

Single Audit Report

Fiscal Year Ended June 30, 2017



CITY OF OXNARD

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JUNE 30, 2017

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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

The Honorable City Council
City of Oxnard, California



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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 financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Oxnard, California (City), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 26, 2017. Our report includes a reference to other auditors who audited the financial statements of Oxnard Housing Authority, as described in our report on City's basic financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control over Financial Reporting

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

Our consideration of internal control 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 were not 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 accompanying schedule of findings and questioned costs (marked SD) to be significant deficiencies.

Compliance and Other Matters

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

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

The findings noted above include those that were found during our audit of fiscal years 2015 and 2016. These findings are listed in the accompanying schedule of findings and questioned costs - schedule of prior audit findings - financial statements.

The following schedule summarizes our findings related to financial statements:

FISCAL YEAR	REFERENCE NUMBER	MATERIAL WEAKNESS (MW)	SIGNIFICANT DEFICIENCY (SD)	NON- COMPLIANCE (NC)	BEST PRACTICES (BP)	TOTAL
2016-2017	2017-009 TO 2017-019	4	4	-	3	11
2015-2016	2016-005	-	1	-	-	1
2014-2015	2015-005 TO 2015-111	<u>63</u>	<u>33</u>	<u>3</u>	<u>8</u>	<u>107</u>
TOTALS		<u>67</u>	<u>38</u>	<u>3</u>	<u>11</u>	<u>119</u>

Four out of the eleven current year findings are a repeat of prior-year findings.

City's Response to Findings

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

We applied certain procedures to support the status of audit findings included in the schedule of prior audit findings. The status of prior-year audit findings related to financial statements is summarized below:

FISCAL YEAR	POLICIES AND PROCEDURES			TOTAL
	IMPLEMENTED	IN PROCESS	NOT STARTED	
2015-2016	-	-	1	1
2014-2015	<u>28</u>	<u>35</u>	<u>44</u>	<u>107</u>
TOTALS	<u>28</u>	<u>35</u>	<u>45</u>	<u>108</u>

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 audit performed 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 LLP

March 26, 2018
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 AND
ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

The Honorable City Council
City of Oxnard
Oxnard, California

Report on Compliance for Each Major Federal Program

We have audited City of Oxnard's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City's major Federal programs for the year ended June 30, 2017. The City's major Federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

The City's basic financial statements include the operations of the Oxnard Housing Authority, which expended \$22,069,029 in Federal awards during the year ended June 30, 2017. Our audit, described below, did not include the operations of the Oxnard Housing Authority, because it engaged other auditors to perform an audit in accordance with the Uniform Guidance.

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.

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.

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2017.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items **2017-001** through **2017-003** and **2017-008**. Our opinion on each major Federal program is not modified with respect to these matters.

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 first paragraph of this section 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 deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item **2017-007** to be a material weakness.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a Federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items **2017-001** through **2017-006** that we consider to be significant deficiencies.

City's Response to Findings

The City's response to the compliance findings and 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 the compliance and, accordingly, we express no opinion on the response.

We applied certain procedures to support the status of audit findings included in the schedule of prior audit findings. The status of prior audit findings related to major federal programs is summarized below:

FISCAL YEAR	NO FURTHER ACTION			TOTAL
	REQUIRED	IMPLEMENTED	NOT STARTED	
2015-2016	-	-	4	4
2014-2015	<u>2</u>	<u>2</u>	<u>-</u>	<u>4</u>
TOTALS	<u>2</u>	<u>2</u>	<u>4</u>	<u>8</u>

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

Report on Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, and each major fund of the City as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated December 26, 2017, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of Federal awards is presented for the purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of Federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Eddie and Payne LLP

March 26, 2018
Riverside, California

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

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

<u>FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM 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				
Direct:				
Community Development Block Grants	14.218	B-16-MC-06-0534	\$ 1,549,624	
		B-15-MC-06-0534	517,160	
		B-14-MC-06-0534	975,819	
			<u>3,042,603</u>	\$ 146,089
Direct:				
Emergency Solutions Grants Program	14.231	E-16-MC-06-0534	145,495	
		E-15-MC-06-0534	23,250	
			<u>168,745</u>	154,195
Direct:				
HOME Investment Partnership Program	14.239	M-16-MC-06-0526	127,721	
		M-15-MC-06-0526	233,272	
		M-14-MC-06-0526	147,137	
		M-13-MC-06-0526	2,343	
		M-12-MC-06-0526	95,337	
			<u>605,810</u>	-
Total U.S. Department of Housing and Urban Development			<u>3,817,158</u>	<u>300,284</u>
U.S. Department of Justice				
Direct:				
Edward Byrne Justice Assistance Grant	16.738	15-SHSGP6A	21,060	
		2016-DS-BX-0002	24,990	
		2016-DJ-BX-0611	19,206	
		2015-DJ-BX-0764	69,577	
		2014-DJ-BX-0862	19,613	
		2013-DJ-BX-0737	17,272	
		2012-DJ-BX-1010	270	
			<u>171,988</u>	53,966
Passed through the Ventura County Sheriff's Office:				
Edward Byrne Justice Assistance Grant	16.738	BSCC 655-15	68,912	
			<u>240,900</u>	
Direct:				
Equitable Sharing Program	16.922	CA0560400	180,952	-
Total U.S. Department of Justice			<u>421,852</u>	<u>53,966</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 on the Schedule of Expenditures of Federal Awards.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)

FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM TITLE	FEDERAL CATALOG NUMBER	PROGRAM IDENTIFICATION NUMBER	TOTAL PROGRAM EXPENDITURES	TOTAL AMOUNT PROVIDED TO SUBRECIPIENTS
U.S. Department of Homeland Security				
Direct:				
Assistance to Firefighters Grant	97.044	EMW-2015-FO-04703	\$ 124,252	
		EMW-2015-FR-00116	31,935	
		EMW-2015-FR-00129	59,937	
			<u>216,124</u>	
Passed through the Ventura County Sheriff:				
Emergency Management Performance Grant	97.042	2015-0078-111-00000	<u>47,857</u>	
 FY 2015 SHSP - CERT Program - Fire	97.067	2015-0078-111-00000	6,571	
FY 2015 SHSP - HazMat Program Sustainment		2015-0078-111-00000	24,419	
FY 2015 SHSP - HAZMAT		2015-0078-111-00000	2,260	
FY 2016 SHSP - USAR Training		2016-0102-111-00000	24,369	
FY 2016 SHSP - HazMat Equipment		2016-0102-111-00000	2,401	
Homeland Security Grant Program		16-SHSGP-OX-10	<u>14,470</u>	
			<u>74,490</u>	
Homeland Security Grant Program	97.073	2016-0102-111-00000	<u>3,596</u>	
Staffing for Adequate Fire and Emergency Response Grant	97.083	EMW-2014-FH-00701	894,195	
		EMW-2012-FH-00072	394,781	
			<u>1,288,976</u>	
Total U.S. Department of Homeland Security			<u>1,631,043</u>	
U.S. Department of Transportation				
Passed through the State of California Department of Transportation:				
Highway Planning and Construction	20.205	HSIPL-5129(084)	484,394	
		CML-5129 (086)	12,451	
		CML-5129 (087)	2,003	
		CML-5129 (079)	(1,314)	
		CML-5129 (078)	1,925	
		STPL-5129 (048)	2,123	
		HSIPL-5129(083)	893,224	
		CML-5129 (091)	8,653	
		HSIPL 5129 (093)	6,248	
		STPL 5129 (088)	<u>33,273</u>	
			<u>1,442,980</u>	
Federal Transit Formula Grant	20.507	CA-95-X196-00	<u>83,688</u>	
Passed through the State of California Office of Traffic Safety:				
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608		<u>150,726</u>	
State and Community Highway Safety				
National Priority Safety Programs	20.600		<u>100,337</u>	
Total U.S. Department of Transportation			<u>1,777,731</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 on the Schedule of Expenditures of Federal Awards.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)

FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM TITLE	FEDERAL CATALOG NUMBER	PROGRAM IDENTIFICATION NUMBER	TOTAL PROGRAM EXPENDITURES	TOTAL AMOUNT PROVIDED TO SUBRECIPIENTS
Corporation for National and Community Service				
Direct:				
Retired and Senior Volunteer Program	94.002	16SRPCA005	\$ 5,707	
Corporation for National and Community Service		13SRPCA010	<u>117,051</u>	
Total Corporation for National and Community Service			<u>122,758</u>	
U.S. Department of Health and Human Services				
Passed through the County of Ventura Area Agency on Aging:				
Special Programs for the Aging, Nutrition Services	93.045	3C-007-071212	<u>111,116</u>	
Total U.S. Department of Health and Human Services			<u>111,116</u>	
U.S. Department of the Interior Fish and Wildlife Service Passed through the County of Ventura				
Coastal	15.630	F14AC00539	<u>19,617</u>	
Total U.S. Department of the Interior Fish and Wildlife Service			<u>19,617</u>	
U.S. Environmental Protection Agency				
Direct:				
Environmental Workforce Development and Job Training	66.815	99T03501	<u>30,886</u>	
Total U.S. Environmental Protection Agency			<u>30,886</u>	
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 7,932,161</u>	<u>\$ 354,250</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 on the Schedule of Expenditures of Federal Awards.

CITY OF OXNARD

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2017

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of Federal awards (Schedule) includes the Federal award activity of City of Oxnard (City) under programs of the Federal government for the year ended June 30, 2017. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the City. It does not include the Federal award activity of Oxnard Housing Authority, a blended component unit of the City, which received \$22,069,029 in Federal awards.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

3. INDIRECT COST RATE

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

4. RELATIONSHIP TO FEDERAL FINANCIAL REPORTS

Amounts reported in the Schedule agree, in all material respects, with amounts reported in the basic financial statements of the City of Oxnard. The following presents a reconciliation of Federal expenditures to those reported in the financial statements:

	<u>AMOUNT</u>
Total expenditures per the schedule of expenditures of federal awards	\$ 7,932,161
Add: Expenditures of nonfederal awards	<u>171,659,280</u>
TOTAL GOVERNMENTAL FUNDS EXPENDITURES PER THE FINANCIAL STATEMENTS	<u>\$ 179,591,441</u>

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)

5. **FEDERALLY-FUNDED LOANS**

The City administers loans, primarily deferred loans, made from funds provided by the following Federal programs for the year ended June 30, 2017:

<u>FEDERAL PROGRAMS</u>	<u>LOANS OUTSTANDING</u>
Community Development Block Grants (CFDA #14.218)	\$ 3,518,553
HOME Investment Partnership Program (CFDA #14.239)	10,252,669

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

SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weaknesses identified? X yes no
Significant deficiencies identified? X yes none reported

Noncompliance material to financial statements noted: yes X no

Federal Awards

Internal control over major programs:

Material weaknesses identified? X yes no
Significant deficiencies identified? X yes none reported

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

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

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
14.218	Community Development Block Grant
14.239	HOME Investment Partnership Program

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

Auditee qualified as low-risk auditee? yes X no

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

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CURRENT YEAR

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

PRIOR YEAR

MAJOR FEDERAL AWARD PROGRAMS

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL PROGRAMS

2017-001 - Performance Reporting (NC/SD)

CFDA Title and Number: 14.218 - Community Development Block Grants

Name of Federal Agency: Department of Housing and Urban Development

Compliance/Internal Control over Compliance: Reporting

Criteria: 2 CFR Part 200, Appendix XI, Compliance Supplement 4-14.218 requires recipients that administer covered housing and community development assistance in excess of \$200,000 in a program year must submit HUD 60002, Section 3 Summary Report and SF-425 Federal Financial Report.

Condition: The City was unable to provide the auditors the HUD-60002 Form Annual Section 3 Hiring and Contracting Summary Report and SF-425 Federal Financial Report. Additionally, the City was unable to provide the auditors the following reports: HUD-4710 Form Semi-annual Labor Standards Enforcement Report, HUD-2516 Form Annual Minority Business Enterprise contract and Subcontract Activity, Quarterly performance updating in IDIS for CDBG activities, Annual Performance Report, and FY2016-17 Annual Action Plan.

Cause: Change in personnel responsibilities and staff turnover in the Housing Department coupled with a lack of formal procedures resulted in a failure of controls and compliance with the program requirement.

Effect or Potential Effect: The City is not in compliance with Federal requirements for the preparation and submission of the required reports. Ineffective controls to monitor program requirements could result in inaccurate information, increases the risk of noncompliance and exposes the City to the risk of loss of funding.

Questioned Cost: None

Context: During our testing, we noted that the City was required to prepare and submit the reports noted above. However, whether or not the reports were prepared or submitted, they could not be provided to the auditor.

Repeat of a Prior-Year Finding: 2016-001

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

Recommendation: The City should implement a process that will ensure that all required reports are submitted on a timely basis. Establish controls that require the review of reports by someone independent of the preparer. Ensure that all reports filed with oversight agencies are supported by proper records.

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

Corrective Action Plan: The CDBG Coordinator will review the report and maintain required documentation. The City plans to adopt implementing policies for Uniform Guidance Administrative Requirements and grant administration.

Planned Implementation Date: June 30, 2018

Responsible Person: Assistant CFO Deanne Purcell

2017-002 - Reimbursement Requests (NC/SD)

CFDA Title and Number: 14.218 - Community Development Block Grants

Name of Federal Agency: Department of Housing and Urban Development

Compliance/Internal Control over Compliance: Cash Management

Criteria: 2 CFR Part 200 Appendix XI Compliance Supplement, Section 3.2.C. Cash Management requires that program costs must be paid for by the City before reimbursement is requested from the Federal government.

Condition: The City is requesting expenditure reimbursements in IDIS prior to remitting payments to subrecipients.

Cause: Drawdown procedures were not strictly enforced.

Effect or Potential Effect: Excess funds could be drawn down and not expended.

Questioned Cost: No

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

Context: During our testing, we found that 7 out of 30 drawdowns selected for testing were made prior to payments to the subrecipients totaling \$767,017.

Repeat of a Prior-Year Finding: No

Recommendation: The City should establish internal control to ensure that the persons responsible comply with the cash management compliance requirements of CDBG. The City should train employees and subrecipients about the requirements of the block grant program.

City's Response and Corrective Action Plan: The City concurs with the recommendation. Drawdown procedures that establish verification of expenditure payment as support for drawdown were implemented after FY 2016-17 audit. Periodic and year-end reconciliation procedures of allowable expenditures and vouchers' drawdown are now in effect.

Planned Implementation Date: June 30, 2018

Responsible Person: Grants Manager Roel Briones

2017-003 - Compensation for Personal Services (NC/SD)

CFDA Title and Number: 14.218 - Community Development Block Grants

Name of Federal Agency: Department of Housing and Urban Development

Compliance/Internal Control over Compliance: Allowable Costs

Criteria: Charges to Federal awards for salaries and wages must be based on records that accurately reflect the work performed. Records must support the distribution of the employee's salary or wages among specific activities or cost objectives if the employee works on more than one Federal award 2 CFR 200.430(i) Standards for Documentation of Personnel Expenses, paragraph(1)(vii).

Condition: The City's payroll records did not accurately reflect the actual hours worked by employees whose salaries and wages are charged to CDBG. The City estimated payroll expenditures charged to the grant throughout the year. At year-end, the City adjusted the expenditures to reflect the actual hours for all employees paid with Federal awards.

Cause: The City processes payroll before the actual payroll period ends. As such, employees turn in their timesheets with estimated hours.

Effect or Potential Effect: Manual adjustments could potentially result in understatement or overstatement of expenditures reported in the Schedule of Expenditures of Federal Awards.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

Questioned Cost: None

Context: In the current year, we tested four pay periods and found that this practice is continuing, despite the prior-year finding.

Repeat of a Prior-Year Finding: 2016-002

Recommendation: The City should establish policies and procedures to support a system of internal control which provides a reasonable assurance that the charges to Federal awards for salaries and benefits are accurate, allowable, and properly allocated.

City's Response: The City concurs with the recommendation. 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 salaries and benefits charged to grant programs to ensure they are accurate, allowable, and properly allocated. The Grants Division of Housing will direct grants management employees to record actual time on timesheets rather than create adjusting entries at year end. This procedure will take effect beginning in FY 2018-19.

Corrective Action Plan: The City plans to adopt policies implementing the Administrative Requirements of the Uniform Guidance.

Planned Implementation Date: June 30, 2018

Responsible Person: Assistant CFO Deanne Purcell

2017-004 - Approval of CIP Expenditures (SD)

CFDA Title and Number: 14.218 - Community Development Block Grants

Name of Federal Agency: Department of Housing and Urban Development

Internal Control over Compliance: Activities Allowed or Unallowed

Criteria: 2 CFR 200.62 Internal control over compliance requirements for Federal awards require that entities implement a process so that transactions are executed in compliance with the requirements of Federal awards. It is the City's policy that all expenditures related to CDBG grant awards should be approved by Grants Management on the Request for Payment Against Encumbered Funds form prior to processing of payment.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

Condition: The City does not strictly enforce the policy.

Cause: Approval procedures were not strictly enforced.

Effect or Potential Effect: Activities or costs that are not allowed or allowable could potentially be paid.

Questioned Cost: None

Context: We found seven payments for CIP expenditures out of 30 nonpayroll expenditures that did not have the approval from Grants Management on the Request for Payment Against Encumbered Funds form.

Repeat of a Prior-Year Finding: 2016-004

Recommendation: The City should strengthen its policies and procedures to ensure that Grants Management properly approves all expenditures that are to be paid with Federal awards.

City's Response: The City concurs with the recommendation. 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 proper approval of all expenditures that are to be paid with grant awards.

Corrective Action Plan: Finance is working with other departments to identify the project manager for each grant and train that person on proper review of expenditures. Workload and conflicting priorities have prevented staff from developing grant policies. The CFO has engaged consultants that will draft policies to implement controls establishing processes for providing reasonable assurance that reporting and compliance objectives are attained. Policies applying to nonstandard items and restricted funds will provide a process to convene persons with the knowledge, skills and experience to establish standards for accounting and reporting for each grant. The City will adopt policies intended to implement the administrative requirements of the Uniform Guidance.

Planned Implementation Date: June 30, 2018 for policies, ongoing for grant specific policies with all current grants completed by September 30, 2018.

Responsible Person: Assistant CFO Deanne Purcell

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

2017-005 - Indirect Cost (SD)

CFDA Title and Number: 14.218 - Community Block Grants

Name of Federal Agency: Department of Housing and Urban Development

Internal Control over Compliance: Allowable Cost

Criteria: 2 CFR Part 200.414 requires that governmental entities support indirect costs with a cost allocation plan or an indirect cost proposal prepared in accordance with the Uniform Guidance. 2 CFR Part 200 Appendices III-VII contain the requirements for the development and submission of indirect cost rate proposals and cost allocation plans. A non-Federal entity that has never received a negotiated indirect cost rate, may elect to charge a de minimis rate of 10% of modified total direct costs.

Condition: The City does not have a cost allocation plan or an indirect cost proposal prepared in accordance with the Uniform Guidance. The City has not elected to use the 10% de minimis rate either. The City charged \$76,912 of indirect costs to Fund 285 based on a City cost allocation plan.

Cause: The Finance Department was not aware of the requirements of the Uniform Guidance with regards to indirect cost. The Finance Department allocated cost to the CDBG and posted the entry without consulting with the grants administrator.

Effect or Potential Effect: Any indirect costs charged to the CDBG program are not eligible for reimbursement.

Questioned Cost: None

Context: The Housing Department discovered the error and did not claim reimbursement for the amount. The amount was not included in the Schedule of Expenditures of Federal Awards.

Repeat of a Prior-Year Finding: 2015-060

Recommendation: The City should establish a cost allocation plan or an indirect cost proposal. Without a cost allocation plan or indirect cost proposal prepared in accordance with the Uniform Guidance, no indirect cost should be charged to Federal grants.

City's Response: The City agrees with auditor's recommendation, but also, other limitations must be considered for each Federal grant. Generally, indirect costs may be subject to grant limits within allowable administrative costs and not be allowable as delivery costs.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

Uniform Guidance requires that reconciliation of SEFA and General Ledger must be accomplished by concurring with department administering entitlement grants and Finance Dept.

Corrective Action Plan: The CFO has engaged consultants to assist in a cost allocation plan.

Planned Implementation Date: July 1, 2019

Responsible Person: CFO Jim Throop

2017-006 - Source Documentation (SD)

CFDA Title and Number: 14.218 - Community Development Block Grants

Name of Federal Agency: Department of Housing and Urban Development

Internal Control over Compliance: Cash Management

Criteria: 24 CFR Part 570.506 (h) Each recipient shall establish and maintain sufficient financial records. Grantees shall maintain evidence to support how the CDBG funds provided are expended. Such documentation must include, to the extent applicable, invoices, schedules containing comparisons of budgeted amounts and actual expenditures, and/or other documentation appropriate to the nature of the activity. Grantee records pertaining to obligations, expenditures, and drawdowns must be able to relate financial transactions to either a specific origin year grant or to program income received during a specific program year.

Condition: The City is not drawing down according to expenditure supporting backup but rather an internal reconciliation tool. Therefore, there were discrepancies between expenditures and their corresponding drawdowns.

Cause: Reconciling procedures were not strictly enforced.

Effect or Potential Effect: Activities or costs that are allowed or allowable could potentially be overpaid or underpaid.

Questioned Cost: No

Context: During our testing of non-payroll expenditures, we found 18 out of 30 items selected for testing that did not reconcile to their corresponding drawdown.

Repeat of a Prior-Year Finding: No

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

Recommendation: The City should establish policies and procedures to ensure that Grants Management properly approves all drawdowns that are to be paid with Federal awards.

City's Response: The City agrees with auditor's recommendation. Drawdown procedures that reconcile each drawdown with supporting expenditures will be implemented going forward.

Corrective Action Plan: Staff turnover, workload and conflicting priorities have delayed development and implementation of comprehensive grant policies. The City will develop and implement control policies to implement the administrative requirements of 2 CFR 200 (Uniform Guidance), including procedures for assuring that personnel costs are charged properly. The CFO has engaged consultants to assist staff in this effort.

Planned Implementation Date: June 30, 2018

Responsible Person: Accountant Chandra Crudup

2017-007 - Schedule of Expenditures of Federal Awards (MW)

CFDA Title and Number: 16.922 - Equitable Sharing Program (Asset Seizure); various grants under the Department of Justice, Department of Homeland Security and Department of Transportation

Name of Federal Agency: Department of Justice, Department of Homeland Security and Department of Transportation

Internal Control over Compliance: Auditee Responsibilities

Criteria: CFR Part 200.508 Auditee Responsibilities state that the auditee must prepare the Schedule of Expenditures of Federal Awards, which must list individual Federal awards by Federal Agency, including the total Federal awards expended, name of pass-through entity, CFDA number, and total amount provided to subrecipients. The information contained in the Schedule of Expenditures of Federal Awards should be derived from and relate directly to the underlying accounting and other records used to prepare the financial statements.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

Condition: The SEFA presented for audit did not include grants from Fund 230 for the Equitable Sharing Program (Asset Seizure) which resulted in an understatement of the SEFA by approximately \$181,000. Various State grants totaling \$576,572 were improperly included as Federal awards from the U.S. Department of Justice. A grant from the Department of Homeland Security amounting to \$14,000 and another grant from Department of Transportation amounting to \$251,000 were improperly included under Department of Justice. We also noted that three programs on the schedule had the incorrect CFDA number, three programs did not include a program title and the total amounts provided to subrecipients from each Federal program was not included. The expenditures reported on the Schedule of Expenditures of Federal Awards for CDBG and for grants awarded by the Department of Homeland Security did not agree with the amounts reported on the City's trial balance for Fund 285 and Fund 238, respectively.

Cause: City does not have effective internal control over the preparation of the Schedule of Expenditures of Federal Awards. The City did not reconcile the expenditures reported on the Schedule of Expenditures of Federal Awards with the amounts reported on the City's general ledger.

Effect or Potential Effect: Potential understatement or overstatement of expenditures could exist in the Schedule of Expenditures of Federal Awards and not be detected and corrected.

Questioned Cost: None

Context: The SEFA presented for audit was overstated by approximately \$396,000. The variance between the SEFA and the expenditures reported in Fund 285 and Fund 238 was approximately \$65,000. We noted a similar finding was issued in prior year and still not addressed.

Repeat of a Prior-Year Finding: 2016-003

Recommendation: We recommend that the City establish policies and procedures to ensure that all Federal awards are identified and reported accurately on the SEFA. Internal controls should be designed to prevent, detect, or correct errors in a timely manner. The City should establish policies and procedures to reconcile amounts reported on the Schedule of Expenditures of Federal Awards with expenditures in the City's general ledger. The City should provide appropriate training to staff who are assigned to prepare and review the SEFA.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

City's Response: The City concurs with the recommendation. 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 reconciliation of amounts reported on the SEFA with the City's trial balance.

Corrective Action Plan: Reconciliation procedures were implemented in practice. The grants coordinator in Finance is maintaining a listing of all grants in a format that contains all necessary information for completing the SEFA, and is responsible for reconciling the amounts to the GL.

Grant administration policies consistent with the Uniform Guidance will be adopted.

Planned Implementation Date for Grant Administration Policies: June 30, 2018

Responsible Person: Accountant Chandra Crudup

2017-008 - Corrective Action Plan (NC)

CFDA Title and Number: 14.218 - Community Development Block Grants

Name of Federal Agency: Department of Housing and Urban Development

Internal Control over Compliance: Auditee Responsibilities

Criteria: 2 CFR 200.508 states that the auditee must follow-up and take corrective action on audit findings, including preparation of a corrective action plan. 2 CFR 200.511 requires that the auditee must prepare in a separate document a corrective action plan to address each audit finding included in the current year's auditor's reports.

Condition: The City did not prepare a separate corrective action plan to address the 2016 audit findings.

Cause: City staff was not aware that a separate document had to be prepared. The City provided a response to each audit finding within the Single Audit report; however, the response was less in scope than a corrective action plan.

Effect or Potential Effect: Noncompliance with Uniform Guidance requirement.

Questioned Cost: None

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

Context: The Single Audit for the year ended June 30, 2016 was the first year when the requirements of 2 CFR Part 200 Subpart F - Audit Requirements became effective for the City.

Repeat of a Prior-Year Finding: No

Recommendation: The City must prepare a corrective action plan to address each audit finding included in the current year as well as prior-years' audit reports. The corrective action plan must provide the names of contact persons responsible for corrective action, the corrective action planned, and the anticipated completion date.

City's Response and Corrective Action Plan: The City concurs with the recommendation. Finance staff is currently working with consultants that are assisting with the preparation of a corrective action plan to address each audit finding included in the current year as well as prior-years' audit reports. This corrective action plan will provide the names of the contact person responsible for corrective action, the corrective action planned, and the anticipated completion date.

Planned Implementation Date: March 31, 2018

Responsible Person: Assistant CFO Deanne Purcell

FINDINGS AND QUESTIONED COSTS - FINANCIAL STATEMENTS

2017-009 - Accounting for Grants (MW)

Criteria: For grants based on a formula, a receivable and revenue/unavailable revenue should be recognized as soon as all eligibility requirements have been met. For expenditure-driven grants (reimbursement-type grants), a receivable and revenue/unavailable revenue should be recognized when both qualifying expenditures and compliance with contingent requirements such as matching funds, are met. Unavailable revenue is revenue of the current period that is not yet considered available to liquidate liabilities of the current period.

Condition: During our audit, we found errors in seven special revenue funds (grant funds) where receivables and revenue/unavailable revenue were misstated. We proposed an adjustment to these funds, the net effect of which was to decrease revenue by approximately \$950,000.

Cause: The Finance Department does not have appropriate procedures in place to ensure that receivables and revenue/unavailable revenue are properly recorded in the general ledger. Grant receivables and revenue/unavailable revenue were not tracked and reconciled to the general ledger periodically.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

Effect or Potential Effect: Misstatement of grant receivables and revenue/unavailable revenue.

Repeat of a Prior-Year Finding: 2015-055, 2015-056 and 2015-057

Recommendation: The Finance Department should establish procedures to ensure that receivables and revenue/unavailable revenue are properly recorded in the general ledger on a timely basis and adherence to those procedures must be periodically reviewed by the appropriate level of management. Grant receivables and revenue/unavailable revenue should be tracked and reconciled to the general ledger monthly.

City's Response: The City concurs with the recommendation. Turnover, workload and training issues have delayed progress on development of policies and implementation of procedures for grants. A project to implement an internal control framework responsive to the City's single audit findings is underway. In addition, the grant accountant will be tracking and reviewing grant receivables on a regular basis and reconciling to the general ledger.

Corrective Action Plan: The City's consultants will develop Uniform Guidance implementing policies after completing implementing policies for the Internal Control Integrated Framework and providing assistance to Finance Staff in preparing the Fiscal 2017 Single Audit Corrective Action Plan.

Planned Implementation Date: June 30, 2018

Responsible Person: Assistant CFO Deanne Purcell

2017-010 - Accounting for Notes Receivable (MW)

Criteria: Receivables should be recognized when a legally enforceable claim is established. The collectability of the receivables should be evaluated regularly and the allowance for doubtful accounts should be adjusted based on this evaluation. In the governmental funds, revenue that is not available in the current period should be deferred. The related accounts should be analyzed periodically and adjusted for accrued interest, receipt of payments, additional disbursements, and when the revenue becomes available.

Condition: During our audit, we noted that a prior-period adjustment was made to record loans disbursed in prior fiscal years, amounting to approximately \$4.8 million (\$3.0 million loans from the City, and \$1.7 million loans from the Successor Agency). The allowance for doubtful accounts was not evaluated and adjusted prior to the audit. Amounts were misclassified between deferred revenue and allowance for doubtful accounts in Fund 371.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

Cause: The Finance Department does not have appropriate procedures in place to ensure that long-term receivables are properly recorded in the general ledger on a timely basis. There is no policy or procedure in place to evaluate collectability and adjust allowance for doubtful accounts appropriately. Other than during the audit, deferred revenue was not analyzed.

Effect or Potential Effect: Misstatement of receivables, allowance for doubtful accounts, and deferred revenue.

Repeat of a Prior-Year Finding: 2015-063, 2015-064 and 2015-067

Recommendation: Policies and procedures should be established to obtain all long-term agreements entered into by various departments and approved by the City Council. These agreements must be reviewed for proper accounting treatment by the appropriate level of management. Periodically, the related accounts should be analyzed and reconciled to the general ledger.

City's Response: The City concurs with the recommendation. Finance staff will train other departments to identify long-term agreements that have a financial impact and establish procedures for obtaining those agreements for review by Finance Department staff. Finance staff will also be trained on the review of minutes from City Council meetings for such agreements. Finance staff will analyze and review these accounts periodically and make any necessary adjustments.

Corrective Action Plan: Current processes and procedures will be reviewed and updated. Implementing policies for Uniform Guidance will include policies regarding monitoring grant transactions and balances.

Planned Implementation Date: June 30, 2018

Responsible Person: Assistant CFO Deanne Purcell

2017-011 - Properties Held for Sale (MW)

Criteria: The City acts as the successor agency of the former RDA (CDC). The net position and activities of CDC are reported as a private purpose trust fund of the City. Therefore, the Finance Department is responsible for accounting for and reporting the fiduciary net position and activities of the CDC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

Condition: The Finance Department lacks internal control procedures over properties held by the CDC. The Finance Department did not have a complete list of properties held for sale by the CDC. It did not record the transfer of properties from the CDC to the City and it did not record the sale of one of the properties during the year.

Cause: The Finance Department does not have proper procedures in place to record transactions by the CDC completely and timely.

Effect or Potential Effect: Misstatement of fiduciary funds and City funds.

Repeat of a Prior-Year Finding: No.

Recommendation: The Finance Department should strengthen internal controls over the CDC transactions. This could be accomplished by assigning a liaison from the Finance Department to the CDC and improving communications between the two departments.

City's Response: The City concurs with the recommendation. The capital assets inventory and valuation was completed in FY 2016-17 and properties were valued and reconciled to the general ledger. The properties held for sale were inventoried and valued during the field work for the FY 2016-17 audit. The staff is now aware of what is to be accounted for under properties held for sale and is working closely with CDC to properly record any transactions, including additions and deletions due to sale of property that occur during the year. In addition, the CFO has engaged consultants to help with proper internal controls.

Corrective Action Plan: The City is developing policies for the Internal Control Integrated Framework and procedures for properties held by CDC and will work with the CDC on training and improving communication.

Planned Implementation Date: June 30, 2018

Responsible Person: Assistant CFO Deanne Purcell

2017-012 - Journal Entries (MW)

Criteria: Journal entries should be reviewed and approved by the Controller. All journal entries should be accompanied by full explanation and by reference to adequate supporting data.

Condition: We found a journal entry where the amounts did not agree with the supporting documentation, resulting in a misstatement of approximately \$600,000. Another journal entry improperly reversed the allowance for doubtful accounts related to a note receivable.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

Cause: Because of the numerous journal entries posted during the year and especially at the close of the fiscal year, errors are not detected by the reviewer and; therefore, they are not corrected.

Effect or Potential Effect: Financial statements could be misstated due to incorrect journal entries.

Repeat of a Prior-Year Finding: 2015-013 and 2015-043

Recommendation: Strengthen procedures by utilizing journal entry templates for recurring entries. Recurring entries could be reviewed by an accounting manager and initialed by the Controller. Unusual entries should be reviewed by the controller and initialed by assistant CFO or the CFO.

City's Response: The City concurs with the recommendation. The HTE system is not easily configured for journal entries and requires a lot of manual processes. Journal entries require entry using an excel spreadsheet (template), review, approval and an additional entry or upload into the finance system. Normally, the Accounting Manager will review and the Controller will approve the journal entry, including supporting documentation. Journal entries and the supporting documentation have been improved, but need further work.

Corrective Action Plan: This area will be greatly improved with a new finance system, but in the meantime, we will review and update processes and procedures, including who should approve and review the journal entries.

Planned Implementation Date: June 30, 2018

Responsible Person: Controller Christine Williams

2017-013 - Clearing Funds (SD)

Criteria: Clearing funds are used by the Finance Department to accumulate costs that are allocated to various funds or reimbursed by City Corps and Housing Authority. They are temporary in nature and should be "zeroed out" periodically. In addition, balances remaining in the account due to timing differences should be reconciled to subsequent disbursements.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

Condition: Clearing fund #542 is used to record payroll and other payroll related expenditures, including pension, vacation sick-pay and other health related benefits at each pay-period. As expenditures are allocated to various City funds, the clearing fund should have a zero balance. At June 30, 2017, there are various balances remaining in 20 accounts that total approximately \$564,000 that have not been reviewed and reconciled for proper clearing.

Cause: The balances have accumulated over the years because, in the past, the Finance Department did not regularly review the postings in the clearing funds and no adjustments have been made to allocate or refund the remaining amounts to the various funds. Because the balances have carried forward from 4 years ago or more, it has become increasingly difficult to correct the errors.

Effect or Potential Effect: Misclassification of expenditures among funds. When balances remain in these funds, it means the General Fund has either overcharged/undercharged the other funds and/or has been over/under-reimbursed by City Corps or Housing Authority.

Repeat of a Prior-Year Finding: 2015-103

Recommendation: Spend more time to analyze the clearing fund balances and close-out clearing funds periodically, quarterly or at least annually.

City's Response and Corrective Action Plan: The City concurs with the recommendation. The CFO has engaged consultants 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. Those standards 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. Valuation and reporting presentation of related balance sheet accounts will also be covered. In the meantime, staff will be assigned to spend time analyzing the clearing fund balance and make any necessary adjustments and continue this process going forward, quarterly or at least on an annual basis.

Planned Implementation Date:

ICIF implementing policies, including control activity standards: June 30, 2018

Control activity design and documentation: June 30, 2019

Responsible Person: Controller Christine Williams

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

2017-014 - Accrued Receivables (SD)

Criteria: Accrued receivables are related to taxes, interest, and other sources of revenue that have not been billed. Accrued receivables and revenue/unavailable revenue should be recognized when an enforceable claim occurred.

Condition: During our audit, we noted several items totaling over \$1 million in receivables not recorded at the end of the fiscal year.

Cause: The procedures in place for accrued receivables is not sufficient to ensure that receivables and revenue/unavailable revenue are recorded in the appropriate accounting period.

Effect or Potential Effect: Misstatement of receivables, allowance for doubtful accounts, and revenue.

Repeat of a Prior-Year Finding: No.

Recommendation: The Finance Department should strengthen internal controls over the revenue cycle. This should include periodically evaluating the reasonableness of financial data (looking at the big picture or analytical review). The current financial data may be compared with prior periods or other available data in the current period, and the current financial data may be compared with expectations, such as budgets.

City's Response and Corrective Action Plan: The City concurs with the recommendation. The CFO has engaged consultants to implement policies and procedures that will include instruction for proper accounting, analysis and reconciliation of general ledger accounts, including accrued receivables. In addition, the Finance Department is currently working with finalizing templates that were created to ensure proper revenue variance analysis is completed prior to accounts receivable and revenue accruals. Procedures are being implemented to insure that no duplication of accruals occur.

Planned Implementation Date: June 30, 2018

Responsible Person: Assistant CFO Deanne Purcell

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

2017-015 - Accrued Expenses (SD)

Criteria: At the end of every accounting period, there will be some vendor invoices that have not yet been approved for payment. As a result, these amounts will not have been entered into the accounts payable account (AP). These documents should be reviewed in order to determine whether a liability and an expense have actually been incurred by the City as part of the Finance Department's monthly cut-off procedures. When liabilities are identified, the amounts should be recorded as accrued expenses.

Condition: The Finance Department did not accrue expenditures totaling \$672,000.

Cause: The Finance Department's cut-off procedures to ensure expenditures are recorded in the appropriate accounting period was not adequate to detect significant errors.

Effect or Potential Effect: Understatement of accrued expenses and expenses.

Repeat of a Prior-Year Finding: No.

Recommendation: The Finance Department should strengthen internal controls over the expenditure cycle. Subsequent disbursements should be reviewed and evaluated thoroughly for accrual. There must be procedure in place to approve and record the accruals. In addition, the reasonableness of financial data (looking at the big picture or analytical review) should be periodically evaluated. The current financial data may be compared with prior periods or other available data in the current period, and the current financial data may be compared with expectations, such as budgets.

City's Response and Corrective Action Plan: The City concurs with the recommendation. The CFO has engaged consultants to implement policies and procedures that will include instruction for proper accounting, analysis and reconciliation of general ledger accounts, including accrued expenses. In addition, the Finance Department is currently working on 1) stricter deadlines for when the prior-year invoices need to be sent to Accounts Payable from the various City departments for request of payment, and 2) updating procedures for review of invoices in order to determine the proper accounting period/fiscal year that the invoice should be recorded.

Planned Implementation Date: June 30, 2018

Responsible Person: Assistant CFO Deanne Purcell

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

2017-016 - Information Technology General Controls (SD)

Criteria: The City should establish and implement comprehensive data security controls to protect sensitive data, mitigate risks to confidentiality, and ensure the integrity and availability of data in the City's information systems.

Condition: We found the following deficiencies in data security controls:

1. There is no formal information security training provided to personnel.
2. There is no periodic review of user access to ensure that employee and contractor system access permissions remain appropriate based on job function.
3. There is no full disk encryption on laptops to ensure that data is appropriately protected in the event of a loss or theft of a laptop.
4. There are no enforced restrictions on the use of remote devices such as USB drives to remove data from the systems.
5. Access to certain secured areas is granted by use of a shared access code which is not changed on a regular basis. This presents the risk that the code is inappropriately shared and that access is not appropriately tracked.
6. There is no documented business continuity or disaster recovery plan. There is also no testing of disaster recovery and business continuity capabilities to help ensure the City is well prepared in the event of a significant business disruption.
7. There is no formal third-party vendor risk management program to ensure that key vendors are identified, their access is monitored and their controls are periodically evaluated. This would include reviewing SOC2 reports for critical vendors.
8. There is no activity logging of the system administrators with access to all system functionality.
9. Programmers have the ability to develop, test and implement their own changes. This presents the risk that unauthorized changes are implemented into the production environment.
10. No third-party security and vulnerability audits are conducted to monitor for attempted hacking of the system and to appropriately notify personnel in the event of a successful system hack.
11. Management has an informal process in place for removing system access for terminated employees. Documentation of the revocation of system access may not be available for audit purposes.

Cause: The City has not fully implemented the recommended actions as discussed in the Information Technology 4-year Master Plan Final Report issued in October 2015. The recommended actions to take place between 3 to 18 months period include completing disaster recovery and business continuity plans, enhanced backup and recovery processes, periodic testing, and implementation of a change management plan.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

Effect or Potential Effect: Identity theft, improper use of City assets, loss of information, incomplete official records.

Repeat of a Prior-Year Finding: No.

Recommendations:

1. Management should perform an information security awareness training during new employee onboarding and refresh annually.
2. Management should perform and document a review of system access permissions on at least an annual basis.
3. Management should consider encrypting all laptops used by employees.
4. Management should consider disabling USB ports or limiting the use of remote devices.
5. Management should consider implementing an access badge system for secured areas.
6. Management should document a formal business continuity and disaster recovery plan and perform testing of business continuity and IT disaster recovery capabilities.
7. Management should consider implementing a third-party vendor risk management program to evaluate and monitor key vendors.
8. Management should consider reviewing system administrator access privileges and logging their activity to help prevent unauthorized activity on the system.
9. Management should consider performing an independent review of changes on a periodic basis.
10. A third-party company providing managed security services should be considered for security audits to complete recurring vulnerability and penetration testing.
11. Management should formalize the process for revoking system access for terminated employees and retain evidence for audit.

City's Response and Corrective Action Plan:

1. There is no formal information security training provided to personnel.

The City concurs with certain recommendations and will implement the following controls:

New employees are currently required to review and sign the City's "Personnel Rules and Regulations Manual" with an emphasis on Section 18.4 (Use of Technology and Devices - Pages 110 & 111). In addition, before any employee is granted access to any City information technology system, they are required to complete and sign the City's Information Technology Access Request Form which acknowledges that the employee has received, read and understood the City's Administrative Manual sections B10, B11 and B12 regarding the City's Information Technology Policies.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

Corrective Action Plan: The current version of the City's "Personnel Rules and Regulations Manual" was adopted on July 18, 2017. IT will develop a Security Awareness training program that will be implemented by September 30, 2018 and refreshed annually.

Planned Implementation Date: September 30, 2018 and refreshed annually.

Responsible Person: IT Director, Keith Brooks

2. There is no periodic review of user access to ensure that employee and contractor system access permissions remain appropriate based on job function.

Corrective Action Plan: The City concurs with this recommendation and will implement the following controls: IT will prepare and distribute reports detailing users and system access to department managers for review and approval on an annual basis. IT will implement access request changes as authorized by those Department Managers. This will be met with IT Internal Self Audit # 1. The creation of professional industry recognized IT Internal Controls will require the City Council and City Manager continuing to place a high priority on the Corrective Action Plan by providing funding for needed consultant assistance. In addition, the City must fund and implement a modern Enterprise Resource Planning (ERP) system that incorporates full system level audit controls.

Planned Implementation Date: Self Audit's to begin on May 1, 2018 and will be conducted annually thereafter.

Responsible Person: IT Director, Keith Brooks

3. There is no full disk encryption on laptops to ensure that data is appropriately protected in the event of a loss or theft of a laptop.

The City concurs with the finding. However, newer cloud-based technology adopted by the City alleviates the requirement of both laptop and device-based encryption. For legacy systems currently in use, the Department will need additional funding to implement this additional internal control for specific laptops.

The cloud based technology in use is Google Enterprise applications. No email is stored on laptops, although some data may be in laptops by authorized individuals. All Laptops require password authentication for use.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

Corrective Action Plan: The creation of professional industry recognized IT Internal Controls will require the City Council and City Manager continuing to place a high priority on the Corrective Action Plan by providing funding for needed consultant assistance. In addition, the City must fund and implement a modern Enterprise Resource Planning system that incorporates full system level audit controls.

Planned Implementation Date: Finance estimates December 31, 2019 for ERP implementation

Responsible Person: IT Director, Keith Brooks

E+P's Comment: The City's corrective action plan is not responsive to the finding.

4. There are no enforced restrictions on the use of remote devices such as USB drives to remove data from the systems.

The City concurs with the finding. However, USB ports are not the only data egress outlets in today's technological options; so this finding does not alleviate relevant security concerns.

Corrective Action Plan: The City must fund and implement a modern Enterprise Resource Planning system that incorporates full system level audit controls.

Planned Implementation Date: Finance estimates December 31, 2019 for ERP implementation

Responsible Person: IT Director, Keith Brooks

5. Access to certain secured areas is granted by use of a shared access code which is not changed on a regular basis. This presents the risk that the code is inappropriately shared and that access is not appropriately tracked.

The City concurs with the recommendation. Expanded deployment of our existing badge access control system is needed to secure all critical City facilities. IT would require additional resources to implement this solution.

Access to secured area is controlled with keypad combination locks. The code is available only to specific authorized users who have passed our security clearance background check. Entrance into the secured area is logged. The Internal Control documenting quarterly access code changes will be implemented along with quarterly reviews of Access Logs and authorized user access. This will be met with IT Internal Self Audits # 2, 3, and 7.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

Corrective Action Plan: We do not have the ability to assign specific door codes by person. To achieve the recommendations, funding would be required to implement an access control system. It will be requested with this fiscal year's IT Budget.

Planned Implementation Date: Self Audit's to begin on May 1, 2018 and will be conducted quarterly thereafter. Completion dates for implementing an access control system pending based on available funding.

Responsible Person: IT Director, Keith Brooks

6. There is no documented business continuity or disaster recovery plan. There is also no testing of disaster recovery and business continuity capabilities to help ensure the City is well prepared in the event of a significant business disruption.

The City Concurs with the recommendation. Traditionally, a City's Business Continuity Plan is a part of the Risk Management Division which resides within the Human Resources Department. The IT Department will work under the lead of the Human Resources' Risk Management Division to complete the IT portions of a robust plan to mitigate risks to the City.

Corrective Action Plan: The City's Disaster Recovery plan for financial systems is in place and has been tested. IT will formalize the process for annual testing of our financial systems. All tests and results will be documented in our internal control documentation. This will be met with IT Internal Self Audits # 6.

Planned Implementation Date: Self Audit's to begin on May 1, 2018 and will be conducted annually thereafter for financial systems. The creation of professional industry recognized IT Internal Controls will require the City Council and City Manager continuing to place a high priority on the Corrective Action Plan by providing funding for needed consultant assistance.

Responsible Person: IT Director, Keith Brooks

7. There is no formal third party vendor risk management program to ensure that key vendors are identified, their access is monitored and their controls are periodically evaluated. This would include reviewing SOC2 reports for critical vendors.

The City concurs with this recommendation.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

Corrective Action Plan: The creation of professional industry recognized IT Internal Controls will require the City Council and City Manager continuing to place a high priority on the Corrective Action Plan by providing funding for needed consultant assistance. In addition, the City must fund and implement a modern Enterprise Resource Planning system that incorporates full system level audit controls.

Planned Implementation Date: Dependent on funding.

Responsible Person: IT Director, Keith Brooks

8. There is no activity logging of the system administrators with access to all system functionality.

Corrective Action Plan: The City concurs with certain recommendations and will implement the following controls: Access privileges are reviewed and all access is logged. Internal control will be established to document review of these logs. As part of our internal controls IT will implement Change Management process and documentation for all production changes with evidence maintained as part of self-audit processes. This will be met with IT Internal Self Audits # 1 and 4.

Planned Implementation Date: Self Audit's to begin on May 1, 2018 and will be conducted quarterly thereafter. The creation of professional industry recognized IT Internal Controls will require the City Council and City Manager continuing to place a high priority on the Corrective Action Plan by providing funding for needed consultant assistance. In addition, the City must fund and implement a modern Enterprise Resource Planning system that incorporates full system level audit controls.

Responsible Person: IT Director, Keith Brooks

9. Programmers have the ability to develop, test and implement their own changes. This presents the risk that unauthorized changes are implemented into the production environment.

Corrective Action Plan: The City concurs with the finding. A formal Quality Assurance process was established last year as a function of the Help Desk Division. Most major changes are now evaluated and approved by this team prior to release. The creation of professional industry recognized IT Internal Controls will require the City Council and City Manager continuing to place a high priority on the Corrective Action Plan by providing funding for needed consultant assistance. In addition, the City must fund and implement a modern Enterprise Resource Planning system that incorporates full system level audit controls and includes separate test and production environments to allow testing of changes prior to release.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

Implemented: IT Internal QA process began November 16, 2017. Finance estimates December 31, 2019 for ERP implementation.

Responsible Person: IT Director, Keith Brooks

10. A third-party company providing managed security services should be considered for security audits to complete recurring vulnerability and penetration testing.

Corrective Action Plan: To achieve the recommendations. Funding would be required to retain a third party company to provide managed security services and perform vulnerability and penetration testing. IT will be requesting this funding as part of the 2018-2019 budget.

Planned Completion Date: December 31, 2018. Dependent on funding.

Responsible Person: IT Director, Keith Brooks

11. Management has an informal process in place for removing system access for terminated employees. Documentation of the revocation of system access may not be available for audit purposes.

The City disagrees with the finding. A formal process is in place for removing and archiving data for specific employees who leave or transition to a different organizational unit in accordance with the City's retention schedule.

Yearly shared Google Sheets document all Personnel Changes, Onboarding, Offboarding, Departmental Change, and Office Relocations. This is collaborated on by HR and IT in lieu of these functions being present in an ERP system. These are documented under the City's Administrative Manual sections B10, B11 and B12 regarding the City's Information Technology Policies.

Corrective Action Plan: The creation of professional industry recognized IT Internal Controls will require the City Council and City Manager continuing to place a high priority on the Corrective Action Plan by providing funding for needed consultant assistance. In addition, the City must fund and implement a modern Enterprise Resource Planning system that incorporates full system level audit controls.

Planned Implementation Date: Manual process currently implemented. Automated process will be available in the new ERP system Finance estimates will be implemented December 31, 2019.

Responsible Person: IT Director, Keith Brooks

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

E+P's Comment: Our finding stands as noted. We will verify implementation during our audit for FY 2018.

2017-017 - Accounting for Developer Deposits (BP)

Criteria: Developer deposits should be recorded as a liability when collected. Refunds of deposits should be deducted from the liability. When a developer forfeits a deposit, the deposit amount should be recognized as revenue.

Condition: The Finance Department records deposits as revenues and refunds of deposits as expenses. The Finance Department does not track which developer made deposits, who is owed a refund, and if the refund was already made. Forfeitures are also not tracked.

Cause: There is no policy or procedure in place for the recording of developer deposits.

Effect or Potential Effect: Misstatement of revenue and expenses. Duplicate refunds may not be detected.

Repeat of a Prior-Year Finding: No.

Recommendation: The Finance Department should develop and implement appropriate policies and procedures for the accounting and tracking of developer deposits.

City's Response and Corrective Action Plan: The City concurs with the recommendation. The Finance Department has assigned a staff member to review the area of deposits. Included in this review will be developer deposits. The Finance Department will work on processes and procedures for recording deposits and more specific to the finding, developer deposits will be recorded as a liability when collected, refunds deducted from the liability and forfeits of a deposit recognized as revenue. The Finance Department will also look for a way to track these deposits by developer.

Planned Implementation Date: June 30, 2018

Responsible Person: Controller Christine Williams

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

2017-018 - Employment Tax Recordkeeping (BP)

Criteria: All employers are required to keep all records of employment taxes, including Forms W-4, and Federal Withholding Allowance Certificate, for at least four years after filing the 4th quarter for the year. In addition, all employers must ensure proper completion of Form I-9, Employment Eligibility Verification, for each individual they hire.

Condition: Out of 50 employee files examined, we noted several W-4s and I-9s were missing. Upon further request, the HR department was able to produce all but one W-4.

Cause: There is no procedure in place to review employee files for completeness.

Effect or Potential Effect: Noncompliance with Federal regulation.

Repeat of a Prior-Year Finding: No.

Recommendation: The HR Department should ensure that the employee files are complete. If instances come up where forms cannot be located, client should get in contact with employee to get the forms completed.

City's Response and Corrective Action Plan: The City concurs with the recommendation. The Finance Department and HR Department will meet to review the current procedures and recordkeeping of employment taxes, including Forms W-4 and I-9. The City will follow the recommendation of the auditors that for segregation of duties, HR should maintain the employee file that includes Forms W-4 and I-9 and provide a copy to payroll.

Planned Implementation Date: June 30, 2018

Responsible Person: HR Director, Steve Naveau and Controller Christine Williams

2017-019 - Interest Allocation (BP)

Criteria: The City pools all of its internal cash and investments, with each fund reporting its equity in the pool as an asset. When funds overdraw their equity in the pool, the overdrawn fund reports its position in the pool as a liability (due to other funds), and the General Fund reports a receivable (due from other funds). Interest and other investment income is allocated based on the funds' equity in the pool.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

Condition: The Finance Department does not have a policy in place to allocate interest income to various funds during the year. Funds with a negative position (liability) were allocated negative interest income (interest expense).

Cause: The Finance Department does not have a policy in place to allocate interest income to various funds during the year.

Effect or Potential Effect: The allocation of interest income may be inconsistently applied.

Repeat of a Prior-Year Finding: No.

Recommendation: The Finance Department should establish and implement a policy to allocate interest income to various funds during the year.

City's Response and Corrective Action Plan: The City concurs with the recommendation. The Finance Department will be reviewing the interest allocation and will work on adhering to the recommendation of the auditors establishing and implementing a policy to allocate interest income to various funds during the year.

Planned Implementation Date: June 30, 2018

Responsible Person: Controller Christine Williams

CITY OF OXNARD
SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2017

FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL PROGRAMS

2016-001 - Performance Reporting (SD)

CFDA Title and Number: 14.218 - Community Development Block Grants
Name of Federal Agency: Department of Housing and Urban Development
Internal Control over Compliance: Section 3 Summary Reports

Criteria: 2 CFR Part 200, Appendix XI, Compliance Supplement requires recipients that administer covered housing and community development assistance in excess of \$200,000 in a program year must submit HUD 60002, Section 3 Summary Report.

Condition: The City hired an outside consultant to prepare the Section 3 Summary Report; however, this report was not reviewed prior to submission to Department of Housing of Urban Development. In addition, the City did not maintain documentation showing that the Section 3 Summary Report was submitted as required by the Compliance Supplement.

Cause: The City did not have proper procedures that required City staff to review the Section 3 Summary Report prepared by an outside consultant. There was no proper procedure to maintain documentation that the Section 3 Summary Report was submitted.

Effect or Potential Effect: Potential errors could exist and not be detected and corrected. Potential noncompliance with the reporting requirement.

Questioned Cost: None

Repeat of a Prior-Year Finding: No

Recommendation: The City should establish policies and procedures to review and approve Section 3 Summary Reports that are prepared by outside consultants and to maintain required documentation showing proof of performance reporting.

SCHEDULE OF PRIOR AUDIT FINDINGS (Continued)

City's Response 2016: The City concurs with the recommendation. 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.

City's Response 2017: The CDBG Coordinator will review the report and maintain required documentation. The City plans to adopt implementing policies for Uniform Guidance Administrative Requirements and grant administration.

Corrective Action Plan: The City plans to adopt implementing policies for Uniform Guidance Administrative Requirements and grant administration.

Planned Implementation Date: June 30, 2018

Responsible Person: Assistant CFO Deanne Purcell

E+P's Comment 2017: Not yet started. See also current year finding 2017-001.

2016-002 - Compensation for Personal Services (SD)

CFDA Title and Number: 14.218 - Community Development Block Grants

Name of Federal Agency: Department of Housing and Urban Development

Internal Control over Compliance: Documentation for Salaries and Wages

Criteria: Charges to Federal awards for salaries and wages must be based on records that accurately reflect the work performed. Records must support the distribution of the employee's salary or wages among specific activities or cost objectives if the employee works on more than one Federal award (24 CFR Section 200.430 (h)(4)(v)).

Condition: The City's payroll records did not accurately reflect the actual hours worked by employees whose salaries and wages are charged to CDBG. The City estimated payroll expenditures charged to the grant throughout the year. At year-end, the City adjusted the expenditures to reflect the actual hours for all employees paid with Federal awards.

Cause: The City processes payroll before the actual payroll period ends. As such, employees turn in their timesheets with estimated hours.

SCHEDULE OF PRIOR AUDIT FINDINGS (Continued)

Effect or Potential Effect: Manual adjustments could potentially result in understatement or overstatement of expenditures reported in the Schedule of Expenditures of Federal Awards.

Questioned Cost: None

Repeat of a Prior-Year Finding: No

Recommendation: The City should establish policies and procedures to support a system of internal control which provides a reasonable assurance that the charges to Federal awards for salaries and benefits are accurate, allowable, and properly allocated.

City's Response 2016: The City concurs with the recommendation. 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 salaries and benefits charged to grant programs to ensure they are accurate, allowable, and properly allocated.

City's Response 2017: The City plans to adopt policies implementing the Administrative Requirements of the Uniform Guidance.

Planned Implementation: June 30, 2018

Responsible Person: Assistant CFO Deanne Purcell

E+P's Comment 2017: Not yet started. See also current year finding 2017-003.

2016-003 - Reconciliation to Trial Balance (SD)

CFDA Title and Number: 14.218 - Community Development Block Grants

Name of Federal Agency: Department of Housing and Urban Development

Internal Control over Compliance: Reconciliation of Schedule of Expenditures of Federal Awards to Trial Balance

Criteria: The information contained in the Schedule of Expenditures of Federal Awards should be derived from and relate directly to the underlying accounting and other records used to prepare the financial statements.

SCHEDULE OF PRIOR AUDIT FINDINGS (Continued)

Condition: The expenditures reported on the Schedule of Expenditures of Federal Awards for CDBG did not agree with the amounts reported on the City's trial balance for Fund 285.

Cause: The City does not have effective internal control over the preparation of the Schedule of Expenditures of Federal Awards. The City did not reconcile the expenditures reported on the Schedule of Expenditures of Federal Awards with the amounts reported on the City's trial balance for Fund 285.

Effect or Potential Effect: Potential understatement or overstatement of expenditures could exist in the Schedule of Expenditures of Federal Awards and not be detected and corrected.

Questioned Cost: None

Repeat of a Prior-Year Finding: No

Recommendation: The City should establish policies and procedures to reconcile amounts reported on the Schedule of Expenditures of Federal Awards with expenditures in the City's Fund 285 trial balance.

City's Response 2016: The City concurs with the recommendation. 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 reconciliation of amounts reported on the SEFA with the City's trial balance.

City's Response 2017: Reconciliation procedures were implemented in practice. The grants coordinator in Finance is maintaining a listing of all grants in a format that contains all necessary information for completing the SEFA, and is responsible for reconciling the amounts to the GL. Grant administration policies consistent with the Uniform Guidance will be adopted.

Planned Implementation Date: June 30, 2018

Responsible Person: Accountant Chandra Crudup

E+P's Comment 2017: Not yet started. See also current year finding 2017-007.

SCHEDULE OF PRIOR AUDIT FINDINGS (Continued)

2016-004 - Approval of CIP Expenditures (SD)

CFDA Title and Number: 14.218 - Community Development Block Grants

Name of Federal Agency: Department of Housing and Urban Development

Internal Control over Compliance: Grants Management approval on CIP expenditures

Criteria: All expenditures related to CDBG grant awards should to be approved by Grants Management on the Request for Payment Against Encumbered Funds form prior to processing of payment.

Condition: We found three payments for CIP expenditures for Campus Park Gymnasium which did not have the approval from Grants Management on the Request for Payment Against Encumbered Funds form.

Cause: Approval procedures were not strictly enforced.

Effect or Potential Effect: Activities or costs that are not allowed or allowable could potentially be paid.

Questioned Cost: None

Repeat of a Prior-Year Finding: No

Recommendation: The City should establish policies and procedures to ensure that Grants Management properly approves all expenditures that are to be paid with Federal awards.

City's Response 2016: The City concurs with the recommendation. 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 proper approval of all expenditures that are to be paid with grant awards.

SCHEDULE OF PRIOR AUDIT FINDINGS (Continued)

City's Response 2017: Finance is working with other departments to identify the project manager for each grant and train that person on proper review of expenditures. Workload and conflicting priorities have prevented staff from developing grant policies. The CFO has engaged consultants that will draft policies to implement controls establishing processes for providing reasonable assurance that reporting and compliance objectives are attained. Policies applying to nonstandard items and restricted funds will provide a process to convene persons with the knowledge, skills and experience to establish standards for accounting and reporting for each grant. The City will adopt policies intended to implement the administrative requirements of the Uniform Guidance.

Planned Implementation Date: June 30, 2018 for policies, ongoing for grant specific policies with all current grants completed by September 30, 2018.

Responsible Person: Assistant CFO Deanne Purcell

E+P's Comment 2017: Not yet started. See also current year finding 2017-004.

2015-001 - Compensation for Personal Services

CFDA Title and Number: 97.083 - Staffing for Adequate Fire and Emergency Response and 97.044 - Assistance to Firefighters Grant

Name of Federal Agency: Department of Homeland Security

Name of Pass-through Agency: The Ventura County Sheriff's Office for 97.083 and Not Applicable for 97.044

Compliance Requirement: B. Allowable Costs/Cost Principles

Finding: OMB Circular A-87 requires that an after-the-fact Documentation, semi-annual time certification for employees who work solely on a single Federal awards and monthly time certification for employees who worked on multiple activities. These certifications must be signed by the employee. The required after-the fact documentation is not prepared to support time and effort for employees whose salaries are charged to Federal funds.

Questioned Cost: \$179,765

Recommendation: The City should establish policies and procedures to maintain after-the-fact certification. The form should reflect an after-the-fact distribution of the actual activity of each employee and will be signed by the employee.

SCHEDULE OF PRIOR AUDIT FINDINGS (Continued)

City's Response 2016: We concur with the recommendation, and it was implemented effective July 2016. Staff worked with FEMA representatives to clearly define the required certifications of time worked under the grant. Employees assigned to this grant spend 100% of their time on operations under the grant. Time certifications will be signed by the supervisor acknowledging all the employees that were paid for by the grant and that they worked 100% of their time under the grant. Although no longer a requirement for FY 2015-16, these certifications will continue to be prepared semi-annually.

City's Response 2017: Implemented. After-the-fact certification forms were completed for FY's 2014-15 and sent to FEMA on 4-10-17. The Fire division will continue to prepare the certification forms on a semi-annual basis, although no longer a statutory requirement. Beyond implementing appropriate after the fact certification for DHS staffing grants, the City will design and implement policies and procedures to provide reasonable assurance that it remains in compliance with the administrative requirements of 2 CFR 200 (Uniform Guidance) relating to personnel charges to grants. The City has contracted with consultants to assist staff in this effort.

Planned Implementation Date: June 30, 2018

Responsible Person: Accountant Chandra Crudup

Status 2016: No longer applicable; the requirement was revised by the Uniform Guidance.

E+P's Comment 2017: After-the-fact certification is no longer required. However, the City should develop policies and procedures related to compensation for personal services. See also current year finding 2017-003.

2015-002 - Subrecipient Monitoring

CFDA Title and Number: 14.218 - Community Development Block Grants

Name of Federal Agency: Department of Housing and Urban Development

Internal Control over Compliance: Subrecipient monitoring

Finding: Per OMB Circular A-133 Subpart D §____.400(d), a pass-through entity is responsible for monitoring their subrecipient's use of Federal awards to ensure that the subrecipient administers Federal awards in compliance with laws, regulations, and the provisions of contracts and grant, and that performance goals are achieved. The City passed through funds to Community Action of Ventura County. The City does not request or monitor their performance or financial reports.

Questioned Cost: \$61,286

SCHEDULE OF PRIOR AUDIT FINDINGS (Continued)

Recommendation: The City should establish policies and procedures to monitor their subrecipients during the award period through reporting, site visit, regular contact, or other means.

City's Response 2016: We concur with the recommendation, and it was implemented during FY 2016-17. The City now has policies and procedures in place to monitor grant subrecipients. For the fiscal year ended June 30, 2015, they are contained in Section CR-40 Monitoring 91.220 and 91.230 (page 26) of the annual Comprehensive Annual Performance Evaluation Report (CAPER), approved by the City Council and the U.S. Department of Housing & Urban Development (HUD). The policies cover activities from the pre-award stage, selection of applicants to be subrecipients, to the year-end monitoring and site visits.

Quarterly reports from subrecipients, including financial information, are also submitted to the City with information inputted into Integrated Disbursement and Information System (IDIS), a Federal database used by HUD.

An on-site monitoring visit was done in October 2015 for Community Action of Ventura County (CAVC). This was in accordance with the schedule and plan spelled out in the CAPER (page 26). Follow-up site visits in October 2015, March 2016, and June 2016 regarding FY 2014-2015 were carried out in March and on June 23, 2016. FY 2015-16 files were also looked at in June 2016 to see if the weaknesses in the 2014-2015 files had been corrected, however, the site visits were, again, for review of FY 2014-2015 only.

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 maintaining proper documentation to support subrecipient monitoring.

Implemented. The HUD grant coordinator in Housing is aware of the subrecipient monitoring procedures and will maintain appropriate documentation.

City's Response 2017: Staff turnover, workload and conflicting priorities have delayed development and implementation of comprehensive grant policies. The City will develop and implement control policies to implement the administrative requirements of 2 CFR 200 (Uniform Guidance). The CFO has engaged consultants to assist staff in this effort.

Planned Implementation Date: June 30, 2018

Responsible Person: Accountant Chandra Crudup

SCHEDULE OF PRIOR AUDIT FINDINGS (Continued)

Status 2016: Implemented.

E+P's Comment 2017: There was no compliance finding in 2017; however, the policies and procedures have not been established.

2015-003 - Compensation for Personal Services

CFDA Title and Number: 14.218 - Community Development Block Grants

Name of Federal Agency: Department of Housing and Urban Development

Name of Pass-through Agency: Not Applicable

Compliance Requirement: B. Allowable Costs/Cost Principles

Finding: OMB Circular A-87 requires that an after-the-fact Documentation, semi-annual time certification for employees who work solely on a single Federal awards and monthly time certification for employees who worked on multiple activities. These certifications must be signed by the employee. The required after-the fact documentation is not prepared to support time and effort for employees whose salaries are charged to Federal funds.

Questioned Cost: \$21,388

Recommendation: The City should establish policies and procedures to maintain after-the-fact certification. The form should reflect an after-the-fact distribution of the actual activity of each employee and should be signed by the employee.

City's Response 2016: We concur with the recommendation, and it will be implemented effective July 1, 2017. The Housing Department HOME program and Grants Management staff complete a monthly "after-the-fact" Activity Log and Labor Distribution Report respectively. These records provide "after-the-fact" certification.

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, request reimbursement on a monthly basis, and comply with all reporting requirements. These procedures will also include time certifications signed by the supervisor acknowledging all the employees that were paid for by the grant and that they worked 100% of their time under the grant. Although no longer a requirement for FY 2015-16, these certifications will continue to be prepared semi-annually.

SCHEDULE OF PRIOR AUDIT FINDINGS (Continued)

City's Response 2017: Implemented. The HUD grant coordinator in Housing is aware of the after-the-fact certification of time procedures and will maintain appropriate documentation. Staff turnover, workload and conflicting priorities have delayed development and implementation of comprehensive grant policies. The City will develop and implement control policies to implement the administrative requirements of 2 CFR 200 (Uniform Guidance), including procedures for assuring that personnel costs are charged properly. The CFO has engaged consultants to assist staff in this effort.

Planned Implementation Date: June 30, 2018

Responsible Person: Accountant Chandra Crudup

Status 2016: No longer applicable; the requirement was revised by the Uniform Guidance.

E+P's Comment 2017: After-the-fact certification is no longer required. However, the City should develop policies and procedures related to compensation for personal services. See also current year finding 2017-003.

2015-004 - Administrative and Planning Costs

CFDA Title and Number: 14.239 - Home Investment Partnerships Program

Name of Federal Agency: Department of Housing and Urban Development

Name of Pass-through Agency: Not Applicable

Compliance Requirement: G. Matching, Level of Effort, Earmarking

Finding: According to 24 CFR 92.207, a participating jurisdiction may expend for HOME administrative and planning costs an amount of HOME funds that is not more than ten percent of the fiscal year HOME basic formula allocation. During our audit of administrative costs, we noted that 11.17% was expended for administrative and costs.

Questioned Cost: \$8,271

Recommendation: Establish procedures and proper review process to ensure the program is not expending more than ten percent of the funds on administrative and planning costs.

City's Response 2016: We concur with the recommendation, and it will be implemented effective July 1, 2017. 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, request reimbursement on a monthly basis, and comply with all reporting requirements. These procedures will also include monitoring compliance with administrative expenditure limits.

SCHEDULE OF PRIOR AUDIT FINDINGS (Continued)

City's Response 2017: Implemented. The HUD grant coordinator in Housing is aware of the 10% administrative cost limitation procedures and will maintain appropriate documentation. Staff turnover, workload and conflicting priorities have delayed development and implementation of comprehensive grant policies. The City will develop and implement control policies to implement the administrative requirements of 2 CFR 200 (Uniform Guidance), including procedures for assuring that personnel costs are charged properly. The CFO has engaged consultants to assist staff in this effort.

Planned Implementation Date: June 30, 2018

Responsible Person: Accountant Chandra Crudup

Status 2016: Not a finding in 2016.

E+P's Comment 2017: Implemented. However, the City should develop policies and procedures related to Uniform Guidance.

FINDINGS AND QUESTIONED COSTS - FINANCIAL STATEMENTS

2016-005 - Segregation of Duties Between Payroll and Human Resources (SD)

Criteria: Segregation of duties - the functions of authorization, recording or reconciling, and maintaining custody of assets should be segregated.

Finding: There is a lack of segregation of duties in the payroll cycle. Personnel who are have responsibilities in processing payroll also have the ability to make changes to pay rates and benefits in the payroll system.

Cause: There is no control in place to restrict access by payroll personnel to the module that allows them to modify pay rates and benefits.

Effect or Potential Effect: Employee pay rates and benefits may be changed without proper authorization.

Recommendation: To ensure proper segregation of duties, access to the human resources module (add, delete, and modify employee data) should be segregated from access to the payroll module (payroll processing). In addition, management should review all changes made to the payroll information to ensure that it reflects accurate and complete information.

SCHEDULE OF PRIOR AUDIT FINDINGS (Continued)

City's Response 2016: The City concurs with the recommendation. Due to a lack of qualified staffing in the Human Resources Department, the payroll supervisor in the Finance Department was granted access to the human resources module in the financial software system. Human Resources is currently in the process of recruiting for the required positions. Once the appropriate staffing level is achieved, access to the human resources module will be restricted. Until such time, the Controller in the Finance Department will review all changes made to pay rates and benefits in the system for proper approval from the Human Resources Department.

City's Response 2017: HR has filled three positions that will control employee master file set up and pay rates. Those employees have received public agency specific training and have been trained and briefed by the Payroll Supervisor.

Draft policies establishing standards for control activities, and for establishing control policies for major transaction systems are planned.

Planned Implementation Date:

Control activity standards: June 30, 2018

Transaction system controls: September 30, 2018

Risk based design and documentation of control activities: June 30, 2019

Responsible Person: Controller Christine Williams

E+P's Comment 2017: Not yet started.

2015-005 - Control Environment (MW)

Finding: The City adopted appropriate policies and new management established proper "tone at the top." However, there is need to establish procedures to communicate and enforce the policies as well as monitor and evaluate implementation.

Recommendation: Establish procedures to communicate and enforce the policies as well as to monitor and evaluate the implementation. Responsibilities of each department/division/individual should be detailed in the procedures manual. Internal controls are most effective when responsibility for a given task is assigned to an individual.

City's Response 2016: We concur with the recommendation, and it has been identified as Priority 1B to be implemented by June 2018. The current workload to correct all identified issues has not allowed enough time for staff to perform this risk assessment, but it is planned for completion in FY 2017-18.

SCHEDULE OF PRIOR AUDIT FINDINGS (Continued)

City's Response 2017: The City Council, City Manager and Chief Financial Officer, with consulting assistance, expect to adopt implementing policies that will establish an Internal Control Integrated Framework (ICIF) based on COSO and GAO standards that will meet the requirements of OMB's 2 CFR 200 administrative requirements before June 30, 2018. Those policies also reflect the guidance of the California State Controller's Office's Internal Control Guidelines - Local Government Agencies.

Implementing policies have been drafted for control environment, risk assessment and control activity components at this point. Before completing the policies for information and communication and for monitoring components, the City plans to adopt a series of policies implementing the administrative requirements of 2 CFR 200 before June 30, 2018. Implementing policies for information and communication and monitoring will follow and, as noted above, should be adopted by June 30, 2018.

More detailed control documentation will be completed over the course of the next year to address Single Audit findings and other issues identified by staff and consultants. The City is undergoing numerous consulting studies, is staffing, reorganizing and training the Finance Department and plans to implement a new Enterprise Resource Planning System. As a result, consistent with GAO Green Book standards, documentation efforts will focus on high risk areas and core control values in the expectation that the high rate of change will require frequent changes and adaptations as new systems and improved technology are introduced.

Planned Implementation Date: June 30, 2018

Responsible Person: CFO Jim Throop

Status 2016: Not yet started.

E+P's Comment 2017: Policies and procedures in process.

2015-006 - Control Environment (MW)

Finding: Performance evaluations were not performed timely at all levels of the City. The City needs to hold individuals accountable for their internal control responsibilities.

Recommendation: Establish a process to evaluate employees' performance and implement regularly.

SCHEDULE OF PRIOR AUDIT FINDINGS (Continued)

City's Response 2016: We concur with the recommendation, and it has been identified as Priority 1B to be implemented by June 2018. The current workload to correct all identified issues has not allowed enough time for staff to develop controls and implement this recommendation, but it is planned for completion in FY 2017-18. Initial meetings have been held to discuss core competencies for the City. Department heads have also begun to review and make recommendations for changes to the performance evaluations.

City's Response 2017: The City implemented a citywide employee performance evaluation system early in fiscal year 2018. To improve the focus of the performance evaluation system implementing policies relating to ICIF performance and accountability have been drafted and will be implemented before June 30, 2018. Performance evaluation for the ICIF will apply to employees with control responsibilities throughout the organization. Ethics, competence and accountability are the focus of ICIF evaluation criteria.

Planned Implementation Date: June 30, 2018

Responsible Person: CFO Jim Throop and HR Director Steve Naveau

Status 2016: Not yet started.

E+P's Comment 2017: Policies and procedures in process.

2015-007 - Control Environment (MW)

Finding: Employees in the Finance Department were not properly trained to perform their tasks.

Recommendation: Establish a training program to improve Finance Department employees' knowledge and skills.

City's Response 2016: We concur with the recommendation, and it has been identified as Priority 1B to be implemented by June 2018. The current workload to correct all identified issues has not allowed enough time for staff to perform this risk assessment, but it is planned for completion in FY 2017-18. A training program will be developed, but the current workload to correct all identified issues has not allowed enough time for staff to develop such a program. However, some training has already occurred. In FY 15/16 Intermediate Governmental Accounting and Gas tax training were held and in FY 16/17 Cognos (query based) and payroll training were held.

SCHEDULE OF PRIOR AUDIT FINDINGS (Continued)

City's Response 2017: The City has drafted an ICIF implementing City Manager policy to focus on improving the competency and ethical grounding of persons assigned responsibility for control components and activities. Efforts to engage the City's current software vendor to provide assistance and training for 20-year-old HTE financial management software have been unsuccessful though some training and advice in critical areas has been helpful.

Implementing policies relating to training in performance evaluation and increasing management focus on training for responsible persons will begin before June 30, 2018. At this point Finance Department staff attendance at training and professional conferences has increased and budgets are in place to fund training opportunities.

Planned Implementation Date: June 30, 2018

Responsible Person: Assistant CFO Deanne Purcell

Status 2016: Not yet started.

E+P's Comment 2017: Policies and procedures in process.

2015-008 - Control Environment (MW)

Finding: The City did not have an audit committee.

Recommendation: Establish an audit committee, along with a charter to govern its conduct. Members of this committee should be provided training.

City's Response 2016: We concur with the recommendation, and it will be implemented effective July 1, 2017. The Fiscal Policy Task Force meets on a monthly basis and has been acting in this capacity since July 2016, but without a formal charter. The City will implement a formal charter.

City's Response 2017: The City has drafted a City Council ICIF implementing policy to define the role and responsibility of the City Council's Fiscal Policy Task Force to serve as the Council's Finance subcommittee and the Audit Committee. The draft policy is consistent with the audit committee standards established by the GFOA's best practice for audit committee.

The draft policy will be presented to the City Council for consideration before June 30, 2018. A complex election schedule during the 2018 Calendar year may affect full implementation of the policy.

SCHEDULE OF PRIOR AUDIT FINDINGS (Continued)

Following the discovery of numerous deficiencies that affected the City's operational, reporting and compliance performance the City Council and Fiscal Policy Task Force have participated in extensive transparent processes that raised improvement in administrative departments and management a critical strategic priority.

Delays in recruiting competent staff and high levels of turnover in senior and midlevel positions with important control responsibilities throughout the organization continue to delay implementation of corrections the unprecedented number of control weaknesses identified in the single audit. The City Council and City Manager continue to place high priority on the Corrective Action Plan by providing funding for staffing, priority for recruitment and approval for needed consultant assistance.

Planned Implementation Date: Starting before June 30, 2018 with changes and adaptation through December 31, 2018.

Responsible Person: CFO Jim Throop

Status 2016: Not yet started.

E+P's Comment 2017: Policies and procedures in process.

2015-009 - Control Environment (MW)

Finding: There was a severe lapse in the City's financial operations when key Finance Department personnel left due to a lack of qualified successors.

Recommendation: Develop a succession plan for the Finance Department.

City's Response 2016: We concur with the recommendation, and it has been identified as Priority 2 to be implemented by June 2019. The current workload to correct all identified issues has not allowed enough time for staff to develop controls and implement this recommendation, but it is planned for completion in FY 2018-19. The majority of Finance staff is fairly new - less than three years in their position. The current workload to correct all identified issues has not allowed enough time for staff to develop a complete succession plan, but it is planned for completion in FY 2018- 19.

SCHEDULE OF PRIOR AUDIT FINDINGS (Continued)

City's Response 2017: The City has drafted an ICIF implementing policy on succession and turnover planning. It plans to adopt the policy before June 30, 2018. Unfortunately, turnover continues to affect the City's ability to prevent disruption of the internal control system from turnover risk. The City Manager left in December 2017, the City has had four CFO's and three Assistant CFO's in the last three years in addition to several vacancies in professional and technical management positions. During 2016 the City relied heavily on consulting assistance to produce auditable financial statements for Fiscal 2015.

The draft succession and turnover contingency policy requires prioritization of critical positions with succession plans developed for all key positions over the course of the next three years. The City remains exposed to turnover in this area but expects to continually reduce the risk of disruption as positions are added to the plan.

Planned Implementation Date:

Policy adoption: June 30, 2018

Initial succession plans: December 31, 2018

Responsible Person: Assistant CFO Deanne Purcell

Status 2016: Not yet started.

E+P's Comment 2017: Policies and procedures in process.

2015-010 - Control Environment (MW)

Finding: The Finance Department did not have sufficient staff, particularly in managerial positions.

Recommendation: Fill vacancies with qualified staff immediately.

City's Response 2016: We concur with the recommendation, and it was implemented effective October 2016 with the hiring of a Chief Financial Officer (CFO) and two Assistant CFO's.

City's Response 2017: Staffing increases were approved in the Fiscal 16 and Fiscal 17 budgets and employees were hired. However, turnover remains a problem and despite efforts to provide sufficient staffing challenges remain.

SCHEDULE OF PRIOR AUDIT FINDINGS (Continued)

From January 1, 2015 to today vacancies have disrupted Finance Department performance. Years of pressure on department staffing left few in the department with a clear understanding of financial condition or adequate training to meet reporting and compliance objectives. Few staff have extensive experience in the City and many do not have strong local government knowledge or experience. The retirement of older workers, a rising economy and an increasingly complex operating environment have created a severe staffing shortage for California local government.

The City faces the challenge of operating a large, complex full-service city organization, repairing major legacy problems and implementing new financial management technology. The City has drafted a policy requiring annual analysis of staffing levels for positions throughout the organization with financial operations and management responsibilities. The draft policy is planned for adoption before June 30, 2018. All budgets following the discovery of major weaknesses have included proposals for improving staffing and training for financial operations and management functions.

Planned Implementation Date: Initial action in response to the finding was completed in calendar 2016. Therefore, this finding has been implemented. The City recruits new employees as vacancies occur.

Responsible Person: CFO Jim Throop

Status 2016: Not yet started.

E+P's Comment 2017: Implemented.

2015-011 - Risk Assessment (SD)

Finding: City performed Organizational Assessment during the year 2015 and plan to continue implementation of the 3-year process to address the issues. No risk assessment related to accounting and financial reporting has been performed. No fraud risk assessment has been performed.

Recommendation: Establish procedures to perform a risk assessment related to accounting and financial reporting. The risk assessment should include identifying types of accounting errors, policy violations, fraud, or noncompliance with agreements, contracts, laws and regulations, as well as a plan of action to mitigate risks.

SCHEDULE OF PRIOR AUDIT FINDINGS (Continued)

City's Response 2016: We concur with the recommendation, and it has been identified as Priority 1B to be implemented by June 2018. The current workload to correct all identified issues has not allowed enough time for staff to perform this risk assessment, but it is planned for completion in FY 2017-18.

City's Response 2017: In addition to the Organization Assessment for support and governance functions described in this comment the City received more information about risks relating to its financial reporting through the internal control analysis completed by E+P'S and reported in the Single Audit reports for FY 15 and FY 16. It also engaged consultants to do detailed reviews of reporting and compliance risks associated with special assessment districts and development impact fees and has engaged consultants to complete property and sales tax estimates.

In addition, the City has contracted with consultants to assess the Public Works Department and the City Council has engaged Internal Auditors to complete a fraud risk assessment and to monitor operation of controls in high priority areas. Utility operations and rates have received special scrutiny as a result of Proposition 218 rate reviews and litigation challenging rate increases. Formal reviews have been supplemented by the work of new and better trained staff who have identified additional issues that affect operating, reporting and compliance objectives.

The City has drafted ICIF implementing policies for risk assessment that include specified control oversight responsibilities of the City Council, Council direction to the City Manager to conduct risk assessments and description of the expected content of the risk assessments. Those policies are planned for implementation before June 30, 2018. It is expected that the first full risk assessment process will be conducted in concert with the Fiscal 2020 budget process, after a new City Manager is recruited. In the meantime, the work described above has identified a wide range of risk threats to be addressed in ICIF policies and activities.

Planned Implementation Date: June 30, 2018

Responsible Person: CFO Jim Throop

Status 2016: Not yet started.

E+P's Comment 2017: Policies and procedures in process.

2015-012 - Control Activities (MW)

Finding: The City's system of internal control is not designed to reduce the risk that accounting and financial reporting errors or fraud could occur and not be detected.

SCHEDULE OF PRIOR AUDIT FINDINGS (Continued)

Recommendation: Develop an integrated system of internal control that defines control activities across the various departments, not just the Finance Department. Policies, procedures, and related internal controls should be documented, communicated to all affected members of City staff, and updated regularly. Implementation should be monitored closely.

City's Response 2016: We concur with the recommendation, and it has been identified as Priority 1B to be implemented by June 2018. The current workload to correct all identified issues has not allowed enough time for staff to perform this risk assessment, but it is planned for completion in FY 2017-18.

City's Response 2017: The City has drafted a series of policies to implement the Internal Control Integrated Framework described by COSO and in GAO's Standards for Internal Control for the Federal Government (The Green Book). This control framework, or an equivalent, is required by Federal grant recipients by the OMB and is recommended by the State Controller's Office and the GFOA.

The policies include clear assignment of responsibility for implementation and monitoring of implementation progress. Policies include City Council and City Manager oversight responsibilities and policies for periodic evaluation of the City's ICIF implementation. Implementation review will include the City Manager, the Senior Leadership Team (department heads), the CFO, the Finance Committee and the City Council.

In addition, policies establishing control activity standards and use of fundamental internal control concepts and documentation of controls have been drafted. The City plans to adopt these policy drafts before June 30, 2018.

Planned Implementation Date: June 30, 2018

Responsible Person: Assistant CFO Deanne Purcell

Status 2016: Not yet started.

E+P's Comment 2017: Policies and procedures in process.

2015-013 - Control Activities (MW)

Finding: The City does not have properly-designed, implemented, and effective policies, procedures, processes, and controls surrounding its financial reporting process to ensure that all non-standard adjustments are adequately researched, supported, and reviewed prior to their recording in the general ledger.

Recommendation: Establish new or improve existing policies, procedures, and related internal controls to ensure that all non-standard adjustments impacting the general ledger are adequately researched, supported, and reviewed prior to their recording in the general ledger.

SCHEDULE OF PRIOR AUDIT FINDINGS (Continued)

City's Response 2016: We concur with the recommendation, and it has been identified as Priority 1B to be implemented by June 2018. The current workload to correct all identified issues has not allowed enough time for staff to perform this internal control assessment, but it is planned for completion in FY 2017-18.

City's Response 2017: The City has drafted ICIF implementation policies that address this weakness. The policies have been expanded to address situations that apply not only to general ledger journal entries but also to accounting requirements of grants and programs subject to legal or contractual conditions like maintenance district administration or bond indentures.

The two primary policies proposed for adoption relate to nonstandard items and to new and restricted funds. In addition to proposed entries to the accounting records the policies also focus on identifying entries that should be made but are not being entered. Several compliance issues encountered by the City in the last three years related to entries that, if properly reflected, would affect the City's assets and liabilities.

The new policies provide for convening multi-disciplinary teams to analyze non-standard and complex situations to recommend appropriate financial and compliance reporting activities and monitoring. The approach also supports controls intended to strengthen organizational competence and communication among personnel with control responsibilities.

The City plans to adopt the proposed policies before June 30, 2018.

Planned Implementation Date: June 30, 2018

Responsible Person: Controller Christine Williams

Status 2016: Not yet started.

E+P's Comment 2017: Policies and procedures in process. See current year finding 2017-012.

2015-014 - Control Activities (MW)

Finding: The City does not have properly-designed, implemented, and effective policies, procedures, processes and controls surrounding its financial reporting process to completely support beginning balance and year-end close-out related activity in its general ledger.

Recommendation: Refer to specific recommendations for findings: 2015-019 thru 029, 2015-049 thru 050 and 2015-055 thru 93.

SCHEDULE OF PRIOR AUDIT FINDINGS (Continued)

City's Response 2016: We concur with the recommendation, and it has been identified as Priority 1B to be implemented by June 2018. The current workload to correct all identified issues has not allowed enough time for staff to perform this internal control assessment, but it is planned for completion in FY 2017-18.

City's Response 2017: The Finance Department has worked closely with its independent auditors to improve its processes to prepare financial statements that comply with GAAP. Reporting internal control issues identified elsewhere are essential to this process. New policies regarding adequacy of staffing, training, performance evaluation, assignment of control responsibilities and establishment of control activity standards support this reporting objective.

Many reconciliations are being performed for the annual audit but are not providing control during the course of the fiscal year. Increasing the frequency of these reconciliations and reducing complexity are high priority reporting and compliance objectives for the Finance Department.

Over the next three to five years significant changes will affect the financial reporting environment of the City, especially the implementation of the ICIF and the implementation of a new ERP. Many controls will be implemented in the ERP. Other controls will depend on building a competent team that communicates well.

The city intends to build flexible control activity documentation appropriate for its fast-changing environment. That documentation will allow it to adapt to expected changes without the administrative overhead associated with detailed documentation except in high priority risk areas. This documentation process will be in progress for the next three to five years.

Planned Implementation Date:

Policy adoption: June 30, 2018

Audit closing calendar: Implemented and continuously adapted.

Responsible Person: Controller Christine Williams

Status 2016: Not yet started.

E+P's Comment 2017: Policies and procedures in process.

2015-015 - Control Activities (MW)

Finding: The City has ineffective controls affecting some key financial reporting processes including weaknesses in transactional and supervisory reviews over cash, receivables, capital assets, and construction in progress, accounts payable, and long-term liabilities.

Recommendation: Refer to specific recommendations for findings: 2015-019 thru 029, 2015-049 thru 050 and 2015-055 thru 93.

SCHEDULE OF PRIOR AUDIT FINDINGS (Continued)

City's Response 2016: We concur with the recommendation, and it has been identified as Priority 1B to be implemented by June 2018. The current workload to correct all identified issues has not allowed enough time for staff to perform this internal control assessment, but it is planned for completion in FY 2017-18. The City Treasurer's Department received a surprise field audit review in December 2016 by the auditors. The auditor looked at the cash handling, safekeeping, reconciliation of cashier drawers, and the transfer of the daily cash to the Security guards. We were informed that the staff performed the necessary cash function properly and that there was double custody of the cash at all times.

City's Response 2017: This project has been delayed by staff hiring and retention issues discussed above. This year the City is concentrating its internal control implementation efforts on changing its practices in critical areas, establishing the ICIF Framework, assigning responsibility and authority for control activity development, implementation and documentation, and implementing the administrative requirements of OMB's 2 CFR 200. In fiscal year 2019 staff will shift to the effort to design and implement ICIF control activities and to improve effectiveness through information and communication. A competent, ethical team for financial operations and management will improve control and enterprise risk management more effectively than extensive documentation at this point.

This CAP and the City's ICIF policies will provide the basis for risk-based control design, efficient and effective documentation and ongoing monitoring. Policies are planned for adoption before June 30, 2018. Detailed control design and documentation will follow based on risk assessment. In the meantime, changes in practice that respond to audit findings will be given priority over design and documentation activities because of time and resource limitations.

Planned Implementation Date:

Policy implementation: June 30, 2018

Risk based control implementation: Following ICIF implementing policy adoption and ongoing.

Responsible Person: Assistant CFO Deanne Purcell

Status 2016: Not yet started.

E+P's Comment 2017: Policies and procedures in process.

2015-016 - Control Activities (MW)

Finding: The City was unable to effectively identify potential technical accounting issues, analyze the relevant facts and circumstances, and respond to auditor inquiries in a timely manner.

SCHEDULE OF PRIOR AUDIT FINDINGS (Continued)

Recommendation: Refer to specific recommendations for findings: 2015-019 thru 029, 2015-049 thru 050 and 2015-055 thru 93.

City's Response 2016: We concur with the recommendation, and it has been identified as Priority 1B to be implemented by June 2018. The current workload to correct all identified issues has not allowed enough time for staff to perform this internal control assessment, but it is planned for completion in FY 2017-18.

City's Response 2017: The City had drafted ICIF implementing policies to improve its ability to address this issue. Draft policies regarding non-standard items and new and restricted funds create an institutional framework that uses existing knowledge, skills and experience while providing developmental opportunities for team members. The policies create a structured approach to a wide variety of issues that require responses for auditors, managers and policy makers.

A feature of the policies is to create "Compliance Teams", with members selected based on relevant experience and expertise, to analyze and implement control activities to provide reasonable assurance that reporting, compliance and operating objectives are achieved. For Finance, timely, accurate financial reporting consistent with GAAP and regulatory requirements is a high priority. For auditor inquiries that cannot be addressed by a single individual the CFO, the Assistant CFO or the Controller would convene a compliance team to produce an expedited answer. The team approach will provide the ability to make progress on the request despite the schedule conflicts that affect individual managers.

Implementing policies for non-standard items and new and restricted funds are planned for adoptions before June 30, 2018.

Planned Implementation Date: June 30, 2018

Responsible Person: Assistant CFO Deanne Purcell and Controller Christine Williams

Status 2016: Not yet started.

E+P's Comment 2017: Policies and procedures in process.

2015-017 - Control Activities (MW)

Finding: The City does not have an effective general ledger system. The City uses HTE software, which was developed almost two decades ago. In addition, the City has 176 self-balancing funds and over 8,300 accounts in its chart of accounts; 1,600 of these are balance sheet accounts. This system has severe functional limitations contributing to the City's challenge of addressing systemic internal control weaknesses in financial reporting.

SCHEDULE OF PRIOR AUDIT FINDINGS (Continued)

Recommendation: Establish new, or improve the existing, general ledger system to enable it to process, store, and report financial data in a manner that ensures accuracy, confidentiality, integrity, and availability of financial data without substantial manual intervention.

City's Response 2016: We concur with the recommendation, and it has been identified as Priority 2 to be implemented by June 2019. The current workload to correct all identified issues has not allowed enough time for staff to perform this internal control assessment, but it is planned for completion in FY 2018-19.

City's Response 2017: The process for acquiring a new ERP system is in progress. Consulting firm Sciens is gathering information to prepare a comprehensive RFP and will assist in evaluating proposals.

Some minor clean-up of the chart of accounts was performed in order to prepare for implementation of third party software: OpenGov and Questica (budget). However, the HTE system has very limited flexibility in chart of account design while maintaining comparability.

In an effort to improve the performance of the existing system staff has met with HTE to explore a proposal for additional training in use of the existing ERP and assistance in more extensive use of the system's features. However, HTE has been unresponsive in preparing a proposal for training and reimplementation of underused or improperly implemented software features. Selecting a replacement vendor for the ERP application will improve use of system-based controls most rapidly.

With experience, staff has learned more about the weak points in the HTE system installed in Oxnard. Managers and accounting staff focus extra attention on those areas that are prone to producing inaccurate reporting during the year and at the year-end closing. These control activities have reduced the risk of system generated reporting errors. The inefficiency that results should be eliminated when the new ERP is implemented.

Planned Implementation Date: Control activities in the form of additional review have been implemented in practice and, where required, documented in the audit calendar. The ERP implementation should be completed between June 30, 2020 and June 30, 2021.

Responsible Person: Assistant CFO Deanne Purcell

Status 2016: Not yet started.

E+P's Comment 2017: Not yet started.

SCHEDULE OF PRIOR AUDIT FINDINGS (Continued)

2015-018 - Budget (SD)

Finding: The FY 2015 budget lacked detail, and management did not keep track of its budgeted revenue and expenditures. Department heads are supplied a budget to actual comparison on a monthly basis for review, but there was no formal process for investigating significant variances.

Recommendation: Continue to provide department heads with budget to actual comparison on a monthly basis. Establish an effective process to identify and investigate significant variances from budgets and expected results.

City's Response 2016: We concur with the recommendation, and it will be implemented effective July 1, 2017. City will create a written process to share with departments on variance reconciliation. The majority of budget line items was developed via department's meetings and augmentation adopted by Council. Details are filed. A written policy will be created to ensure all departments are responsive and accountable for significant budget variances.

City's Response 2017: Two factors have delayed implementation of the recommendation and the planned corrective action. Although reports are regularly distributed to departments the difficulty of working with the application software and of comparing intra-year reports due to infrequent reconciliations has reduced general implementation of analytical budget management. In addition, the City's historical practice of managing through line item budget control consumes significant resources in the Finance Department and in operating departments.

Thorough review of budget management best practices indicates that line item control is not considered a recommended or best practice by GFOA, the State Controller's Office or the National Advisory Council on State and Local Government Budgeting.

The City Council delegates authority for budget transfers within funds to the City Manager if they are consistent with restrictions on restricted funding sources. The City Manager delegation of budget authority to department directors is constrained by the line item budget control practices.

To address this finding the Chief Financial Officer will propose elimination of line item budget control and adoption of more effective analytical budget control policies that will apply to monitoring and accountability and will clearly spell out authority over various classes of expenditures.

Planned Implementation Date: June 30, 2018

Responsible Person: Budget Manager Beth Vo

Status 2016: Not yet started.

SCHEDULE OF PRIOR AUDIT FINDINGS (Continued)

E+P's Comment 2017: Not yet started.

2015-019 - Fund Balance (MW)

Finding: Beginning fund balances did not agree with prior-year audited financial statements. Audit adjustments were not posted to the general ledger. Journal entries were inappropriately posted to fund balance during the year.

Recommendation: Audit adjustments must be posted to the general ledger at the end of the audit and beginning fund balances should be agreed with audited financial statements. Controls should be put in place to allow only authorized personnel to approve journal entries that affect beginning fund balances during the year.

City's Response 2016: We concur with the recommendation, and it was implemented effective in December 2016. Following the January 31, 2017 issuance of the FY 2015-16 CAFR, staff began posting all final audit adjustments to the general ledger system and will perform a reconciliation of beginning fund balance per the general ledger to the CAFR.

City's Response 2017: Implemented with reconciling spreadsheet tying GL to CAFR.

Responsible Person: Controller Christine Williams

Status 2016: Not yet started.

E+P's Comment 2017: Implemented.

2015-020 - Bank Reconciliations (MW)

Finding: The bank reconciliation for the general account was not performed since November 2014.

Recommendation: Bank reconciliations should be prepared every month. A full-time employee should be assigned to prepare the bank reconciliations. This person should be dedicated to this process until all monthly bank reconciliations are up to date. Bank reconciliations should be reviewed by another person who has sufficient knowledge and skill to perform the task. The process for bank reconciliation should be detailed out in writing.

City's Response 2016: We concur with the recommendation, and it was implemented effective October 2016. As of February 2017, bank reconciliations for the General bank account have been completed through the month of November 2016.

SCHEDULE OF PRIOR AUDIT FINDINGS (Continued)

City's Response 2017: Implemented, the City continues to improve documentation and coordinate reconciliation effort with the City Treasurer.

Responsible Person: Controller Christine Williams

Status 2016: Not yet started.

E+P's Comment 2017: Implemented.

2015-021 - Bank Reconciliations (MW)

Finding: Bank reconciliations for the AIMS and Parking Citation bank accounts were not performed. The balances for these accounts were not recorded in the general ledger.

Recommendation: The Finance Department should ensure that all bank accounts are accounted for and reconciled to the general ledger on the monthly basis.

City's Response 2016: We concur with the recommendation, and it will be implemented effective July 1, 2017. The Human Resources Department is currently reviewing third-party services to perform the bank reconciliations for the AIMS (worker's compensation) bank account. The parking citation bank account has a low volume of activity and will be reconciled on an annual basis every June 30.

City's Response 2017: All accounts are now being reconciled as appropriate. Implemented

Responsible Person: Controller Christine Williams

Status 2016: Not yet started.

E+P's Comment 2017: Implemented.

2015-022 - Bank Reconciliations (MW)

Finding: Bank reconciliations for the general and CDC Successor Agency accounts for periods prior to November 2014 were prepared but not reconciled to the general ledger.

Recommendation: The Finance Department should ensure that all bank accounts are accounted for and reconciled to the general ledger on the monthly basis.

City's Response 2016: We concur with the recommendation, and it was implemented effective October 2016. As of February 2017, bank reconciliations for the CDC Successor Agency bank account have been completed through the month of November 2016.

SCHEDULE OF PRIOR AUDIT FINDINGS (Continued)

City's Response 2017: Implemented

Responsible Person: Controller Christine Williams

Status 2016: Not yet started.

E+P's Comment 2017: Implemented.

2015-023 - Bank Reconciliations (MW)

Finding: PACC bank account activities were not recorded fully.

Recommendation: The Finance Department should ensure that all bank accounts are accounted for and reconciled to the general ledger on the monthly basis.

City's Response 2016: We concur with the recommendation, and it was implemented effective October 2016. Bank reconciliations have been completed through the month of November 2016.

City's Response 2017: Implemented.

Responsible Person: Controller Christine Williams

Status 2016: Not yet started.

E+P's Comment 2017: Implemented.

2015-024 - Bank Reconciliations (MW)

Finding: Cash with fiscal agents accounts were not reconciled monthly to the general ledger.

Recommendation: The bank reconciliation process should include reconciling cash with fiscal agents.

City's Response 2016: We concur with the recommendation, and it was implemented effective October 2016. Bank reconciliations have been completed through the month of November 2016.

City's Response 2017: Implemented

Responsible Person: Controller Christine Williams

Status 2016: Not yet started.

SCHEDULE OF PRIOR AUDIT FINDINGS (Continued)

E+P's Comment 2017: Implemented.

2015-025 - Bank Reconciliations (MW)

Finding: Bank accounts were opened without the Treasurer's Office knowledge.

Recommendation: Only the Treasurer should be allowed to open bank accounts on behalf of the City. All bank statements should be sent directly to the Treasurer's Office. The Treasurer's Office should review the bank statements, retain the original, and send copies to the personnel who prepares the bank reconciliation.

City's Response 2016: We concur with the recommendation, and it was implemented effective December 2016. The Treasurer's Department will be in possession of all the extra bank accounts by February 17th. We are allowing this extended number of days so that each bank account handler can receive the January bank statements to reconcile their accounts before we take possession. We have already taken possession of the Recreation Department savings account. The only other exceptions are the 3 RaboBank bank accounts. There was a meeting held Tuesday the 14th where the Cultural Community Services Director, City Attorney, City Auditors, City Treasurer, CFO and staff reviewed the documents to determine who does the money in those bank accounts belong to. However, during the meeting it was brought to our attention that the operating agreement between the non-profit PAC and the City of Oxnard had expired in 2010 and had not been renewed. It was then determined that the City Attorney would work on a revised agreement between the PAC and the City, which would also contain the determination of who owns the money in those RaboBank accounts for final disposition.

City's Response 2017: Implemented

Responsible Person: City Treasurer Phil Molina

Status 2016: Not yet started.

E+P's Comment 2017: Implemented.

2015-026 - Bank Reconciliations (SD)

Finding: Finance department did not have access to complete monthly bank statements or complete outstanding check lists for all accounts.

Recommendation: The Treasurer's Office should forward copies of all bank statements to the Finance Department. All back-up documentation used in reconciliations prepared by the Treasurer's Office and other departments, i.e., outstanding checks and deposits in transit listings, should be provided to the Finance Department.

SCHEDULE OF PRIOR AUDIT FINDINGS (Continued)

City's Response 2016: We concur with the recommendation, and it was implemented effective June 2016. The Treasurer's Department provided the Finance Department management staff with access to the City's bank account statements online. The Treasurer's staff is one month behind in verifying the bank statements. We are currently completing the December 2016 bank verification. When we complete each verification we forward the statement (copies) along with our worksheet and other source documents to the Finance Department. Once we get the staffing we need, it is expected that bank verification will be done within 2 weeks of receiving the statement from the banks.

City's Response 2017: Implemented

Responsible Person: Controller Christine Williams

Status 2016: Not yet started.

E+P's Comment 2017: Implemented.

2015-027 - Bank Reconciliations (SD)

Finding: The Finance Department did not have access and history of prior reports used for reconciliation. All processes and reports needed for the reconciliation process had to be discovered and requested by finance management.

Recommendation: Finance manager needs to have a full understanding of all Treasury activities to assess if there are any procedures or reporting that can be used to make the monthly bank reconciliation more efficient across departments. The Finance Department and Treasurer's Office should establish procedures to enhance cooperation.

City's Response 2016: We concur with the recommendation, and it was implemented effective October 2016. Finance began working with Treasurer's staff in October 2016 and established communication to ensure timely sharing of information necessary to complete the monthly bank reconciliations.

City's Response 2017: Implemented

Responsible Person: Controller Christine Williams

Status 2016: Not yet started.

E+P's Comment 2017: Implemented.

SCHEDULE OF PRIOR AUDIT FINDINGS (Continued)

2015-028 - Bank Reconciliations (MW)

Finding: Daily cash receipts posting to the general ledger were not reconciled to cash entries and to bank activities. Therefore, deposits in transit were not tracked for bank reconciliation.

Recommendation: The Finance department management needs training from current software provider on how the cash related modules should be interacting, reports used to tie out the modules, and if there are keys that links those modules together.

City's Response 2016: We concur with the recommendation, and it will be implemented effective June 30, 2017. In January, staff began coordinating training with the current software provider and expects to have training conducted in this area by June 30, 2017.

City's Response 2017: On April 11, 2017, Finance and IT staff met with Sungard HTE account manager to discuss a package of training on all modules of the HTE system. However, HTE has been unresponsive in submitting a training proposal. As a result, the bank reconciliation prepared by the Finance Department can be delayed until the City Treasurer's office reconciles and forwards daily cash receipts details. Additional review is not performed and Finance plans to meet with the City Treasurer staff to improve the timeliness of the reconciliation process.

Planned Implementation Date: June 30, 2018

Responsible Person: Controller Christine Williams

Status 2016: Not yet started.

E+P's Comment 2017: Not yet started.

2015-029 - Bank Reconciliations (SD)

Finding: Pooled cash batches are a summary of various batches by module. There are multiple batches per modules: accounts payable, accounts receivable, payroll, and cash receipts batches. Newly-hired finance management have not found logic of how system entries are batched together. Current batching is very labor intensive to review.

Recommendation: Finance department staff needs training from current software provider on how the cash-related modules should be interacting, reports used to tie out the modules, and if there are keys that links those modules together.

City's Response 2016: We concur with the recommendation, and it will be implemented effective June 30, 2017. In January, staff began coordinating training with the current software provider and expects to have training conducted in this area by June 30, 2017.

SCHEDULE OF PRIOR AUDIT FINDINGS (Continued)

City's Response 2017: HTE has not responded to the City's request for a proposal to conduct training in cash accounting on their ERP. It is possible that the additional control activities required to reconcile cash batches will continue until a new ERP is implemented, affecting the timeliness of bank reconciliations. Staff will explore options for reconciliation frequency and approach to support timely production of accurate reports.

Planned Implementation Date: June 30, 2018

Responsible Person: Controller Christine Williams

Status 2016: Not yet started.

E+P's Comment 2017: Not yet started.

2015-030 - Electronic Payments (EFT/ACH) (SD)

Finding: Check numbers were not in sequential order (duplication/skipping). Problem stems from manual assignment of EFT check numbers.

Recommendation: The Treasurer's Office should assign sequential control numbers to each wire. The Finance Department should enter the information into the accounting system.

City's Response 2016: We concur with the recommendation, and it was implemented effective December 2016. The Treasurer's Department forwards the source documents for each ACH and EFT directly to the Finance Department. The Finance Department assigns 'check' numbers to each ACH and EFT transactions for purposes of posting them into the general ledger. Staff has been trained to assign sequential control numbers to each wire, and to include the EFT control number on the excel listing.

City's Response 2017: Implemented

Responsible Person: Controller Christine Williams

Status 2016: Not yet started.

E+P's Comment 2017: Implemented.

2015-031- Electronic Payments (EFT/ACH) (BP)

Finding: Excel listing of EFTs did not list the check number assigned to the payment and did not list the batch/group number posted to the general ledger.

SCHEDULE OF PRIOR AUDIT FINDINGS (Continued)

Recommendation: Excel listing of EFTs should include the EFT control number as well as the batch/group number.

Before the change, the Finance staff assigned check numbers based on the list of unused check numbers, which could have made it appear as though an ACH or EFT was issued earlier than it actually was. For example, if 'check' numbers 5, 6, and 7 were used on Feb 13th, and the next check run used 'check' numbers 10, 11, 12 on Feb 15th, the unused numbers 8 and 9 would be used for 2 ACH transaction on February 16th making it appear as though the ACH transaction were out of order.

City's Response 2016: We concur with the recommendation, and it was implemented effective December 2016. The Treasurer's Department forwards the source documents for each ACH and EFT directly to the Finance Department. The Finance Department assigns 'check' numbers to each ACH and EFT transactions for purposes of posting them into the general ledger. Staff has been trained to assign sequential control numbers to each wire, and to include the EFT control number on the excel listing.

City's Response 2017: Implemented

Responsible Person: Controller Christine Williams

Status 2016: Not yet started.

E+P's Comment 2017: Implemented.

2015-032 - Electronic Payments (EFT/ACH) (SD)

Finding: The Treasurer did not review all supporting documentation prior to signing the check or wire transfer authorization.

Recommendation: The Treasurer or designated individual in the Treasurer's Office should review all supporting documentation prior to signing the check or wire transfer authorization.

City's Response 2016: We concur with the recommendation, and it was implemented effective December 2016. The Treasurer is working with the City Manager, Assistant City Manager and CFO to develop a good working arrangement that allows for the Treasurer to review all supporting documentation prior to signing the checks, wires, and ACH transactions.

City's Response 2017: Implemented

Responsible Person: Controller Christine Williams

SCHEDULE OF PRIOR AUDIT FINDINGS (Continued)

Status 2016: Not yet started.

E+P's Comment 2017: Implemented.

2015-033 - Electronic Payments (EFT/ACH) (SD)

Finding: Proper documentation of wire transfers was not maintained by the Finance Department.

Recommendation: The Finance Department should maintain a complete copy of the wire transfer authorization package, including all supporting documentation.

City's Response 2016: We concur with the recommendation, and it was implemented effective December 2016. Finance staff met with Treasurer's staff in early December 2016 and established a procedure for ensuring all proper supporting documentation for wire transfers is maintained in the Finance Department.

City's Response 2017: Implemented

Responsible Person: Controller Christine Williams

Status 2016: Not yet started.

E+P's Comment 2017: Implemented.

2015-034 - Electronic Payments (EFT/ACH) (SD)

Finding: There were no written procedures related to electronic payments and responsibilities of the requesting department, Treasurer's Office, and Finance Department are not clearly defined. The Treasurer's Office did not have a current list of authorized signers.

Recommendation: The Finance Department should review the EFT payment process to improve the current procedures. After approval by appropriate departments, all EFTs should be received by the Finance management. Finance management will review for proper department approvals, general ledger coding, and supporting documentation (including budget support). Finance management will forward to Treasurer's Office for disbursements. No department should send wire requests directly to the Treasurer's Office

SCHEDULE OF PRIOR AUDIT FINDINGS (Continued)

City's Response 2016: We concur with the recommendation, and it was implemented effective December 2016. Finance staff met with Treasurer's staff in early December 2016 and established a procedure for ensuring that Finance management will review all wire transfers for proper department approvals, general ledger coding, and supporting documentation (including budget support); and that no department should send wire requests directly to the Treasurer's Office.

City's Response 2017: Implemented

Responsible Person: Controller Christine Williams

Status 2016: Not yet started.

E+P's Comment 2017: Implemented.

2015-035 - Electronic Payments (EFT/ACH) (MW)

Finding: There was no supervisory review of EFT entries. Payment/posting against cash had been inconsistent and made to the wrong accounting period.

Recommendation: Staff needs additional training in handling EFTs and postings should be reviewed regularly. The payment period needs to be distinguished from invoice period.

City's Response 2016: We concur with the recommendation, and it was implemented effective December 2016. Posting against cash is performed in the Finance Department. In the City Treasurer Department there is supervisory review of EFT's before they are disbursed, except for payments to Delta Dental and CalPERS, which are issued directly by the Finance Department staff before the City Treasurer has the opportunity to review them.

All other ACH and EFT transactions are performed under a double custody method where no one person can initiate and complete an ACH or EFT transaction alone. And only 4 people in the Treasurer's Department know the security codes, again except for the Delta Dental and CalPERS wires. The Treasurer's staff submits the source documents for every entry into the system for ACHs and EFT transaction directly to the Finance Department. The Treasurer, Finance Director and Human Resources Director are working to stop the issuance of ACH or EFT (wire) transfers from any other department other than from the Treasurer's Department. It is expected the correction will be completed by June 1, 2017.

City's Response 2017: Implemented

Responsible Person: Controller Christine Williams

Status 2016: Not yet started.

SCHEDULE OF PRIOR AUDIT FINDINGS (Continued)

E+P's Comment 2017: Implemented.

2015-036 - Electronic Payments (EFT/ACH) (MW)

Finding: Payroll wires recorded through a journal voucher covered two accounting periods.

Recommendation: Split payroll journal voucher according to wire dates.

City's Response 2016: We concur with the recommendation, and it was implemented effective December 2016. Finance staff has been trained to record payroll- related wires according to the wire date.

City's Response 2017: Implemented. In 2016, payroll staff were trained to create a journal voucher to cover only one accounting period at a time. In order to ensure only one accounting period was covered, payroll staff were instructed to split the payroll journal voucher according to the wire date on the supporting documentation for each month.

Since time of implementation, the procedure has been improved. In order to be consistent with other Electronic Funds Transfers (EFT) transactions, payroll wires are no longer recorded through a journal voucher but processed by accounts payable staff as other EFT transactions are prepared. EFT's are reconciled monthly to the City Treasurer's EFT transaction list and a second proof is through the bank reconciliation process to ensure that transactions are recorded.

Responsible Person: Controller Christine Williams

Status 2016: Not yet started.

E+P's Comment 2017: Implemented.

2015-037 - Electronic Payments (EFT/ACH) (MW)

Finding: Payments could not be properly traced to supporting documentation because use of "miscellaneous vendor - #99999".

Recommendation: Stop using the "miscellaneous vendor" account. All vendors need to be set up individually in the vendor master file. **Current vendor master file needs to be reviewed.**

City's Response 2016: We concur with the recommendation, and it was implemented effective December 2016. Finance staff has been trained to set up all vendors individually in the vendor master file, and to discontinue the use of a "miscellaneous vendor" account.

SCHEDULE OF PRIOR AUDIT FINDINGS (Continued)

City's Response 2017: We concur with the recommendation, and utilization of the miscellaneous vendor account was limited as a result of system inefficiencies effective December 2016. The system inefficiency that results should be eliminated when the new ERP is implemented. However, until implementation, Finance staff will be trained to set up all vendors individually in the vendor master file, and to discontinue the use of a "miscellaneous vendor" account.

Implementation Date: June 30, 2018

Responsible Person: Controller Christine Williams

Status 2016: Not yet started.

E+P's Comment 2017: Our finding stands as noted.

2015-038 - Electronic Payments (EFT/ACH) (MW)

Finding: CDC checks and deposits were coded to the wrong pooled cash fund (997 - general vs. 998 - CDC).

Recommendation: Review HTE report against bank EFT posting by accounts payable (AP) personnel needs to be done monthly.

City's Response 2016: We concur with the recommendation, and it was implemented effective December 2016. Finance staff has been trained to review all Successor Agency (former CDC) transactions for coding to the proper accounts. The Treasurer's office will perform a secondary review to assure the proper account number is used.

City's Response 2017: Implemented

Responsible Person: Controller Christine Williams

Status 2016: Not yet started.

E+P's Comment 2017: Implemented.

2015-039 - Electronic Payments (EFT/ACH) (MW)

Finding: Recording of CDC loan principal repayment wire to the City was inadvertently reversed in the general ledger causing City and CDC pooled cash funds to be out of balance. Journal voucher has been prepared to correct.

Recommendation: Review HTE report against bank EFT posting by accounts payable (AP) personnel needs to be done monthly.

SCHEDULE OF PRIOR AUDIT FINDINGS (Continued)

City's Response 2016: We concur with the recommendation, and it was implemented effective December 2016. Finance staff has been trained to review all Successor Agency (former CDC) transactions posted to the general ledger and reconcile them on a monthly basis.

City's Response 2017: Implemented

Responsible Person: Controller Christine Williams

Status 2016: Not yet started.

E+P's Comment 2017: Implemented.

2015-040 - Cash Receipts (SD)

Finding: A separate bank account was maintained for CDC Successor Agency. However, in collapsing of prior RDA funds (421-425) into new Successor Agency fund (429), an error in the journal voucher left balances in City pooled cash fund (997) per general ledger. After further investigation, adjustments had been made to correct the error.

Recommendation: Joint review of prior cash transfers between the City and CDC Successor Agency is needed. Non-standard journal entries especially those affecting cash transactions between City and CDC Successor Agency should be reviewed by CFO, not only to evaluate the accounting treatment, but also to consider compliance with state laws and regulations affecting former RDAs. The Economic Development Department head should be consulted as appropriate.

City's Response 2016: We concur with the recommendation, and although it has been identified as Priority 1B, it will be implemented effective July 1, 2017. Finance staff will coordinate with the Economic Development Department to review all Successor Agency (former CDC) transactions to evaluate the accounting treatment, and to consider compliance with state laws and regulations affecting former RDAs.

City's Response 2017: The City has hired expert consultants to train staff, review transactions and prepare regulatory reports. The City will also use legal counsel as appropriate to assure it meets its compliance objectives.

Implemented

Responsible Person: Controller Christine Williams

Status 2016: Not yet started.

E+P's Comment 2017: Implemented.

SCHEDULE OF PRIOR AUDIT FINDINGS (Continued)

2015-041 - Cash Receipts (SD)

Finding: There were no procedures in place to perform internal audits of cash receipts in various locations within the City organization.

Recommendation: Random audits of cash receipts should be performed.

City's Response 2016: We concur with the recommendation, and it was implemented effective January 2017. The Treasurer's Department staff performed a surprise cash reconciliation audit of the MRF and provided guidance and direction to the Department Head, supervisorial staff and line staff and suggestions for improving the cash controls. It was suggested that daily cash pickup instead of once a week pick up by security should be implemented to mitigate potential for loss. Initial steps have begun for example the City Clerk's old unbound cash receipts have been replaced with bound pre-numbered receipts. The Treasurer's staff have reviewed the petty cash process in many departments and will continue to provide training for all other departments this year.

City's Response 2017: Implemented by City Treasurer, with the exception of written procedures.

Responsible Person: City Treasurer Phil Molina

Status 2016: Not yet started.

E+P's Comment 2017: Policies and procedures in process.

2015-042 - Cash Receipts (SD)

Finding: There are no written procedures in place for reconciliation of daily cash receipts.

Recommendation: Cash receipts should be reconciled to general ledger postings daily.

City's Response 2016: We concur with the recommendation, and it will be implemented effective July 1, 2017. This will require all departments to be trained on proper reporting of cash to finance. Staff needs to reconcile daily cash before posting GL and follow-up needed. The Treasurer's staff is in the process of preparing written procedures for many of the daily functions performed by staff. There is a cash management manual, which is being updated to conform to City Codes and State law. Staff follows the procedures that have been handed down over the years and will be working with other departments and consultants to prepare written instructions of the function performed.

SCHEDULE OF PRIOR AUDIT FINDINGS (Continued)

City's Response 2017: Written procedures implementation in progress with City Treasurer. Issues with posting cash batches produced by the HTE system still results in delays in completing reconciliations. Finance and City Treasurer personnel work together to provide additional review and to improve the reconciliation process.

Planned Implementation Date: September 30, 2018

Responsible Person: City Treasurer Phil Molina and Controller Christine Williams

Status 2016: Not yet started.

E+P's Comment 2017: Not yet started.

2015-043 - Journal Entries to Cash (MW)

Finding: The process of preparing, reviewing, and approving journal entries was not properly designed. The CFO or acting CFO was responsible to review hundreds of journal entries, many of them affected cash, which rendered the control ineffective. The accounting system is not set up to record standard recurring entries.

Recommendation: Journal entries that affect cash should be thoroughly reviewed. However, the review process should be designed so that there are various levels of review. Recurring journal vouchers pre-approved via an amortization schedule should not need approval by CFO. In addition, monthly journal vouchers should be standardized and supporting documentation should be maintained.

City's Response 2016: We concur with the recommendation, and it has been identified as Priority 1B to be implemented by June 2018. The current workload to correct all identified issues has not allowed enough time for staff to perform this internal control assessment, but it is planned for completion in FY 2017-18. This will be handled by the Asst. CFO and/or Controller. Examples are: standard debt payments based on amortization schedule.

City's Response 2017: The HTE system is not easily configured to manage reversing journal entries or recurring journal entries. Progress has been made in connection with preparations for the FY 17 audit to reduce data entry effort. However, a large number of entries require approval and entry. Supporting documentation has been approved but needs further improvement. Design of the business process and the assignment of responsibility and authority needs attention.

Planned Implementation Date: June 30, 2018

Responsible Person: Controller Christine Williams

SCHEDULE OF PRIOR AUDIT FINDINGS (Continued)

Status 2016: Not yet started.

E+P's Comment 2017: Policies and procedures in process. See also current year finding 2017-012.

2015-044 - Journal Entries to Cash (MW)

Finding: An out-of-balance journal entry was found and correction was necessary to balance cash in the CDC Successor Agency Fund.

Recommendation: Journal entries should be reviewed before posting in the general ledger. In addition, cash-related journal entries should be reviewed by the person performing bank reconciliation during the bank reconciliation process.

City's Response 2016: We concur with the recommendation, and it has been identified as Priority 1B to be implemented by June 2018. The current workload to correct all identified issues has not allowed enough time for staff to perform this internal control assessment, but it is planned for completion in FY 2017-18.

City's Response 2017: The CFO engaged experts to analyze past problems with ROPS and cash reconciliation and to assist with preparation of ROPS reports. The HTE system does not provide for posting Treasurer's cash accounts for more than one entity, often leading to posting errors. Staff is considering an accounting change to eliminate Treasurer's cash accounts for the Successor Agency and accounting for Agency transactions in restricted funds, capital project funds and debt funds. Further analysis is required to assure fund types are established to support GAAP accounting for the Successor Agency if it is part of the City general ledger

Additional consulting assistance will be required to provide advice and perform reviews when the Successor Agency accounts are moved to funds in the City general ledger.

Planned Implementation Date: September 30, 2018

Responsible Person: Controller Christine Williams

Status 2016: Not yet started.

E+P's Comment 2017: Policies and procedures in process.

2015-045 - Journal Entries to Cash (MW)

Finding: Journal entries were posted to CDC Successor Agency Fund cash without adequate supporting documentation.

SCHEDULE OF PRIOR AUDIT FINDINGS (Continued)

Recommendation: Journal entries should be reviewed along with appropriate documentation. Sufficient documentation should be maintained with the journal entry voucher.

City's Response 2016: We concur with the recommendation, and although it has been identified as Priority 1B, it was implemented effective August 2016.

City's Response 2017: Document review has improved. The CFO engaged experts to assist with ROPS preparation including cash reconciliation. Reports and related journal entry back up will be improved. The Controller continues to review JE's and back up for Successor Agency accounting.

Staff will prepare appropriate risk-based documentation after ICIF implementing policies have been adopted and a Compliance Team has been assigned to analyze compliance and reporting issues.

Planned Implementation Date: September 30, 2018

Responsible Person: Controller Christine Williams

Status 2016: Not yet started.

E+P's Comment 2017: Policies and procedures in process.

2015-046 - Journal Entries to Cash (MW)

Finding: Reversing journal vouchers are not posted in a timely manner and prior-year reversing accruals are not easily found in following year log.

Recommendation: It is recommended that reversing journal vouchers reference original voucher, original batch number, and posted to period 1 of the following year.

City's Response 2016: We concur with the recommendation, and it will be implemented effective July 1, 2017. The software system needs to be set-up to do posting/reversing journal vouchers. Training or assistance from HTE may be needed. In January, staff began coordinating training with the current software provider and expect to have training conducted in this area by June 30, 2017.

City's Response 2017: HTE has been unresponsive in preparing a proposal for training and reimplementation of underused or improperly implemented software features. Staff is now focusing priority on selecting a replacement vendor for the ERP application. The City Council has approved a contract with a consulting firm that will define system requirements and manage the selection process.

SCHEDULE OF PRIOR AUDIT FINDINGS (Continued)

The extra review required to prevent errors in the current system will continue until a new ERP is implemented. Staff will focus on simplifying the journal entry process, reducing error rates and improving audit trails for Fiscal 2019.

Planned Implementation Date: June 30, 2019

Responsible Person: Controller Christine Williams

Status 2016: Not yet started.

E+P's Comment 2017: Policies and procedures in process.

2015-047 - Journal Entries to Cash (MW)

Finding: Journal vouchers and accounts payable check registers are not separated by type of transactions in the pooled cash general ledger detail. Both are currently shown as type "AJ" and description "Journal Summary". Miscellaneous journal vouchers review for accuracy is not efficient.

Recommendation: Obtain technical support from 'HTE' to see if there are options or other processes to separate AP check registers and journal vouchers by type.

City's Response 2016: We concur with the recommendation, and it has been identified as Priority 1B to be implemented by June 2018. The current workload to correct all identified issues has not allowed enough time for staff to perform this internal control assessment. In January, staff began coordinating training with the current software provider and expect to have training conducted throughout FY 2017-18.

City's Response 2017: The HTE vendor was not responsive to requests for application modification and training and has not submitted a proposal. Staff has done some workarounds but expects that the City's current effort to acquire and implement a new ERP will address these problems. This problem prevents the Finance Department from producing the quality information required for an effective system of internal control.

The current effort to produce monthly data in a short timeframe prevents adequate review and weakens the internal control environment. It also consumes staff time needed to analyze and correct problems associated with the current ERP. The internal control integrated framework is implemented to produce quality information that can be relied on for decision making. System control weaknesses and the competing priorities for staff time in reporting and budgeting affect the quality of information produced. To improve production of quality information staff intends to seek approval to reduce reporting frequencies and to focus on key financial and budget indicators. Redirecting efforts will improve analysis and review and will provide more time to work on systems issues that will pay off in the future.

SCHEDULE OF PRIOR AUDIT FINDINGS (Continued)

The Control Framework guidance from COSO and GAO specifically advises against creating pressure for results that can result in shortcuts affecting information quality and proper operation of controls and systems.

Planned Implementation Date: June 30, 2018

Responsible Person: CFO Jim Throop

Status 2016: Not yet started.

E+P's Comment 2017: Not yet started.

2015-048 - Journal Entries to Cash (MW)

Finding: HTE system reports are not in a format that can be easily and efficiently used for review.

Recommendation: Obtain technical support from 'HTE' to generate reports that can be utilized for review and analytical procedures.

City's Response 2016: We concur with the recommendation, and it will be implemented effective July 1, 2017. The current software system requires a separate report writing application in order to generate customized reports. Staff is currently training users on the report writing application.

City's Response 2017: Staff has met with HTE to secure a proposal for additional training in use of the existing ERP and assistance in properly using the system's features. However, HTE has been unresponsive in preparing a proposal for training and reimplementation of underused or improperly implemented software features. Staff is now focusing priority on selecting a replacement vendor for the ERP application. The City Council has approved a contract with a consulting firm that will define system requirements and manage the selection process.

Some staff have received training in third party report preparation tools to support technical analytical review. However widespread access to user friendly reporting and analysis limits efficiency and organizational understanding to help them meet control responsibilities. See the discussion on Finding **2015-047 EPF** for additional discussion.

SCHEDULE OF PRIOR AUDIT FINDINGS (Continued)

Staff will continue increased levels of analytical review and reconciliation until the new ERP is implemented. Required staffing levels will be affected.

Planned Implementation Date: Interim measures remain in effect until the new ERP goes live. The estimated implementation year is Fiscal 2021.

Responsible Person: Assistant CFO Deanne Purcell

Status 2016: Not yet started.

E+P's Comment 2017: Not yet started.

2015-049 - Investments (SD)

Finding: The Treasurer's Office did not maintain a complete and accurate Treasury ratings report.

Recommendation: Treasury ratings should be monitored to comply with investment policies. The Treasurer's Office should prepare the report quarterly.

City's Response 2016: We concur with the recommendation, and it was implemented effective December 2016. Since December 2016, the Treasurer has proper ratings for every investment that needs a rating. Instruments of the United States 'Treasures' do not get a rating because they are secured by the full faith and credit of the United State Government. There may be times when a GSE (U.S. Government sponsored Enterprise), an agency instrument, has only one rating company provide a rating.

There is no law that requires a government to pay the cost of more than one rating company. On occasion, there will be an instrument with only one rating from either Fitch, S&P, Moody's or FDIC. CDs are purchased from time to time, and the City purchases a face value of less than \$245,000 so that the both the premium and earned interest is covered by FDIC.

City's Response 2017: Implemented by City Treasurer

Responsible Person: City Treasurer Phil Molina

Status 2016: Not yet started.

E+P's Comment 2017: Implemented.

SCHEDULE OF PRIOR AUDIT FINDINGS (Continued)

2015-050 - Investments (SD)

Finding: Cash and investments were not reported at fair market value.

Recommendation: Fair value adjustments should be determined at least quarterly, included in the Treasurer's quarterly reports, and posted to the general ledger

City's Response 2016: We concur with the recommendation, and although it has been identified as Priority 1B, it is expected to be implemented effective July 1, 2017. The Treasurer's office produces monthly investment reports to Council, staff and Finance Department which shows the fair market value amount for each investment, which is provided by AvantGard APS2 (HTE) Sungard.

That information is provided to the Finance Department monthly when the investment report is prepared. However, due to shortages in staffing that report is 2 months behind. Additionally, Finance Department staff will be trained on the AvantGard interface with Sungard HTE general ledger system to ensure proper posting.

City's Response 2017: Fair market value reporting is implemented in the City Treasurers' report. The City disagrees that the lack of quarterly postings to the general ledger are a significant deficiency. The City's portfolio is not exposed to significant duration risk and investments are conservative posing very low levels of credit risk. Though interest rates are rising gradually they remain at historically low levels. The City's general practice of holding investments to maturity further reduces the risk of loss. The Treasurer's current regular reporting market values will let the Treasurer, management and the City Council evaluate portfolio performance and risk.

At year end staff will coordinate with the City Treasurer's office to assure that changes in market values are properly recorded in the general ledger and reported in the financial statements.

Planned Implementation Date: August 2018

Responsible Person: Controller Christine Williams

Status 2016: Not yet started.

E+P's Comment 2017: Our finding stands as noted.

2015-051 - Accounts Receivable (MW)

Finding: A reconciliation of accounts receivable against the general ledger was not performed periodically or at year-end.

SCHEDULE OF PRIOR AUDIT FINDINGS (Continued)

Recommendation: The receivable aging/subledger should be reconciled to the general ledger periodically by the Finance Department.

City's Response 2016: We concur with the recommendation, and it will be implemented effective July 1, 2017. With the recent completion of the FY 2015-16 financial audit, staff will begin training on the required periodic reconciliations.

City's Response 2017: Staff has developed complicated workarounds to create auditable balances for financial reporting purposes. The Sungard HTE system makes "point in time" reporting very difficult for accounts payable and accounts receivable balances.

Sungard - HTE has been unresponsive in preparing a proposal for training and reimplementation of underused or improperly implemented software features. Staff is now focusing priority on selecting a replacement vendor for the ERP application. The City Council has approved a contract with a consulting firm that will define system requirements and manage the selection process.

Until that system is implemented the City will have to use inefficient additional controls to reconcile general accounts receivable and accounts payable due to the limitations of the financial management software. In management's opinion these measures will detect errors that would result in material misstatement of financial reports.

Planned Implementation Date: At implementation of a new ERP, estimated to occur at July 1, 2020.

Responsible Person: Controller Christine Williams (or person supervising general accounts receivable)

Status 2016: Not yet started.

E+P's Comment 2017: Policies and procedures in process.

2015-052 - Accounts Receivable (MW)

Finding: The review of aging and collections for utilities were not centralized in the Finance Department. Review is not tied into the postings to the general ledger.

Recommendation: The receivable aging/subledger reconciliation by Finance Department should include utilities receivable.

SCHEDULE OF PRIOR AUDIT FINDINGS (Continued)

City's Response 2016: We concur with the recommendation, and it has been identified as Priority 1B to be implemented by June 2018. The current workload to correct all identified issues has not allowed enough time for staff to perform this internal control assessment, but it is planned for completion in FY 2017-18. With the recent completion of the FY 2015- 16 financial audit, staff will begin training on the required periodic reconciliations.

City's Response 2017: The Finance and Treasurer's department have not been able to assign staff to this issue due to workload and competing priorities. However, Finance recognizes that receivable aging and reconciliation are a key responsibility of the Chief Financial Officer to protect assets and to assure that they are properly valued in financial reports. The Treasurer's office often has the operational knowledge and expertise to advise on the valuation of the assets. Because aging and valuing miscellaneous and utility billing accounts receivable reflect on the performance of the collection operations responsible for those assets it is important to incorporate principles of segregation of duties in the process of establishing valuation allowances.

Finance Department and City Treasurer representatives will meet after budget adoption to establish and apply criteria for valuing receivables, including utility receivables.

Planned Implementation Date: Not later than August 15, 2018

Responsible Person: CFO Jim Throop and City Treasurer Phil Molina

Status 2016: Not yet started.

E+P's Comment 2017: Not yet started.

2015-053 - Accounts Receivable (MW)

Finding: Receivable aging reports were not reviewed by the Finance Department management for delinquent amounts. The allowance for uncollectibles was not analyzed or adjusted at year-end.

Recommendation: The receivables aging/subledger should be reviewed for delinquent amounts. Adjustments for allowances and/or write offs need to be approved by authorized personnel.

City's Response 2016: We concur with the recommendation, and it has been identified as Priority 1B to be implemented by June 2018. The current workload to correct all identified issues has not allowed enough time for staff to perform this internal control assessment, but it is planned for completion in FY 2017-18. With the recent completion of the FY 2015- 16 financial audit, staff will begin training on the required periodic reconciliations.

SCHEDULE OF PRIOR AUDIT FINDINGS (Continued)

City's Response 2017: See discussion regarding Finance consolidation, review and reconciliation of all receivables subledgers, including utilities at 2015-052, above.

Planned Implementation Date: Not later than August 15, 2018

Responsible Person: CFO Jim Throop and City Treasurer Phil Molina

Status 2016: Not yet started.

E+P's Comment 2017: Not yet started.

2015-054 - Accounts Receivable (MW)

Finding: There were no written accounting policies and procedures that specify the correct treatment for estimating the allowance for uncollectible accounts and bad debt expense.

Recommendation: Accounting policies and procedures must specify the correct treatment for estimating the allowance for uncollectible accounts and bad debt expense.

City's Response 2016: We concur with the recommendation, and it has been identified as Priority 1B to be implemented by June 2018. The current workload to correct all identified issues has not allowed enough time for staff to perform this internal control assessment, but it is planned for completion in FY 2017-18. With the recent completion of the FY 2015-16 financial audit, staff will begin training on the required periodic reconciliations.

City's Response 2017: Policies and procedures for receivable valuation are a high priority for the Finance Department. See the discussion of reconciliation to the general ledger of all receivable balances at year end and of developing criteria for valuation of receivable in collaboration with the City Treasurer's Utility Billing Division in 2015-052 EPF, above.

Planned Implementation Date: Not later than August 15, 2018

Responsible Person: CFO Jim Throop and City Treasurer Phil Molina

Status 2016: Not yet started.

E+P's Comment 2017: Not yet started.

2015-055 - Grants Management (MW)

Finding: Accounting for grants was decentralized and no one in Finance was responsible for reviewing grant funds. This condition caused many errors, including unrecorded grants receivable, notes receivable, deferred revenues, and negative fund balances.

SCHEDULE OF PRIOR AUDIT FINDINGS (Continued)

Recommendation: A responsible person in the Finance Department should be assigned to oversee the accounting of grants. Detailed policies and procedures should be developed, communicated to all departments who handle grant funds, implemented and monitored to ensure proper accounting and reporting of grants.

City's Response 2016: We concur with the recommendation, and it has been identified as Priority 1B to be implemented by June 2018. The current workload to correct all identified issues has not allowed enough time for staff to perform this internal control assessment, but it is planned for completion in FY 2017-18. 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, request reimbursement on a monthly basis, and comply with all reporting requirements.

City's Response 2017: Planned weekly coordination meetings during fiscal 2017 focused on specific problems with bring grant reimbursement and reporting up to date. Workload has limited progress on making proactive improvements in grant administration. Staffing levels and priorities in departments benefitting from grants has limited efforts at citywide coordination. Grantee departments' expectations and competing priorities relating to grant administration cause them to depend on Finance rather than a participating in a collaborative effort.

Finance staff's competing priorities continue to draw attention away from grants, creating the risk of non-compliance with its related consequences. The City has not fully implemented the Administrative Requirements of OMB's Uniform Guidance (2 CFR 200). Because of the high priority placed on achieving compliance objectives, the CFO has engaged consultants to assist with drafting policies to implement controls responsive to the FY 15 and 16 Single Audit findings. Those policies include implementation of a COSO based Internal Control Integrated Framework to serve as the system of internal controls required by OMB Uniform Guidance by July 1, 2018. Other policies will focus on implementing Administrative Requirements by July 1, 2018.

Draft policies for non-standard items and new and restricted funds include processes for addressing complex regulatory and administrative requirements so that adequate staff with in depth knowledge of grant requirements can effectively administer grants from all sources.

Another policy establishes routine reviews of staffing in the Finance Department and in operating department sections managing financial matters, including grants.

Planned Implementation Date: June 30, 2018

Responsible Person: Assistant CFO Deanne Purcell

Status 2016: Not yet started.

SCHEDULE OF PRIOR AUDIT FINDINGS (Continued)

E+P's Comment 2017: Not yet started. See also current year finding 2017-009.

2015-056 - Grants Management (SD)

Finding: Grants receivable were not tracked and reconciled to the general ledger on a monthly basis.

Recommendation: The City should establish procedures to ensure that all reimbursable costs or contract costs are billed and adherence to those procedures must be periodically reviewed by the appropriate level of management.

City's Response 2016: We concur with the recommendation, and it has been identified as Priority 1B to be implemented by June 2018. The current workload to correct all identified issues has not allowed enough time for staff to perform this internal control assessment, but it is planned for completion in FY 2017-18. 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, request reimbursement on a monthly basis, and comply with all reporting requirements.

City's Response 2017: During fiscal 2017 the City conducted weekly grants coordination meetings. As noted above those meetings focused on making sure accurate reimbursement requests were submitted to grantors. Additional effort focused on improving cost allocation to grants. However, competing priorities affected progress.

The City's consultants will develop Uniform Guidance implementing policies after completing implementing policies for the Internal Control Integrated Framework and providing assistance to Finance Staff in preparing the Fiscal 2017 Single Audit Corrective Action Plan.

Planned Implementation Date: June 30, 2018

Responsible Person: Assistant CFO Deanne Purcell

Status 2016: Not yet started.

E+P's Comment 2017: Not yet started. See also current year finding 2017-009.

2015-057 - Grants Management (SD)

Finding: FEMA - revenue was greater than expenditures due to accounts receivable not being recorded properly prior year. As a result, there is an overstatement of revenue of \$600,000 in the current year.

SCHEDULE OF PRIOR AUDIT FINDINGS (Continued)

Recommendation: The City should establish procedures to ensure that all reimbursable costs or contract costs are billed and adherence to those procedures must be periodically reviewed by the appropriate level of management.

City's Response 2016: We concur with the recommendation, and it has been identified as Priority 1B to be implemented by June 2018. The current workload to correct all identified issues has not allowed enough time for staff to perform this internal control assessment, but it is planned for completion in FY 2017-18. 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, request reimbursement on a monthly basis, and comply with all reporting requirements.

City's Response 2017: Turnover, workload and training issues have delayed progress on development of policies and implementation of procedures for grants. A project to implement an internal control framework responsive to the City's single audit findings is underway. The CFO has engaged consultants to provide control implementation policies including policies that implement the administrative requirements of OMB's Uniform Guidance.

The City's consultants will develop Uniform Guidance implementing policies after completing implementing policies for the Internal Control Integrated Framework and providing assistance to Finance Staff in preparing the Fiscal 2017 Single Audit Corrective Action Plan.

Planned Implementation Date: June 30, 2018

Responsible Person: Accountant Chandra Crudup

Status 2016: Not yet started.

E+P's Comment 2017: Not yet started. See also current year finding 2017-009.

2015-058 - Grants Management (BP)

Finding: Procedures for grant management in accordance with the new Uniform Guidance have not been adopted.

Recommendation: The City should adopt the new Uniform Guidance and procedures should be put in place to implement the policy.

City's Response 2016: We concur with the recommendation, and it has been identified as Priority 1B to be implemented by June 2018. The current workload to correct all identified issues has not allowed enough time for staff to perform this internal control assessment, but it is planned for completion in FY 2017-18.

SCHEDULE OF PRIOR AUDIT FINDINGS (Continued)

City's Response 2017: Turnover, workload and training issues have delayed progress on development of policies and implementation of procedures for grants. A project to implement an internal control framework responsive to the City's single audit findings is underway. The CFO has engaged consultants to provide control implementation policies including policies that implement the administrative requirements of OMB's Uniform Guidance.

The City's consultants will develop Uniform Guidance implementing policies after completing implementing policies for the Internal Control Integrated Framework and providing assistance to Finance Staff in preparing the Fiscal 2017 Single Audit Corrective Action Plan.

Planned Implementation Date: June 30, 2018

Responsible Person: Assistant CFO Deanne Purcell

Status 2016: Not yet started.

E+P's Comment 2017: Not yet started.

2015-059 - Grants Management (BP)

Finding: Grant agreements are not maintained in an orderly manner in the Finance Department to assist in the complete and accurate recording in the general ledger.

Recommendation: All grant agreements should be reviewed and filed in the Finance Department. During review, the person responsible for grants should identify terms and conditions that affect accounting and financial reporting as well as compliance.

City's Response 2016: We concur with the recommendation, and it has been identified as Priority 1B to be implemented by June 2018. The current workload to correct all identified issues has not allowed enough time for staff to perform this internal control assessment, but it is planned for completion in FY 2017-18. 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, request reimbursement on a monthly basis, and comply with all reporting requirements.

City's Response 2017: Turnover, workload and training issues have delayed progress on development of policies and implementation of procedures for grants. A project to implement an internal control framework responsive to the City's single audit findings is underway. The CFO has engaged consultants to provide control implementation policies including policies that implement the administrative requirements of OMB's Uniform Guidance.

SCHEDULE OF PRIOR AUDIT FINDINGS (Continued)

The City's consultants will develop Uniform Guidance implementing policies after completing implementing policies for the Internal Control Integrated Framework and providing assistance to Finance Staff in preparing the Fiscal 2017 Single Audit Corrective Action Plan.

After Uniform Guidance implementing policies are in place staff will organize grant records consistent with the standards established in those policies.

Planned Implementation Date: September 30, 2018

Responsible Person: Accountant Chandra Crudup

Status 2016: Not yet started.

E+P's Comment 2017: Not yet started.

2015-060 - Grants Management (BP)

Finding: The City does not have a cost allocation plan for Federal awards. Only direct payroll is charged against Federal awards.

Recommendation: The City should establish what is considered allowable direct and indirect costs for Federal awards. The City may be able to charge additional payroll in the Finance department for work employees do related to Grants.

City's Response 2016: We concur with the recommendation, and it will be implemented effective July 1, 2017. 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, request reimbursement on a monthly basis, and comply with all reporting requirements.

City's Response 2017: The City contracted for indirect cost and central service allocation studies with a consultant. Unfortunately, the timeliness and technical issues with the reports have delayed implementation of new cost allocations. In addition, the consultant's scope did not include creation of a cost allocation that complies with Uniform Guidance. The City continues to work with the consultant.

Management is analyzing use of the de Minimis 10% allocation allowed by 2 CFR 200. It has not used indirect cost recovery for Federal grants for years in order to preserve grant funds for direct program costs. Given other internal control priorities management intends to apply available resources to other findings and limit its action to adopting a policy regarding the de Minimis rate. It also intends to issue an RFP for cost allocation services to improve its ability to analyze the costs of City services.

SCHEDULE OF PRIOR AUDIT FINDINGS (Continued)

Planned Implementation Date:

Policy adoption: July 1, 2019

RFP: September 30, 2018

Responsible Person: CFO Jim Throop

Status 2016: Not yet started.

E+P's Comment 2017: Not yet started. See also current year finding 2017-005.

2015-061 - Grants Management (SD)

Finding: There are no procedures in place to inform the Finance Department what items get capitalized and what items were donated.

Recommendation: Establish procedures for grant coordinators to communicate to the Finance Department when there are items that need to be capitalized and when capital assets are donated.

City's Response 2016: We concur with the recommendation, and it has been identified as Priority 2 to be implemented by June 2019. The current workload to correct all identified issues has not allowed enough time for staff to perform this internal control assessment, but it is planned for completion in FY 2017-18. 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, request reimbursement on a monthly basis, and comply with all reporting requirements.

City's Response 2017: Implementing policies for Uniform Guidance will include capital asset policies consistent with the guidance.

Planned Implementation Date: June 30, 2018

Responsible Person: Management Accountant Pam Greer

Status 2016: Not yet started.

E+P's Comment 2017: Not yet started.

2015-062 - Grants Management (SD)

SCHEDULE OF PRIOR AUDIT FINDINGS (Continued)

Finding: Several state grant funds have negative fund balances due to the unallowable costs and expenditures incurred in the past.

Recommendation: The City should take corrective action to cure the negative fund balances in state and Federal grants and should establish controls to avoid future negative fund balances.

City's Response 2016: We concur with the recommendation, and it will be implemented effective July 1, 2017. 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, request reimbursement on a monthly basis, and comply with all reporting requirements.

City's Response 2017: Implementing policies for Uniform Guidance will include policies regarding monitoring grant transactions and balances and following up on unusual items, like disallowed costs.

Planned Implementation Date: June 30, 2018

Responsible Person: Accountant Chandra Crudup

Status 2016: Not yet started.

E+P's Comment 2017: Not yet started.

2015-063 - Notes Receivable (MW)

Finding: Notes receivable were not recorded in the general ledger. There were no policies and procedures in place to recognize long-term loan agreements entered into by the various departments with approval from City Council.

Recommendation: Policies and procedures should be established to obtain all long-term agreements entered into by various departments. These agreements must be reviewed for proper accounting treatment by the appropriate level of management.

City's Response 2016: We concur with the recommendation, and it will be implemented effective July 1, 2017. Finance staff will train other departments to identify long-term agreements that have a financial impact and establish procedures for obtaining those agreements for review by Finance Department staff.

SCHEDULE OF PRIOR AUDIT FINDINGS (Continued)

City's Response 2017: Notes receivable that result from expenditures of grant funds will be the subject of policies that implement the requirements of Uniform Guidance. The City intends to record all grant related notes to provide reasonable assurance that repayments are treated as program income and to assure documentation of City controls and related liens associated with grant funded notes.

Planned Implementation Date: June 30, 2018

Responsible Person: Controller Christine Williams

Status 2016: Not yet started.

E+P's Comment 2017: Policies and procedures in process. See also current year finding 2017-010.

2015-064 - Notes Receivable (MW)

Finding: Notes receivable agreements are not maintained in an orderly manner in the finance department to assist in the complete and accurate recording in the general ledger.

Recommendation: All long-term receivable agreements should be obtained and maintained by the Finance Department. A member of the Finance Department should be assigned to review the minutes of City Council meetings for long-term agreements and obtain such agreements for the Department.

City's Response 2016: We concur with the recommendation, and it will be implemented effective July 1, 2017. Finance staff will train other departments to identify long-term agreements that have a financial impact and establish procedures for obtaining those agreements for review by Finance Department staff. Finance staff will also be trained on the review of minutes from City Council meetings for such agreements.

City's Response 2017: After implementing control policies for Uniform Guidance are adopted Finance and operating department personnel associated with notes receivable will implement an orderly system for documenting and accounting for the notes.

Planned Implementation Date: June 30, 2018

Responsible Person: Accountant Chandra Crudup

Status 2016: Not yet started.

SCHEDULE OF PRIOR AUDIT FINDINGS (Continued)

E+P's Comment 2017: Policies and procedures in process. See also current year finding 2017-010.

2015-065 - Notes Receivable (SD)

Finding: Notes receivable are not tracked and reconciled to the general ledger. Repayment of HOME and CDBG loans were not properly classified as program income.

Recommendation: Notes receivable should be reconciled to the general ledger periodically by Finance. To assist in the reconciliation, information should be obtained from the Housing Department and Economic Development Department relating to current activity.

City's Response 2016: We concur with the recommendation, and it has been identified as Priority 1B to be implemented by June 2018. The current workload to correct all identified issues has not allowed enough time for staff to perform this risk assessment, but it is planned for completion in FY 2017-18. Finance staff will train other departments to identify notes receivable information and establish procedures for obtaining that information for review by Finance Department staff.

City's Response 2017: Notes receivable that result from expenditures of grant funds will be the subject of policies that implement the requirements of Uniform Guidance. The City intends to record all grant related notes to provide reasonable assurance that repayments are treated as program income and to assure documentation of City controls and related liens associated with grant funded notes.

Tracking systems will be implemented following adoption of implementing policies for the requirements of OMB's Uniform Guidance.

Planned Implementation Date: December 31, 2018

Responsible Person: Accountant Chandra Crudup

Status 2016: Not yet started.

E+P's Comment 2017: Policies and procedures in process.

2015-066 - Notes Receivable (SD)

Finding: Interest has not been accrued on any of the notes receivable.

Recommendation: Interest on notes receivable should be calculated and billed, as appropriate. Interest income should be accrued on a modified accrual basis and recorded in the general ledger.

SCHEDULE OF PRIOR AUDIT FINDINGS (Continued)

City's Response 2016: We concur with the recommendation, and it has been identified as Priority 1B to be implemented by June 2018. The current workload to correct all identified issues has not allowed enough time for staff to perform this risk assessment, but it is planned for completion in FY 2017-18. Finance staff will train other departments to identify notes receivable information and establish procedures for obtaining that information for review by Finance Department staff.

City's Response 2017: Preparation plans for the FY 2016-17 audit were to have produced computations of interest accruals. However staffing limitations and competing priorities prevented this from happening. Because this financial reporting issue does not expose the City to the risk of financial loss given its historical policy of forgiving accrued interest in almost all cases this calculation will only be done once per year in connection with the annual audit and single audit or during the year where adjustment is required for transactions relating to a specific loan. Interest is being calculated and billed as appropriate.

Planned Implementation Date: June 30, 2018

Responsible Person: Controller Christine Williams

Status 2016: Not yet started.

E+P's Comment 2017: Not yet started.

2015-067 - Notes Receivable (SD)

Finding: Notes receivable schedules were not reviewed by Finance Department management for delinquent amounts. The allowance for uncollectibles was not analyzed or adjusted at year-end.

Recommendation: The notes receivables schedule should be reviewed and reconciled to the general ledger. Adjustments for allowances and/or write offs need to be approved by authorized personnel.

City's Response 2016: We concur with the recommendation, and it has been identified as Priority 1B to be implemented by June 2018. The current workload to correct all identified issues has not allowed enough time for staff to perform this risk assessment, but it is planned for completion in FY 2017-18. Finance staff will train other departments to identify notes receivable information and establish procedures for obtaining that information for review by Finance Department staff.

SCHEDULE OF PRIOR AUDIT FINDINGS (Continued)

City's Response 2017: Policies related to non-standard items and restricted funds require analytical review and detailed knowledge of grant requirements. Estimating uncollectible amounts based on policy, credit and security issues will be implemented as a control activity based on the City's assessment of risk. In the meantime, staff review this in connection with its annual CAFR and Single Audit reporting requirements. Grant specific provisions will be included in Uniform Guidance implementing policies.

These receivables will be included in the policy discussion relating to valuation of all receivables expected to be completed by August 15, 2018.

Planned Implementation Date: August 15, 2018

Responsible Person: Controller Christine Williams

Status 2016: Not yet started.

E+P's Comment 2017: Not yet started. See also current year finding 2017-010.

2015-068 - Notes Receivable (SD)

Finding: There are no procedures in place to collect payments from developers based on residual revenues.

Recommendation: Policies and procedures must be developed and implemented to collect payments from developers based on residual revenues.

City's Response 2016: We concur with the recommendation, and it has been identified as Priority 1B to be implemented by June 2018. The current workload to correct all identified issues has not allowed enough time for staff to perform this risk assessment, but it is planned for completion in FY 2017-18.

City's Response 2017: Transactions related to notes receivable that result from expenditures of grant funds will be the subject of policies that implement the requirements of Uniform Guidance. The City intends to record all grant related notes to provide reasonable assurance that repayments are treated as program income and to assure documentation of City controls and related liens associated with grant funded notes. In addition, specific staff will be assigned to monitor compliance with grant terms and the terms of agreements related to grant, successor agency or City expenditures.

SCHEDULE OF PRIOR AUDIT FINDINGS (Continued)

Tracking systems will be implemented following adoption of implementing policies for the requirements of OMB's Uniform Guidance.

Planned Implementation Date: June 30, 2019

Responsible Person: Grants Manager Roel Briones

Status 2016: Not yet started.

E+P's Comment 2017: Not yet started.

2015-069 - Deferred Balances (BP)

Finding: A supporting analysis was not prepared for calculating deferred balances.

Recommendation: Accounting policies and procedures should specify the correct treatment for calculating deferred amounts. The analysis documents compliance with relevant GAAP and the City's accounting policies.

City's Response 2016: We concur with the recommendation, and it has been identified as Priority 2 to be implemented by June 2019. The current workload to correct all identified issues has not allowed enough time for staff to perform this internal control assessment, but it is planned for completion in FY 2018-19.

City's Response 2017: The Controller will convene a Compliance Team established pursuant to ICIF and Uniform Guidance implementing policies to review grant funded note receivable GAAP and compliance reporting objectives to develop and document policies applicable to grant funded notes receivable and related interest and valuation adjustments.

Planned Implementation Date: June 30, 2019

Responsible Person: Controller Christine Williams

Status 2016: Not yet started.

E+P's Comment 2017: Not yet started.

2015-070 - Capital Assets and Construction in Progress (CIP) (MW)

Finding: The City has not fully established accurate and auditable capital assets and CIP balances as of June 30, 2015.

SCHEDULE OF PRIOR AUDIT FINDINGS (Continued)

Recommendation: Continue remediation efforts to establish capital assets and CIP balances in the financial statements and related disclosures.

City's Response 2016: We concur with the recommendation, and it will be implemented effective July 1, 2017. The City's poor accounting records related to capital assets was the basis for a qualified audit opinion for FY 2015- 16, so the City takes this area very seriously. The current City staff does not possess the time, nor the expertise required to conduct a physical inventory, establish appropriate valuations, and compile complete listings of all capital assets in the City. The current workload to correct all identified issues has not allowed enough time for staff to be adequately trained to perform these functions. Therefore, staff is currently in the process of contracting for a consultant that specializes in capital asset valuations to implement this recommendation.

City's Response 2017: Completed. The CFO engaged a capital assets inventory and valuation consultant to reconstruct the City's fixed asset records and certify the compliance of their reports with accounting and appraisal standards. The project has been completed and values have been recorded in the General Ledger. The City is developing procedures to assure that the resulting detailed schedule of capital assets can be maintained in future years, including depreciation, capitalization of interest, additions and retirements.

Responsible Person: Assistant CFO, Deanne Purcell

Status 2016: Not yet started.

E+P's Comment 2017: Implemented.

2015-071 - Capital Assets and Construction in Progress (CIP) (MW)

Finding: The City does not have a complete listing of capital assets. The City did not have a listing of ongoing and completed construction projects. It has not implemented accurate and complete asset identification, system mapping, and tagging processes that include sufficient detail to clearly differentiate and accurately track capital assets to the fixed assets system.

Recommendation: Implement processes and controls to facilitate identification and tracking of capital assets and CIP.

SCHEDULE OF PRIOR AUDIT FINDINGS (Continued)

City's Response 2016: We concur with the recommendation, and it will be implemented effective July 1, 2017. The City's poor accounting records related to capital assets was the basis for a qualified audit opinion for FY 2015- 16 so the City takes this area very seriously. The current City staff does not possess the time nor the expertise required to conduct a physical inventory, establish appropriate valuations, and compile complete listings of all capital assets in the City. The current workload to correct all identified issues has not allowed enough time for staff to be adequately trained to perform these functions. Therefore, staff is currently in the process of contracting for a consultant that specializes in capital asset valuations to implement this recommendation.

City's Response 2017: Implemented. The consulting study to create a complete listing of capital assets has been completed.

Responsible Person: Assistant CFO, Deanne Purcell

Status 2016: Not yet started.

E+P's Comment 2017: Implemented.

2015-072 - Capital Assets and Construction in Progress (CIP) (MW)

Finding: No physical inventory of capital assets and CIP has been performed for many years.

Recommendation: Perform a physical inventory of capital assets and CIP.

City's Response 2016: We concur with the recommendation, and it will be implemented effective July 1, 2017. The City's poor accounting records related to capital assets was the basis for a qualified audit opinion for FY 2015- 16 so the City takes this area very seriously. The current City staff does not possess the time nor the expertise required to conduct a physical inventory, establish appropriate valuations, and compile complete listings of all capital assets in the City. The current workload to correct all identified issues has not allowed enough time for staff to be adequately trained to perform these functions. Therefore, staff is currently in the process of contracting for a consultant that specializes in capital asset valuations to implement this recommendation.

City's Response 2017: Implemented. The physical inventory and valuation project has been completed and the independent auditor has removed the modification of their opinion based on the condition of the City's capital asset records.

Responsible Person: Assistant CFO, Deanne Purcell

Status 2016: Not yet started.

SCHEDULE OF PRIOR AUDIT FINDINGS (Continued)

E+P's Comment 2017: Implemented.

2015-073 - Capital Assets and Construction in Progress (CIP) (MW)

Finding: The City did not have adequate policies and procedures to ensure that assets acquired, whether constructed, purchased, or on a capital lease, are recorded in the general ledger and the fixed-assets system in a timely manner.

Recommendation: Establish policies and procedures to ensure that assets acquired are recorded in the general ledger and the fixed- assets system in a timely manner.

City's Response 2016: We concur with the recommendation, and it will be implemented effective July 1, 2017. Finance staff received some training as part of the FY 2015-16 year-end closing process. With the recent completion of the FY 2015-16 financial audit, staff will receive more training on the procedures to ensure that assets acquired are recorded in the general ledger and the fixed-assets system in a timely manner.

City's Response 2017: The City's inventory and valuation project was completed by its consultants and that database will be maintained through control activities based on ICIF implementing policies establishing standards for transaction processing systems and major asset classes.

Planned Implementation Date: December 31, 2018

Responsible Person: Assistant CFO, Deanne Purcell

Status 2016: Not yet started.

E+P's Comment 2017: Not yet started.

2015-074 - Capital Assets and Construction in Progress (CIP) (MW)

Finding: The City has not implemented a process to identify and evaluate all lease agreements to ensure that they are appropriately categorized as operating or capital, and properly reported in the financial statements and related disclosures.

Recommendation: Assign a member of the Finance Department who has sufficient knowledge and skills to identify and evaluate all lease agreements to ensure that they are appropriately categorized as operating or capital, and properly reported in the financial statements and related disclosures.

SCHEDULE OF PRIOR AUDIT FINDINGS (Continued)

City's Response 2016: We concur with the recommendation, and it will be implemented effective July 1, 2017. With the recent completion of the FY 2015-16 financial audit, staff will receive more training on the procedures to ensure that all lease agreements are appropriately categorized and recorded in the system and reported in the financial statements.

City's Response 2017: The City's draft policy regarding non-standard items provides for a qualified Compliance Team to assemble to address accounting treatment for transactions that occur infrequently. The City does not have a large number of leases, especially structured like the transaction for Fire Station 8. The Governmental Accounting Standards Board issued a new standard for lease accounting in June 2017 for years beginning after December 15, 2019. Earlier implementation is encouraged.

In response the CFO will convene a Compliance Team to identify and review all transactions and agreements affected by the new standard. That team will create a plan to implement the new standard during the 2018-2019 fiscal year, two years before it is required. In the course of this project the team will develop the institutional knowledge and capacity to properly implement accounting and reporting treatment for future lease transactions.

Planned Implementation Date: July 1, 2019

Responsible Person: Management Accountant Pam Greer

Status 2016: Not yet started.

E+P's Comment 2017: Not yet started.

2015-075 - Capital Assets and Construction in Progress (CIP) (MW)

Finding: The City did not transfer certain assets from CIP to "in-use" assets in a timely manner. There were no controls in place to identify completed construction projects.

Recommendation: Establish policies and procedures to identify completed construction projects and properly transfer the cost from CIP to capital assets. The policies and procedures should include determining the date placed in service, useful life, and depreciation expense.

City's Response 2016: We concur with the recommendation, and it will be implemented effective July 1, 2017. Finance staff received some training as part of the FY 2015-16 year-end closing process. With the recent completion of the FY 2015-16 financial audit, staff will receive more training on the procedures to ensure that completed construction projects are recorded in the general ledger and the capital assets system in a timely manner.

SCHEDULE OF PRIOR AUDIT FINDINGS (Continued)

City's Response 2017: The City made progress in completing its year end close out review with the assistance of its inventory and valuation consultant in Fiscal 2017. The CFO has contracted with consultants to help staff develop internal control policies to address to the Single Audit findings for fiscal years 2015 and 2016. Those policies will include standards for transaction systems and major asset classes consistent with State Controller's Office guidelines and OMB's Uniform Guidance.

Policies will address how the City acquires assets and how they are valued at acquisition in addition to policies for procedures that transfer completed construction in process projects to in-use capital assets.

Planned Implementation Date:

Policies: June 30, 2018

CIP procedures: August 15, 2018

Responsible Person: Assistant CFO, Deanne Purcell

Status 2016: Not yet started.

E+P's Comment 2017: Not yet started.

2015-076 - Capital Assets and Construction in Progress (CIP) (MW)

Finding: CIP amounts that represent discontinued projects were not expensed.

Recommendation: Construction projects that have been discontinued should be properly expensed.

City's Response 2016: We concur with the recommendation, and it will be implemented effective July 1, 2017. Finance staff received some training as part of the FY 2015-16 year-end closing process. With the recent completion of the FY 2015-16 financial audit, staff will receive more training on the procedures to ensure that completed construction projects are recorded in the general ledger and the capital assets system in a timely manner.

City's Response 2017: Major transaction system and balance sheet category policies will follow completion of the ICIF implementing policies, the 2017 Corrective Action Plan and the Uniform Guidance implementing policies. Draft policies should be prepared by June or July 2018. Planned policies will require regular reviews of all capital projects to identify projects that should not be capitalized, construction in progress that has been abandoned or completed construction in progress that should be transferred to in-use assets.

Planned Implementation Date: Not later than August 31, 2018. Control activities related to the policy will be periodic and ongoing.

SCHEDULE OF PRIOR AUDIT FINDINGS (Continued)

Responsible Person: Assistant CFO, Deanne Purcell

Status 2016: Not yet started.

E+P's Comment 2017: Not yet started.

2015-077 - Capital Assets and Construction in Progress (CIP) (MW)

Finding: Capital outlay expenditures were not evaluated to determine whether capitalization was appropriate

Recommendation: Capital outlay expenditures should be routinely evaluated to determine whether capitalization was appropriate.

City's Response 2016: We concur with the recommendation, and it will be implemented effective July 1, 2017. Finance staff received some training as part of the FY 2015-16 year-end closing process. With the recent completion of the FY 2015-16 financial audit, staff will receive more training on the procedures to determine whether capitalization is appropriate.

City's Response 2017: Policies for control activity standards have been drafted. Those policies require periodic review of problem areas identified as sources of risk and identify all Single Audit internal control findings as markers for risk in the financial system. Implementing policies for Uniform Guidance will add policies for items purchased with grant proceeds.

Purchasing and accounting staff have been briefed on the control issues involved with improperly capitalizing expenses in asset accounts. The regular periodic capital assets review for discontinued projects, completed CIP projects will integrate with controls at the point of purchase to create an integrated control framework to improve the accuracy and reliability of capital asset records. The recent project to inventory and value capital assets has resolved a number of outstanding issues related to proper capitalization. This significantly reduced the complexity involved with implementing these controls without a reliable starting point.

Planned Implementation Date:

Policy adoption: June 30, 2018

Purchasing review of expenditures: March 31, 2018

Responsible Person: Assistant CFO, Deanne Purcell

Status 2016: Not yet started.

E+P's Comment 2017: Not yet started.

SCHEDULE OF PRIOR AUDIT FINDINGS (Continued)

2015-078 - Capital Assets and Construction in Progress (CIP) (MW)

Finding: The City does not have policies and procedures in place to properly account for capitalized interest in accordance with GAAP. Capitalized Interest normally begins at the start of preconstruction activities and ends when an asset is substantially complete and ready for use. Our audit procedures revealed that the City did not end their interest capitalization for Historic Enhancement and Revitalization of Oxnard (HERO) Project after an asset was substantially complete and ready for use. Therefore; the amount of asset was overstated by \$1,973,770.

Recommendation: Policies and procedures must be developed and implemented to properly account for capitalized interest. In addition, we recommend more effective review procedures.

City's Response 2016: We concur with the recommendation, and it will be implemented effective July 1, 2017. Finance staff received some training as part of the FY 2015-16 year-end closing process. With the recent completion of the FY 2015-16 financial audit, staff will receive more training on the procedures to properly account for interest capitalization.

City's Response 2017: Implemented. The Controller and Management Accountant have reviewed accounting principles for capitalization of interest and are applying those rules as part of their pre-closing review of capital asset additions. Future periodic CIP reviews will include attention to capitalized interest. New debt financed construction projects will be referred to a Compliance Team to establish GAAP accounting and monitoring programs related to capitalized interest.

Planned Implementation Date: June 30, 2018

Responsible Person: Management Accountant Pam Greer

Status 2016: Not yet started.

E+P's Comment 2017: Not yet started.

2015-079 - Capital Assets and Construction in Progress (CIP) (MW)

Finding: The rate and method of application of indirect labor cost (Labor markup) to capital projects was dated back to 2012 amounts. Application to projects is currently done through manual entries. Manual entries leave room for error and are often not timely or efficient.

Recommendation: Review and update the process for indirect cost allocation for accuracy. Review is needed to ensure that projects are assigned the appropriate labor cost.

SCHEDULE OF PRIOR AUDIT FINDINGS (Continued)

City's Response 2016: We concur with the recommendation, and it will be implemented effective July 1, 2017. The City contracted for an update to the Cost Allocation Plan, and it is currently in the final stages of review. With the recent completion of the FY 2015-16 financial audit, staff will receive training on the procedures to properly assign the updated labor costs to projects.

City's Response 2017: The consultants engaged by the City to complete indirect cost, internal service and service cost analyses have not been timely in producing reports required for updating project labor charges. In addition, HTE software does not support combined payroll and project and labor distribution. HTE has been unresponsive about improving project costing functionality within the currently installed version of the software. Staff is in contact with RCS, the cost allocation consultant, about producing usable reports.

The City will continue to use manual systems to allocate indirect labor charges to capital projects until improved reports are obtained and the current ERP is replaced for fiscal 2020 or 2021. Periodic review of open projects is expected to detect problems with labor distributions for attention by the accounting and Public Works staffs.

Planned Implementation Date:

For periodic review, September 30, 2018

For ERP conversion: December 31, 2019

Responsible Person: Assistant CFO, Deanne Purcell

Status 2016: Not yet started.

E+P's Comment 2017: Not yet started.

2015-080 - Capital Assets and Construction in Progress (CIP) (MW)

Finding: There is lack of sufficient controls to track asset acquisitions and compare actual costs incurred to approved capital budgets. CIP costs are allowed to exceed recorded capital budgets. Completed projects are not properly closed on a timely manner.

Recommendation: Establish policies and procedures to track asset acquisitions and construction and compare to approved capital budgets. Recorded capital budgets must be updated for approved change orders, otherwise CIP costs should not be allowed to exceed the approved capital budgets. Projects should be closed when completed. Additional costs must not be incurred on the project when it is complete.

SCHEDULE OF PRIOR AUDIT FINDINGS (Continued)

City's Response 2016: We concur with the recommendation, and it will be implemented effective July 1, 2017. For the FY 2015-16 closing process, Finance staff sent lists of projects to project managers and requested status updates or project close-out forms. In addition, Finance staff will coordinate the capital project monitoring with other departments to ensure proper budget monitoring and recording of acquisitions, change orders, and close-outs.

City's Response 2017: Turnover in Finance and Public Works and competing priorities have slowed implementation of appropriate control activities including periodic capital project review by trained, competent personnel.

The City plans to begin periodic review of capital projects and to continue to apply additional controls and analyses of capital asset costs until a new ERP can be used to implement controls that will prevent charges to projects categorized as complete.

Planned Implementation Date:

Periodic reviews: September 30, 2018

Automated controls and reports: July 1, 2019

Responsible Person: Assistant CFO, Deanne Purcell

Status 2016: Not yet started.

E+P's Comment 2017: Not yet started.

2015-081 - Capital Assets and Construction in Progress (CIP) (MW)

Finding: Department and project managers were not involved in the internal control process.

Recommendation: The capital assets listing should be routed to department and project managers to determine whether assets still physically exist.

City's Response 2016: We concur with the recommendation, and it was implemented effective December 2016. For the FY 2015-16 closing process, Finance staff sent lists of projects to project managers and requested status updates or project close-out forms. In addition, staff is currently in the process of contracting for a consultant that specializes in capital asset valuations to conduct a physical inventory to help implement this recommendation.

City's Response 2017: The recommendation was implemented as part of the City's capital assets inventory and valuation project. Finance staff intends to circulate asset listings to appropriate managers in future years to determine whether assets still exist. Implemented. Planned control policies for major transaction systems and balance sheet account classes will include regular reviews of capital projects and ongoing inventory and reconciliation of capital assets.

SCHEDULE OF PRIOR AUDIT FINDINGS (Continued)

Planned Implementation Date: September 30, 2018

Responsible Person: Assistant CFO, Deanne Purcell

Status 2016: Not yet started.

E+P's Comment 2017: Policies and procedures in process.

2015-082 - Capital Assets and Construction in Progress (CIP) (MW)

Finding: There are individuals designated with responsibility for assuring compliance with the terms of grants and contracts; however, there was insufficient communication between these individuals and the finance department.

Recommendation: Establish policies and procedures relating to capital assets and CIP and communicate such policies and procedures to affected individuals in other departments. The finance department should lead the coordinated efforts of various departments to implement the policies and procedures.

City's Response 2016: We concur with the recommendation, and it has been identified as Priority 2 to be implemented by June 2019. The current workload to correct all identified issues has not allowed enough time for staff to develop controls and implement this recommendation, but it is planned for completion in FY 2018-19. Finance will coordinate with other departments on a regular basis to communicate policies and procedures relating to capital assets and CIP.

City's Response 2017: The City has changed its implementation priorities to adopting a COSO based Internal Control Integrated Framework through a number of implementing policies, to fully comply with Uniform Guidance Corrective Action Plan reporting requirements and to implement the administrative requirements of the Uniform Guidance by June 30, 2018. In Fiscal 2019 internal control improvements will focus first on adopting internal control policies for major transaction systems and balance sheet accounts then on designing and documenting control activities using a risk-based approach.

SCHEDULE OF PRIOR AUDIT FINDINGS (Continued)

Implementing policies for the ICIF and Uniform Guidance will include policies related to compliance and to information and communication. This Single Audit finding, combined with problems revealed by detailed analysis of the City capital asset systems are considered important risk indicators for documentation efforts in Fiscal 2019.

Planned Implementation Date:

ICIF and Uniform Guidance policy adoption: June 30, 2018

Transaction system and balance sheet control policies adoption: September 30, 2018

Procedures design and documentation: June 30, 2019

Responsible Person: Assistant CFO Deanne Purcell

Status 2016: Not yet started.

E+P's Comment 2017: Not yet started.

2015-083 - Capital Assets and Construction in Progress (CIP) (MW)

Finding: Project managers are designated to monitor construction projects; however, there was insufficient communication between the project managers and the finance department.

Recommendation: Establish policies and procedures relating to capital assets and CIP and communicate such policies and procedures to affected individuals in other departments. The finance department should lead the coordinated efforts of various departments to implement the policies and procedures.

City's Response 2016: We concur with the recommendation, and it has been identified as Priority 2 to be implemented by June 2019. The current workload to correct all identified issues has not allowed enough time for staff to develop controls and implement this recommendation, but it is planned for completion in FY 2018-19. Finance will coordinate with other departments on a regular basis to communicate policies and procedures relating to capital assets and CIP.

City's Response 2017: From 2015-082 EPF - The City has changed its implementation priorities to adopting a COSO based Internal Control Integrated Framework through a number of implementing policies, to fully comply with Uniform Guidance Corrective Action Plan reporting requirements and to implement the administrative requirements of the Uniform Guidance by June 30, 2018. In Fiscal 2019 internal control improvements will focus first on adopting internal control policies for major transaction systems and balance sheet accounts then on designing and documenting control activities using a risk-based approach.

SCHEDULE OF PRIOR AUDIT FINDINGS (Continued)

Implementing policies for the ICIF and Uniform Guidance will include policies related to compliance and to information and communication. This Single Audit finding, combined with problems revealed by detailed analysis of the City capital asset systems are considered important risk indicators for documentation efforts in Fiscal 2019.

Planned Implementation Date:

ICIF and Uniform Guidance policy adoption: June 30, 2018

Transaction system and balance sheet control policies adoption: September 30, 2018

Procedures design and documentation: June 30, 2019

Responsible Person: Assistant CFO Deanne Purcell

Status 2016: Not yet started.

E+P's Comment 2017: Not yet started.

2015-084 - Capital Assets and Construction in Progress (CIP) (MW)

Finding: Depreciation was not properly calculated by the automated system because the inputs were made incorrectly. No review was made by management during the year.

Recommendation: The capital assets system should be reviewed and inputs should be corrected when necessary.

City's Response 2016: We concur with the recommendation, and it will be implemented effective July 1, 2017. Finance staff received some training as part of the FY 2015-16 year-end closing process. With the recent completion of the FY 2015-16 financial audit, staff will receive more training on the procedures to ensure that assets acquired are recorded correctly in the general ledger so that the system can calculate depreciation.

City's Response 2017: The completion of the physical inventory and valuation of the City's capital assets significantly improved the asset database, including depreciation bases. The Controller's staff worked with the independent auditors to assure that entries for capital assets were properly calculated and recorded for fiscal 2016-2017. Planned policies for major balance sheet accounts will include capital asset depreciation policies.

SCHEDULE OF PRIOR AUDIT FINDINGS (Continued)

However additional review and monitoring will be required due to the limitations of the HTE system. Staff will explore options to maintain capital asset records in a third-party system with better reporting and management features than the one it has been using for the last twenty years. Implementation of a new ERP for Fiscal 2020 is expected to address problems with depreciation calculations. Policies and procedures for entering and maintaining depreciation elements of capital asset master files will be based on risk and will depend on the tracking options selected by staff during fiscal 2019.

The capital assets inventory and valuation reviewed and updated all depreciation elements at June 30, 2017. This finding recommendation is implemented. Future work will be part of ICIF and Uniform Guidance efforts.

Responsible Person: Deanne Purcell

Status 2016: Not yet started.

E+P's Comment 2017: Policies and procedures in process.

2015-085 - Capital Assets and Construction in Progress (CIP) (MW)

Finding: There is no process in place for reporting disposals of capital assets.

Recommendation: Policies and procedures should be established to obtain information from various departments regarding any disposals of capital assets.

City's Response 2016: We concur with the recommendation, and it has been identified as Priority 2 to be implemented by June 2019. The current workload to correct all identified issues has not allowed enough time for staff to develop controls and implement this recommendation, but it is planned for completion in FY 2018-19. Finance will develop a system for obtaining asset disposal information and coordinate with other departments on a regular basis to communicate policies and procedures relating to capital asset disposals.

2015-91

City's Response 2017: The completion of the physical inventory and valuation of the City's capital assets significantly improved the capital asset database. The CFO has engaged consultants to prepare draft policies to implement elements of the ICIF to address Single Audit Findings. Policies establishing standards for ICIF Information and Communication control activities will be drafted to assure that asset system information requirements are built into practices implemented to improve the quality of financial information. The capital asset project built high levels of understanding and appreciation for the importance of durable and accurate asset records. Staff will follow up with policies and training to assure maintenance of the capital asset database.

SCHEDULE OF PRIOR AUDIT FINDINGS (Continued)

Planned policies for major balance sheet accounts will include these recommendations.

Planned Implementation Date:

Balance Sheet account policies: September 30, 2018

Control activity design and documentation: June 30, 2019

Responsible Person: Deanne Purcell

Status 2016: Not yet started.

E+P's Comment 2017: Not yet started.

2015-086 - Accounts Payable (MW)

Finding: Reconciliation of accounts payable aging/subledger against the general ledger was not performed at end of year. It was not possible to generate the report after the cut-off date.

Recommendation: We recommend that procedures be put in place to specifically generate an accounts payable aging report at month-end. This report should be agreed to the general ledger and reviewed by an appropriate member of management.

City's Response 2016: We concur with the recommendation, and it will be implemented effective July 1, 2017. Finance staff received some training as part of the FY 2015-16 year-end closing process. With the recent completion of the FY 2015-16 financial audit, staff will receive more training on the procedures for accounts payable.

City's Response 2017: City staff has not received a proposal for training and implementation services from HTE-Sungard. As a result, staff must use inefficient analyses to compensate for the current ERP's inability to support accurate point-in-time reporting of subledger balances. These analyses will continue until a new ERP is implemented for Fiscal 2020.

In the meantime, a risk-based approach will be used to develop and document procedures that provide reasonable assurance that major balance sheet accounts are materially correct. Procedural documentation will be developed pursuant to control activity standards implementing the ICIF.

Planned Implementation Date:

ICIF implementing policies and control activity standards: June 30, 2018

Major balance sheet account policies: September 30, 2018

Control activity design and documentation: June 30, 2019

Responsible Person: Controller Christine Williams

SCHEDULE OF PRIOR AUDIT FINDINGS (Continued)

Status 2016: Not yet started.

E+P's Comment 2017: Not yet started.

2015-087 - Accounts Payable (MW)

Finding: No formal process in place to review master vendor file and investigate any exceptions.

Recommendation: The master vendor file should be reviewed periodically. During the review process, the file should be compared to W-9s, addresses should be compared to employees' addresses, and inactive vendors should be removed.

City's Response 2016: We concur with the recommendation, and it has been identified as Priority 2 to be implemented by June 2019. The current workload to correct all identified issues has not allowed enough time for staff to develop controls and implement this recommendation, but it is planned for completion in FY 2018-19. Finance will develop a system for reviewing vendor files.

City's Response 2017: The City has hired a purchasing manager to improve the procurement function and controls related to non-personnel costs. Staff is considering recent best practice guidance with respect to digital security of the vendor files (<http://www.gfoa.org/electronic-vendor-fraud>) as it develops procedures. The City plans to adopt policies for internal control of major transaction systems and for major balance sheet accounts. Control activity design will be risk-based. However, due to planned changes in financial management software, extensive documentation efforts will be delayed until the new system is designed and implemented.

Planned Implementation Date:

ICIF Control Activity standards: June 30, 2018

Balance Sheet and Transaction System Controls: September 30, 2018

Control activity design and documentation: Ongoing through new ERP implementation.

Responsible Person: Purchasing Manager Lisa Boerner

Status 2016: Not yet started.

E+P's Comment 2017: Not yet started.

SCHEDULE OF PRIOR AUDIT FINDINGS (Continued)

2015-088 - Long-Term Debt (MW)

Finding: The long-term debt liability balances were not adjusted at year-end. Principal and interest payments were not posted to correct accounts and/or funds. Accrued interest was not calculated or recorded. Prior-year accrued interest was not reversed. Amortization of premiums and discounts was not recorded.

Recommendation: A monthly reconciliation of outstanding debt instruments to the general ledger should be prepared and reviewed timely. Statements received from lenders must be reconciled to the subsidiary ledger and differences investigated.

City's Response 2016: We concur with the recommendation, and it will be implemented effective July 1, 2017. Finance staff received some training as part of the FY 2015-16 year-end closing process. With the recent completion of the FY 2015-16 financial audit, staff will receive more training on the procedures for long-term debt.

City's Response 2017: Turnover in the position responsible for debt accounting and reconciliation has required distribution of duties among other employees during the course of recruitment. The current ERP does not have automated controls to prevent postings to closed fiscal years so reconciliation of use of debt proceeds requires additional analysis and review. The debt management and accounting position has been filled and the City expects to resume regular analysis and reconciliation of long term debt by a person trained in and familiar with accounting, contractual and regulatory issues.

Planned Implementation Date: June 30, 2018

Responsible Person: CFO Jim Throop

Status 2016: Not yet started.

E+P's Comment 2017: Policies and procedures in process.

2015-089 - Long-Term Debt (MW)

Finding: Significant adjustments for bond issuance and defeasance were not recorded. Bond proceeds of approximately \$20 million was not recorded in the general ledger.

Recommendation: Procedures should be established to capture transactions that are infrequent or non-routine in nature on a timely basis. The Financial Resources Division should communicate to the Accounting Department activities such as issuance of debt or defeasance of debt.

SCHEDULE OF PRIOR AUDIT FINDINGS (Continued)

City's Response 2016: We concur with the recommendation, and it will be implemented effective July 1, 2017. Finance staff received some training as part of the FY 2015-16 year-end closing process. With the recent completion of the FY 2015-16 financial audit, staff will receive more training on the procedures for long-term debt.

City's Response 2017: ICIF implementing policies, including a policy regarding non-standard items has been drafted to provide a structured process to assure that unusual transactions, debt issuance and capital leases, are identified, analyzed, recorded and reported properly. Any debt issuance or capital lease would be treated as a non-standard item. The Finance Department will communicate with other city departments to prevent them from executing agreements that qualify as capital leases without CFO approval.

The City of Oxnard plans early implementation of the newly released GASB statement on lease accounting.

Planned Implementation Date:

ICIF implementing policy adoption: June 30, 2018

Uniform Guidance implementing policy adoption: June 30, 2018

GASB 87 - Leases implementation: July 1, 2018

Responsible Person: CFO Jim Throop

Status 2016: Not yet started.

E+P's Comment 2017: Policies and procedures in process.

2015-090 - Long-Term Debt (MW)

Finding: No policies in procedures in place to capture new debt agreements and capital leases. Debt agreements and lease agreements are not reviewed for appropriate classification of outstanding debt and capitalization of assets on capital lease. Significant notes payable and capital leases were not recorded in the general ledger.

Recommendation: Procedures should be established to capture transactions that are infrequent or non-routine in nature on a timely basis. The Financial Resources Division should communicate to the Accounting Department activities such as issuance of debt or defeasance of debt.

City's Response 2016: We concur with the recommendation, and it will be implemented effective July 1, 2017. Finance staff received some training as part of the FY 2015-16 year-end closing process. With the recent completion of the FY 2015-16 financial audit, staff will receive more training on the procedures for long-term debt.

SCHEDULE OF PRIOR AUDIT FINDINGS (Continued)

City's Response 2017: ICIF implementing policies, including a policy regarding non-standard items has been drafted to provide a structured process to assure that unusual transactions, debt issuance and capital leases, are identified, analyzed, recorded and reported properly. Any debt issuance or capital lease would be treated as a non-standard item. The Finance Department will communicate with other city departments to prevent them from executing agreements that qualify as capital leases without CFO approval.

The City of Oxnard plans early implementation of the newly released GASB statement on lease accounting.

Planned Implementation Date:

ICIF implementing policy adoption: June 30, 2018

Uniform Guidance implementing policy adoption: June 30, 2018

GASB 87 - Leases implementation: July 1, 2018

Responsible Person: CFO Jim Throop

Status 2016: Not yet started.

E+P's Comment 2017: Policies and procedures in process.

2015-091 - Long-Term Debt (MW)

Finding: Compliance with debt covenants particularly rate covenants in the water and wastewater funds were not determined and reviewed in a timely manner.

Recommendation: Procedures should be improved to ensure that debt compliance determinations are prepared and reviewed timely.

City's Response 2016: We concur with the recommendation, and it will be implemented effective July 1, 2017. Finance staff received some training as part of the FY 2015-16 year-end closing process. With the recent completion of the FY 2015-16 financial audit, staff will receive more training on the procedures for long-term debt compliance monitoring.

City's Response 2017: Consistent operation of the control activity has been affected by turnover for both of the people assigned to this area over the last year. However, proposed rate increases, changes in variable rate debt credit facilities and litigation related to rate increases focused attention on compliance with bond indentures.

The City has consulted with its Financial Advisors and Bond Counsel and has provided informational briefings to bond rating agencies, letter of credit providers and interest rate swap counterparties about compliance with debt covenants. It has successfully replaced its letter of credit and received improved bond ratings.

SCHEDULE OF PRIOR AUDIT FINDINGS (Continued)

An employee has been recruited for these important bond accounting, reporting and ongoing disclosure responsibilities. That person, working with Finance Department Managers, new financial advisors and bond counsel will monitor debt covenant compliance in the remainder of Fiscal 2018 and in future years and will assure compliance with continuing disclosure requirements

Planned Implementation Date: June 30, 2018

Person responsible: Controller Christine Williams

Status 2016: Not yet started.

E+P's Comment 2017: Policies and procedures in process.

2015-092 - Pension Plans (SD)

Finding: Census data used by CalPERS and PARS to calculate the net pension liability was not reviewed. Discrepancies in demographic and compensation data were noted in current year.

Recommendation: Review the census data used by actuaries in calculating the net pension liability and ensure that discrepancies are investigated and resolved appropriately.

City's Response 2016: We concur with the recommendation, and it will be implemented effective July 1, 2017. This primarily resulted from the late timing of receiving the actuarial reports. Finance staff received some training as part of the FY 2015-16 year-end closing process. With the recent completion of the FY 2015-16 financial audit, staff will receive more training on the procedures for obtaining census data in a timely manner to allow adequate time for review.

City's Response 2017: New staff in HR are receiving training in CalPERS administration and information was supplied to the PARS plan actuary, Bartel and Associates for the biennial valuation. Finance and HR will work together with the actuaries for both plans to assure that data required to develop appropriate actuarial analyses is complete and accurate. Inadequate staffing and training have contributed to past problems. Staffing in Payroll is inadequate for the current workload and Payroll staff found little time to process payrolls and stay up to date with training and review of changes in taxes, regulation and labor agreements. New policies drafted by the City's consultants for reviewing the adequacy of Finance Department staffing, developing training plans and conducting performance evaluations incorporating control system accountability will combine to address this problem.

The City will also adopt internal control policies for major balance sheet accounts. Those policies will include both pension and other post-employment benefit liabilities and deferred inflows and outflows.

SCHEDULE OF PRIOR AUDIT FINDINGS (Continued)

Responsibilities in the Finance and Human Resource departments will be structured to develop expertise and organizational capacity to account for these liabilities.

Planned Implementation Date:

ICIF implementing policy adoption: June 30, 2018

Uniform Guidance implementing policy adoption: June 30, 2018

Finance and HR staff assignments: June 30, 2018

GASB 87 - Leases implementation: July 1, 2018

Responsible Person: CFO Jim Throop

Status 2016: Not yet started.

E+P's Comment 2017: Policies and procedures in process.

2015-093 - Pension Plans (SD)

Finding: On several occasions during FY 2015, employee contributions for retirement plans were not remitted to the trustees on a timely basis.

Recommendation: Improve processes in place to ensure that employee contributions for retirement plans are remitted to the trustees on a timely basis all the time.

City's Response 2016: We concur with the recommendation, and it was implemented effective September 2016. Payroll staff remits employee contributions to retirement plans on a bi-weekly basis with each payroll.

CalPERS payments are submitted by wire transfer within two weeks after each payroll and PARS and Section 457 Plan payments are remitted within 30 days according to the Payroll Supervisor.

City's Response 2017: Implemented

Responsible Person: Payroll Supervisor Carol Venegas

Status 2016: Not yet started.

E+P's Comment 2017: Implemented.

2015-094 - Use of Credit Cards (SD)

Finding: An employee in the purchasing department has the authority to contact Bank of America to issue credit cards in anyone's name under the City of Oxnard's account.

SCHEDULE OF PRIOR AUDIT FINDINGS (Continued)

Recommendation: Issuance of credit cards should be approved by an appropriate level of management. The Purchasing Manager should review open credit card listing monthly to ensure that only current active employees have access to credit cards. Also recommend reviewing credit cards with no activity for current employees and deleting accounts if they are not deemed to be necessary to help limit exposure.

City's Response 2016: We concur with the recommendation, and it will be implemented effective July 1, 2017. A draft credit card policy is being reviewed that will eliminate these issues.

City's Response 2017: The Finance Department and the City Attorney's Office have prepared new purchasing ordinances and a draft Purchasing Manual. Adoption of the manual has been deferred to incorporate ICIF implementing policies, Uniform Guidance implementing policies and Major Transaction System Policies.

Planned Implementation Date:

ICIF Policies: June 30, 2018

Uniform Guidance Policies: June 30, 2018

Major transaction system policies: September 30, 2018

Purchasing manual including credit card policies and procedures: October 31, 2018

Responsible Person: Purchasing Manager Lisa Boerner

Status 2016: Not yet started.

E+P's Comment 2017: Not yet started.

2015-095 - Use of Credit Cards (BP)

Finding: Credit cards remained active for a period of 2 months to almost 9 months after employee was terminated before being cancelled.

Recommendation: The City should implement a checklist to include verifying with Purchasing Department if the employee has an active credit card as part of the termination procedures.

City's Response 2016: We concur with the recommendation, and it will be implemented effective July 1, 2017. A draft credit card policy is being reviewed that will eliminate these issues.

SCHEDULE OF PRIOR AUDIT FINDINGS (Continued)

City's Response 2017: The Finance Department and the City Attorney's Office have prepared new purchasing ordinances and a draft Purchasing Manual. Adoption of the manual has been deferred to incorporate ICIF implementing policies, Uniform Guidance implementing policies and Major Transaction System Policies.

Planned Implementation Date:

ICIF Policies: June 30, 2018

Uniform Guidance Policies: June 30, 2018

Major transaction system policies: September 30, 2018

Purchasing manual including credit card policies and procedures: October 31, 2018

Responsible Person: Purchasing Manager Lisa Boerner

Status 2016: Not yet started.

E+P's Comment 2017: Not yet started.

2015-096 - Use of Credit Cards (SD)

Finding: Credit card transactions were not processed and reviewed timely by the Finance Department.

Recommendation: The Finance Department should process and review credit card transactions on a timely basis.

City's Response 2016: We concur with the recommendation, and it will be implemented effective July 1, 2017. A draft credit card policy is being reviewed that will eliminate these issues.

City's Response 2017: The Finance Department and the City Attorney's Office have prepared new purchasing ordinances and a draft Purchasing Manual. Adoption of the manual has been deferred to incorporate ICIF implementing policies, Uniform Guidance implementing policies and Major Transaction System Policies.

Planned Implementation Date:

ICIF Policies: June 30, 2018

Uniform Guidance Policies: June 30, 2018

Major transaction system policies: September 30, 2018

Purchasing manual including credit card policies and procedures: October 31, 2018

Responsible Person: Purchasing Manager Lisa Boerner

SCHEDULE OF PRIOR AUDIT FINDINGS (Continued)

Status 2016: Not yet started.

E+P's Comment 2017: Not yet started.

2015-097 - Contracts (BP)

Finding: The bidding process is decentralized. All contracts and bids are not being retained by the Purchasing Department so they can have documentation that bids went through the proper channels and contracts were properly prepared.

Recommendation: Bids/proposals greater than \$25,000 should be sent to the Purchasing Department to indicate the approved bids were submitted and received according the City policy and to retain a copy for their records for a period of three years, according the Purchasing Manual.

City's Response 2016: We concur with the recommendation, and it has been identified as Priority 2 to be implemented by June 2019. The current workload to correct all identified issues has not allowed enough time for staff to develop controls and implement this recommendation, but it is planned for completion in FY 2018-19. Finance will coordinate with other departments on a regular basis to communicate policies and procedures relating to maintaining bid records.

City's Response 2017: The Finance Department and the City Attorney's Office have prepared new purchasing ordinances and a draft Purchasing Manual. Adoption of the manual has been deferred to incorporate ICIF implementing policies, Uniform Guidance implementing policies and Major Transaction System Policies.

Planned Implementation Date:

ICIF Policies: June 30, 2018

Uniform Guidance Policies: June 30, 2018

Major transaction system policies: September 30, 2018

Purchasing manual including credit card policies and procedures: October 31, 2018

Documentation, training and implementation of new purchasing policies: June 30, 2019

Responsible Person: Purchasing Manager Lisa Boerner

Status 2016: Not yet started.

E+P's Comment 2017: Not yet started.

SCHEDULE OF PRIOR AUDIT FINDINGS (Continued)

2015-098 - Contracts (SD)

Finding: The list of FY 2015 approved contracts generated by the Purchasing Department was incomplete because some jobs that were approved by the City Manager or City Council were not updated on the network spreadsheet indicating the contracts were approved.

Recommendation: Establish procedures to ensure that list of approved contracts maintained by the Purchasing Department includes all contracts approved by the City Manager and City Council.

City's Response 2016: We concur with the recommendation, and it has been identified as Priority 1B to be implemented by June 2018. The current workload to correct all identified issues has not allowed enough time for staff to perform this risk assessment, but it is planned for completion in FY 2017-18. Finance will coordinate with other departments on a regular basis to develop and maintain a listing of approved contracts.

City's Response 2017: The Finance Department and the City Attorney's Office have prepared new purchasing ordinances and a draft Purchasing Manual. Adoption of the manual has been deferred to incorporate ICIF implementing policies, Uniform Guidance implementing policies and Major Transaction System Policies.

Planned Implementation Date:

ICIF Policies: June 30, 2018

Uniform Guidance Policies: June 30, 2018

Major transaction system policies: September 30, 2018

Purchasing manual including credit card policies and procedures: October 31, 2018

Documentation, training and implementation of new purchasing policies: June 30, 2019

Responsible Person: Purchasing Manager Lisa Boerner

Status 2016: Not yet started.

E+P's Comment 2017: Not yet started.

2015-099 - Contracts (SD)

Finding: Change orders for public works contracts exceeding \$50,000 must be submitted to City Manager for approval. Agreement No. A-7630 with Granite Construction was missing an approved change order from project file in the amount of \$82,302.

SCHEDULE OF PRIOR AUDIT FINDINGS (Continued)

Recommendation: City needs to establish and follow procedures for approval of change orders. All change orders approval should be documented and kept in the project file with the public works department.

City's Response 2016: We concur with the recommendation, and it will be implemented effective July 1, 2017. Finance staff will coordinate with the Public Works Department to ensure that proper supporting documentation for change orders is maintained.

City's Response 2017: The Finance Department and the City Attorney's Office have prepared new purchasing ordinances and a draft Purchasing Manual. Adoption of the manual has been deferred to incorporate ICIF implementing policies, Uniform Guidance implementing policies and Major Transaction System Policies.

Planned Implementation Date:

ICIF Policies: June 30, 2018

Uniform Guidance Policies: June 30, 2018

Major transaction system policies: September 30, 2018

Purchasing manual including credit card policies and procedures: October 31, 2018

Documentation, training and implementation of new purchasing policies: June, 30, 2019

Responsible Person: Purchasing Manager Lisa Boerner

Status 2016: Not yet started.

E+P's Comment 2017: Not yet started.

2015-100 - Municipal Golf Course (SD)

Finding: There is a lack of oversight over the service concession at the municipal golf course. The privately-owned operator currently controls all finance functions. Only a project manager, who is a City employee, is responsible for oversight. A joint bank account has not been set-up or utilized as stated in the agreement between the City and operator.

Recommendation: The City should create an oversight board to oversee the Municipal Golf Course. The oversight board should review and approve the annual business plan which includes the budgets as well as all monthly financial reports.

SCHEDULE OF PRIOR AUDIT FINDINGS (Continued)

City's Response 2016: We concur with the recommendation, and it will be implemented effective July 1, 2018. The golf course operation has complexities with regards to the business model moving forward. The current staffing and workload to correct all identified issues has not allowed enough time for staff to perform this assessment, but it is planned for completion in FY 2017-18.

City's Response 2017: The City Council has engaged a certified public accounting firm to act as the City's internal auditor and has included an audit of the golf course and related agreements in audit plan. Further detailed review will be done as the City prepares for changes related to the end of the current management contract with the golf course operator. Governance issues relating to oversight of the operation will be addressed as part of that work.

Planned Implementation Date: June 30, 2019

Responsible Person: CFO Jim Throop

Status 2016: Not yet started.

E+P's Comment 2017: Policies and procedures in process.

2015-101 - Municipal Golf Course (MW)

Finding: The City has previously reported all revenues generated and expenses incurred by the operator in the City's financial statements. However, the City only receives a share of net receipts at the end of each year.

Recommendation: Only the share of net receipts should be reported as revenue from the service concession. Gross revenues generated and all expenditures incurred by the private operator should not be included in the City's financial statements.

City's Response 2016: We concur with the recommendation, and it was implemented effective September 2016. Finance staff has been trained to record an annual entry to record net receipts from the concessionaire.

City's Response 2017: Implemented

Responsible Person: Controller Christine Williams

Status 2016: Not yet started.

E+P's Comment 2017: Implemented.

SCHEDULE OF PRIOR AUDIT FINDINGS (Continued)

2015-102 - Municipal Golf Course (SD)

Finding: The City did not bill the company for water used on the municipal golf course.

Recommendation: The City should bill the operator for use of any City services to operate the municipal golf course.

City's Response 2016: We concur with the recommendation, and it will be implemented effective July 1, 2018. The golf course contractual agreement has complexities with regards to water services. The current staffing and workload to correct all identified issues has not allowed enough time for staff to perform this assessment, but it is planned for completion in FY 2017-18.

City's Response 2017: The City Council has engaged a certified public accounting firm to act as the City's internal auditor and has included an audit of the golf course and related agreements in audit plan. Further detailed review will be done as the City prepares for changes related to the end of the current management contract with the golf course operator. Draft policies developed to implement the ICIF and provide a base for correction of Single Audit findings will provide a process for improving policies and procedures related to the golf course in the context of a more extensive risk assessment process and a new contract for operation of the courses.

Planned Implementation Date for Water Use Charge Policy: June 30, 2018. The new contract terms will be developed and negotiated with an operator by December 31, 2018.

Responsible Person: CFO Jim Throop

Status 2016: Not yet started.

E+P's Comment 2017: Not yet started.

2015-103 - Review and Reconciliation of Clearing Funds (SD)

Finding: Clearing funds are not reviewed and closed-out regularly. As a result of City's clean-up of these funds during our audit, material prior-period adjustments were made.

Recommendation: Close-out clearing funds periodically, quarterly, or at least annually.

City's Response 2016: We concur with the recommendation, and it will be implemented effective July 1, 2017. Finance staff received some training as part of the FY 2015-16 year-end closing process. With the recent completion of the FY 2015-16 financial audit, staff will receive more training on the procedures for closing out clearing funds.

SCHEDULE OF PRIOR AUDIT FINDINGS (Continued)

City's Response 2017: The CFO has engaged consultants 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. Those standards 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. Valuation and reporting presentation of related balance sheet accounts will also be covered.

Planned Implementation Date:

ICIF implementing policies, including control activity standards: June 30, 2018

Control activity design and documentation: June 30, 2019

Responsible Person: Controller Christine Williams

Status 2016: Not yet started.

E+P's Comment 2017: Not yet started. See also current year finding 2017-013.

2015-104 - Review and Reconciliation of Clearing Funds (BP)

Finding: The City has a "trust fund" (Fund 571) to account for contributions or donations from outside parties. The contributions or donations come with various designations. The City does not have procedures in place to classify the fund balances within the general fund as "restricted, committed, assigned, or unassigned" or to account for certain funds as agency funds rather than in the general fund.

Recommendation: Review the various sources of the contributions and donations and designations made by contributors and donors. Establish procedures to classify fund balances within the general fund or to account for other funds in an agency fund.

City's Response 2016: We concur with the recommendation, and it has been identified as Priority 2 to be implemented by June 2019. The current workload to correct all identified issues has not allowed enough time for staff to develop controls and implement this recommendation, but it is planned for completion in FY 2018-19.

City's Response 2017: In connection with the FY 17 audit staff analyzed the detail of the private donations trust fund and corrected accounting for the donations recorded in the fund. Staff plans to propose a City Council policy governing acceptance and accounting for private donations.

SCHEDULE OF PRIOR AUDIT FINDINGS (Continued)

Other trust fund accounts relating to accounts receivable from developers will be analyzed and corrected during FY 18.

Planned Implementation Date:

Donation and acceptance policy with management decision on accounting treatment: December 31, 2018

Analysis of other trust funds: August 31, 2018

Responsible Person: Controller Christine Williams

Status 2016: Not yet started.

E+P's Comment 2017: Policies and procedures in process.

2015-105 - Information and Communication (SD)

Finding: The various departments of the City operated in silos. Department heads were not actively involved in the budget and financial reporting process. Communication between the finance department and various departments was not encouraged.

Recommendation: Improve Communications among departments. The Finance Department should hold meetings with department heads periodically.

City's Response 2016: We concur with the recommendation, and it was implemented effective October 2016. With the hiring of the new CFO and two assistant CFO's, the communication between Finance and other departments began improving. Communication is encouraged. Examples include: Budget meetings with various departments coordinated by Finance, and reviews of financial information - CAFR and Single Audit.

City's Response 2017: Implemented. Most financial information is shared at Senior Leadership Team meetings and budget meetings. Senior Leadership Team meetings occur weekly and cover a wide range of topics related to management of the city and to the expectations of the City Council. Some meetings are set aside to focus on specific subject areas. The plan is to continue to share information on audit status, CAFR/Single audit status, and audit findings.

Regular communication of status of the annual GAAP audit and the Single Audit findings is occurring. Planned ICIF implementing policies include periodic meetings with the City Manager, Senior Leadership Team and City Council to discuss progress, risk and priorities in the context of the integrated framework. Those policies also establish standards and expectations for information and communication about City Council goals and management's operating, reporting and compliance objectives. The city considers improved communication a key element of building an ethical, competent and accountable organization.

SCHEDULE OF PRIOR AUDIT FINDINGS (Continued)

New policies will institutionalize and clarify expectations for communication about risk, the internal control system and the control responsibilities of managers and employees throughout the City.

Planned Implementation Date:

ICIF Policies: June 30, 2018

Uniform Guidance Policies: June 30, 2018

Major transaction system and balance sheet account policies: September 30, 2018

Initial enterprise risk assessment: By January 31, 2019 for Fiscal 2019-2020 budget process.

Periodic ICIF reviews with Senior Leadership team and City Council: Fiscal 2018

Responsible Person: CFO Jim Throop

Status 2016: Not yet started.

E+P's Comment 2017: Policies and procedures in process.

2015-106 - Monitoring Activities (MW)

Finding: There is a lack of written policies and procedures over monitoring of internal control over financial reporting.

Recommendation: Design and implement an integrated framework for internal control which includes monitoring of implementation of internal control and evaluating it on a regular basis.

City's Response 2016: We concur with the recommendation, and it will be implemented effective July 1, 2017. Finance staff has begun evaluating internal controls over financial reporting. Written policies and procedures are expected to be completed by June 30, 2017.

City's Response 2017: The City plans to adopt ICIF implementing policies, Uniform Guidance implementing policies, and transaction system and major balance sheet policies that will address financial reporting control risks. Initial priority focuses on creating the integrated framework, complying with Uniform Guidance administrative and grant administration requirements and developing control activities to address the risks identified in audit findings.

The extent and formality of documentation depends on a risk-based approach appropriate for a rapidly changing organization. Procedural documentation will be developed consistent with ICIF Risk Assessments and staffing resources. Some control activities will be implemented through changes in practices or with limited documentation at the desk manual, FAQ or checklist level. When risks associated with transactions systems, reporting processes, fraud prevention and detection and major balance sheet items are significant, more formal and structured documentation will be prepared.

SCHEDULE OF PRIOR AUDIT FINDINGS (Continued)

Planned Implementation Date:

ICIF Policies: June 30, 2018

Uniform Guidance Policies: June 30, 2018

Major transaction system and balance sheet account policies: September 30, 2018

Risk-based documentation of procedures: June 30, 2019

Responsible Person: Assistant CFO Deanne Purcell

Status 2016: Not yet started.

E+P's Comment 2017: Policies and procedures in process.

2015-107 - Monitoring Activities (MW)

Finding: Internal control over financial reporting was not sufficiently evaluated during FY 2015 and past years. Significant deficiencies were not communicated to senior management, Fiscal Policy Task Force, and City Council.

Recommendation: Design and implement an integrated framework for internal control, which includes monitoring of implementation of internal control and evaluating it on a regular basis.

City's Response 2016: We concur with the recommendation, and it will be implemented effective July 1, 2017. Finance staff has begun evaluating internal controls over financial reporting. Written policies and procedures are expected to be completed by June 30, 2017.

City's Response 2017: The CFO has engaged consultants to help staff draft policies for internal controls to implement key components of the ICIF and establish key controls and control standards for major transaction systems, financial reporting processes, fraud prevention and detection activities and balance sheet items. Since Fiscal 2015 the City Council and management have engaged consultants and attorneys to evaluate the adequacy of consultants' and auditors' disclosures of deficiencies in compliance, financial reporting, budgeting and ethical practices. Subject matter consultants in local government taxes and assessments, development impact fees and human resources systems have identified numerous issues.

With the Fiscal 2014-2015 audit independent auditor's findings identified more weaknesses affecting financial reporting that were disclosed in the Single Audit reports. In addition, new staff experienced in other agencies have identified other important issues. With the support of the City Council the City staff has begun a significant multi-year effort to implement a COSO/GAO ICIF based internal control framework to provide reasonable assurance that operating, reporting and compliance objectives are met.

SCHEDULE OF PRIOR AUDIT FINDINGS (Continued)

Until that system has matured the City will use a combination of additional account reconciliation and analytical review to plug gaps in weak systems. In addition, policies to provide systematic analysis of nonstandard items, complex regulatory matters and new finance and accounting issues are planned. During the last two years the City has made significant progress in preparing financial information that is reliable. Future efforts will seek to improve timeliness and quality.

Planned Implementation Date:

ICIF Policies: June 30, 2018

Uniform Guidance Policies: June 30, 2018

Major transaction system and balance sheet account policies: September 30, 2018

Risk-based documentation of procedures: June 30, 2019

Responsible Person: CFO Jim Throop

Status 2016: Not yet started.

E+P's Comment 2017: Policies and procedures in process.

2015-108 - Monitoring Activities (SD)

Finding: Part of the Organizational Assessment implementation was an internal audit function. The internal audit function has not been implemented.

Recommendation: Implement the internal audit function as soon as possible.

City's Response 2016: We concur with the recommendation, and it was implemented effective January 2017.

On February 28, 2017, City Council deliberated and established the process for interviewing consulting firms to perform the internal audit function.

City's Response 2017: The City selected a CPA firm experienced in providing internal audit services and approved a contract and a planned work program. The scope of services includes a fraud risk assessment and an employee hotline to report illegal or improper behavior. This recommendation is implemented.

Responsible Person(s): City Council

Status 2016: Not yet started.

E+P's Comment 2017: Implemented.

SCHEDULE OF PRIOR AUDIT FINDINGS (Continued)

2015-109 - Compliance with Certain Provisions of Laws, Regulations, Contracts, and Grant Agreements (NC)

Finding: During FY 2015, the City failed to comply with certain bond covenants as discussed below:

- a. The Water Fund's and the Wastewater Fund's debt service coverage ratio fell below the ratio required by bond covenants.
- b. The City was unable to meet the continuing disclosure requirement by the due date of March 31, 2016

Recommendation: Improve processes in place to ensure compliance with bond covenants. Part of this process is proactive monitoring by the Financial Resources Division. Any deficiencies noted during the monitoring process should be brought to the attention of top City management.

City's Response 2016: We concur with the recommendation, and it will be implemented effective March 2017. Finance staff received some training as part of the FY 2015-16 year-end closing process. With the recent completion of the FY 2015-16 financial audit, staff will receive more training on the procedures for long-term debt compliance monitoring. Finance staff is currently working on the continuing disclosures required to be filed by March 31, 2017. The City's water and wastewater debt service coverage ratios continue to fall below the ratios required by bond covenant. The City is communicating with its financial partners with regards to the plan to adopt new water and wastewater rates in the next six to nine months.

City's Response 2017: The City Council has adopted utility rate ordinances that provide adequate revenue for debt coverage requirements. Planned policies provide for a risk-based approach to managing risks that threaten the City's reporting and compliance objectives. For utilities those objectives include compliance with constitutional requirements and contractual obligations. Operating objectives relating to the safety and sustainability of utility infrastructure and operations will also be considered.

This area has been the subject of litigation that increases risks that threaten City objectives and has been given extensive attention by legal, engineering, capital markets and financial experts. Continued management of these risks will require ongoing attention and resources given the importance of utilities to the community.

Implemented with future support from implementation of the integrated framework.

Responsible Person: CFO Jim Throop

Status 2016: Not yet started.

E+P's Comment 2017: Policies and procedures in process.

SCHEDULE OF PRIOR AUDIT FINDINGS (Continued)

2015-110 - Compliance with Certain Provisions of Laws, Regulations, Contracts, and Grant Agreements (NC)

Finding: The Oxnard Successor Agency incurred administrative costs in excess of approved budget amounts as stated in the ROPS

Recommendation: Improve processes in place to ensure that the expenses reported in the private purpose trust fund were approved in the ROPS.

City's Response 2016: We concur with the recommendation, and it will be implemented effective July 1, 2017. Finance staff will coordinate with the Economic Development Department to review all Successor Agency (formerly CDC) transactions to evaluate the accounting treatment, and to consider compliance with state laws and regulations affecting former RDAs.

City's Response 2017: The CFO has engaged consultants with expertise in successor agency compliance and reporting to assist in the financial administration of the agency. This coupled with recent training provided for Finance and Economic Development/CDC staff has implemented the recommendation for this finding.

Responsible Person: Controller Christine Williams

Status 2016: Not yet started.

E+P's Comment 2017: Policies and procedures in process.

2015-111 - Compliance with Certain Provisions of Laws, Regulations, Contracts, and Grant Agreements (SD)

Finding: The City's 2014 SCO report contained material misstatements. The City had to make material adjustments to reconcile the 2014 SCO report to the 2014 audited financial statements. In addition, the 2015 SCO report did not include all year-end final closing adjustments because the closing process has not been completed when the SCO report was due. The City is expected to make material adjustments to reconcile the 2015 SCO report to the 2015 audited financial statements.

Recommendation: Adjustments needed to reconcile the 2015 SCO report to the 2015 audited financial statements should be explained in detail in the 2016 SCO report.

City's Response 2016: We concur with the recommendation, and it was implemented effective January 31, 2017, with the submittal of the FY 2016 SCO report to the State.

SCHEDULE OF PRIOR AUDIT FINDINGS (Continued)

City's Response 2017: Implemented. The City's independent auditors, Eadie & Payne prepared the SCO report for FY 2015-16 and all the necessary adjustments to reconcile to the audited financial statements. The City submitted the SCO report on January 31, 2018 after management review. The City intends to continue to contract with its independent auditors to prepare and reconcile the SCO report to the CAFR. Implemented.

Responsible Person: Assistant CFO Deanne Purcell

Status 2016: Not yet started.

E+P's Comment 2017: Implemented.