determined the rates charged for equipment usage, or substantiate that the equipment was used for street-related purposes. The City did not substantiate the allocations made to cover its equipment rental shortage.

Recommendation: The SCO recommended that the City:

- Reimburse the Special Gas Tax Street Improvement Fund \$562,208 for the unsupported costs; and
- Establish procedures to ensure that expenditures charged to the Special Gas Tax Street Improvement Fund are adequately supported.

E+P concurs with the SCO's recommendation; in addition, this recommendation addresses COSO's Control Activities, Principle 12: deploys controls through policies and procedures.

Management Response and Corrective Action Plan

City's Response: ...the City will comply with the Controller's direction to...reimburse the indicated funds as recommended by the State Controller's audit. Finally, the City is in agreement with the State Controller's recommendation to follow internal control policies and procedures....

Planned Implementation Date: June 30, 2021

Responsible Person: Rafaela King, Controller

Current Status: No update

2014-141C – Ineligible Gas Tax Expenditures (MW, NC)

Criteria: Streets and Highways Code section 2101 states, in part:

“...all moneys in the Highway Users Tax Account in the Transportation Tax Fund and hereafter received in the account are appropriated for... (a) The research, planning, construction, improvement, maintenance, and operation of public streets and highways...”

Condition: The City charged \$532,540 for non-street-related services and supplies to the Special Gas Tax Street Improvement Fund and Transportation Investment Fund (for which the City deposits Section 2103 HUTA apportionments) for FY 2013-14 through FY 2015-16. Therefore, the expenditures are ineligible.

The City charged \$6,879,713 of services and supplies. SCO tested \$4,797,816 and identified \$532,540 of ineligible expenditures.

Recommendation: The SCO recommended that the City:

- Reimburse the Special Gas Tax Street Improvement Fund \$532,540; and
- Establish adequate procedures to ensure that all costs charged to the Special Gas Tax Street Improvement Fund are for street-related purposes.

E+P concurs with the SCO's recommendation; in addition, this recommendation addresses COSO's Control Activities, Principle 12: deploys controls through policies and procedures.

Management Response and Corrective Action Plan

City's Response: ...the City will comply with the Controller's direction to...reimburse the indicated funds as recommended by the State Controller's audit. Finally, the City is in agreement with the State Controller's recommendation to follow internal control policies and procedures....

Planned Implementation Date: June 30, 2021

Responsible Person: Rafaela King, Controller

Current Status: No update

2014-142C – Ineligible Gas Tax Expenditures (MW, NC)

Criteria: Article 16, section 18, of the California Constitution, states, in part:

“(a) No county, City, town, township, board of education, or school district, shall incur any indebtedness or liability in any manner or for any purpose exceeding in any year the income and revenue provided for such year.”

Condition: The City charged expenditures in excess of available funds to the Special Gas Tax Street Improvement Fund by \$325,950 during FY 2009-10. Therefore, the excess expenditures are unallowable.

Recommendation: The SCO recommended that the City:

- Transfer \$325,950 to the Special Gas Tax Street Improvement Fund to replenish the fund; and
- Establish procedures to verify the existence of available funds prior to charging expenditures to the fund.

E+P concurs with the SCO’s recommendation; in addition, this recommendation addresses COSO’s Control Activities, Principle 12: deploys controls through policies and procedures.

Management Response and Corrective Action Plan

City's Response: ...the City will comply with the Controller’s direction to...reimburse the indicated funds as recommended by the State Controller’s audit. Finally, the City is in agreement with the State Controller’s recommendation to follow internal control policies and procedures....

Planned Implementation Date: June 30, 2021

Responsible Person: Rafaela King, Controller

Current Status: No update

2014-143C – Traffic Congestion Relief Fund Expenditure Requirement Not Met (SD, NC)

Criteria: Revenue and Taxation Code section 7104(f)(7) states that Traffic Congestion Relief Fund allocations are to be spent within the fiscal year following the fiscal year in which the allocations were made. It further states that funds not spent within that period are to be returned to the SCO.

Condition: The City did not spend \$130,805 of its FY 2006-07 Traffic Congestion Relief Fund allocations by June 30, 2008. Therefore, the City is required to return the amount to the SCO.

The City received \$721,672 in Traffic Congestion Relief Fund allocations in FY 2006-07; it expended \$423,885 in FY 2006-07 and \$166,982 in FY 2007-08. Therefore, as of June 30, 2008, the unexpended balance was \$130,805.

Recommendation: The SCO recommended that the City return \$130,805 to the SCO, Attention: Departmental Accounting Office – A/R, P.O. Box 942850, Sacramento, California 94250.

E+P concurs with the SCO's recommendation; in addition, we recommend the City adopt policies and procedures for proper spending of future Traffic Congestion Relief Fund allocations. This recommendation addresses COSO's Control Activities, Principle 12: deploys controls through policies and procedures.

Management Response and Corrective Action Plan

City's Response: ...the City will comply with the Controller's direction to...return requested funds to the State Controller's Office....

Planned Implementation Date: June 30, 2019

Responsible Person: Rafaela King, Controller

Current Status: No update

2014-144C – Unsupported Gas Tax Revenue Adjustments (SD, NC)

Condition: The City understated gas tax revenues in FY 2013-14 by \$26,758 and overstated gas tax revenues by \$58,930, for a net overstatement of \$32,172.

The City records Streets and Highways Code Section 2103 apportionments (Section 2103 HUTA) in the Transportation Investment Fund.

For the Special Gas Tax Street Improvement Fund, the City reversed the July 2013 Section 2103 HUTA apportionment of \$85,362 and accrued \$35,180 in unsupported revenues in June 2016, totaling \$58,930 in understated revenues. The City did not support these adjustments.

For the Transportation Investment Fund, the City accrued \$58,604 in unsupported Section 2103 HUTA apportionments in June 2013, and \$23,750 in unsupported Section 2103 HUTA apportionments in June 2016, totaling \$82,354 in overstated revenues. The City did not support these adjustments.

Recommendation: The SCO recommended that the City:

- Reimburse the Special Gas Tax Street Improvement Fund \$50,182 and reduce the Transportation Investment Fund balance by \$82,354 for the unsupported revenue adjustments; and
- Establish procedures to ensure that adjustments to the Special Gas Tax Street Improvement Fund are adequately supported.

E+P concurs with the SCO's recommendation; in addition, this recommendation addresses COSO's Control Activities, Principle 12: deploys controls through policies and procedures.

Management Response and Corrective Action Plan

City's Response: ...the City will comply with the Controller's direction to...reimburse the indicated funds as recommended by the State Controller's audit. Finally, the City is in agreement with the State Controller's recommendation to follow internal control policies and procedures....

Planned Implementation Date: June 30, 2020

Responsible Person: Rafaela King, Controller

Current Status: No update

2014-145C – Unallocated Interest Income (SD, NC)

Criteria: Streets and Highways Code section 2113 states, in part,
“Interest received by a City from the investment of money in its special gas tax street improvement fund shall be deposited in the fund and shall be used for street purposes.”

Condition: The City did not allocate \$9,967 of interest income earned between FY 2012-13 and FY 2015-16, to the Special Gas Tax Street Improvement Fund. This amount consisted of \$7,582 interest earned on advanced funds and \$2,385 from investment of money in the fund.

As noted in Finding 2014-138C, on July 1, 2012, the City advanced \$756,446 to the General Fund from its HUTA apportionments. Per City Resolution No. 23,970, the City accrued interest income at 0.495%, yielding interest income as shown in the following table. The City credited interest income it earned during FY 2012-13 and FY 2013-14 to the advanced funds; however, it did not credit the interest earnings for FY 2014-15 and FY 2015-16, totaling \$7,582, to the advanced funds.

In addition, the City did not allocate to the Special Gas Tax Street Improvement Fund its share of interest income from the investment of money, from FY 2012-13 through FY 2015-16, totaling \$2,385.

Recommendation: The SCO recommended that the City:

- Transfer \$9,967 to the Special Gas Tax Street Improvement Fund for the unallocated interest income; and
- Establish procedures to ensure that interest income is correctly allocated to the Fund.

E+P concurs with the SCO's recommendation; in addition, this recommendation addresses COSO's Control Activities, Principle 12: deploys controls through policies and procedures.

Management Response and Corrective Action Plan

City's Response: ...the City will comply with the Controller's direction to...reimburse the indicated funds as recommended by the State Controller's audit. Finally, the City is in agreement with the State Controller's recommendation to follow internal control policies and procedures....

Planned Implementation Date: June 30, 2020

Responsible Person: Rafaela King, Controller

Current Status: No update

2014-146C – Payment on Invoices (SD, NC)

Condition: The City made payments to vendors on invoices that do not agree with the terms of contracts.

Service contracts between the City and vendors indicate that the vendor shall be reimbursed by City upon the receipt of itemized receipts, and that invoices shall detail the work performed on each task, as applicable. However, invoices received by the City lacked itemized, detailed descriptions of work performed.

In addition, while reviewing a catch basin cleaning contract, the SCO noted that the unit price charged and the frequency of services did not agree with the terms stated in the contract.

Although the expenditures for these service contracts were in compliance with applicable code sections, the SCO noted that the invoices for eligible work were not in agreement with the terms of the contracts. Following invoice procedures as indicated in the service contracts will help ensure that the City is paying for services stated in its contracts.

Recommendation: The SCO recommended that the City follow invoice procedures as indicated in service contracts.

E+P concurs with the SCO's recommendation; in addition, this recommendation addresses COSO's Control Activities, Principle 12: deploys controls through policies and procedures.

Management Response and Corrective Action Plan

City's Response: ...the City is in agreement with the State Controller's recommendation to follow internal control policies and procedures....

Planned Implementation Date: June 30, 2019

Responsible Person: Rafaela King, Controller

Current Status: No update