

# SINGLE AUDIT REPORT



# 2019



FISCAL YEAR ENDED JUNE 30, 2019

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CITY OF OXNARD

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JUNE 30, 2019

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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



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, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated November 18, 2019. Our report includes a reference to other auditors who audited the financial statements of Oxnard Housing Authority, as described in our report on the 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.

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A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, we did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items **2019-002** through **2019-006** that we consider 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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 (items **2019-006** through **2019-011**.)

The findings noted above exclude those that were found during our audit of fiscal years 2015, 2016, 2017, and 2018. These findings are listed in the accompanying schedule of findings and questioned costs - schedule of prior audit findings - financial statements.

### **City's Response to Findings**

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

### **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.



Riverside, California  
November 18, 2019

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

The Honorable City Council  
City of 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, 2019. 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 \$22,362,346 in Federal awards during the year ended June 30, 2019. 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.



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### ***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, 2019.

### ***Other Matters***

The results of our auditing procedures disclosed an instance of noncompliance which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item **2019-001**. Our opinion on each major federal program is not modified with the respect to this matter.

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

### **Report on Internal Control over Compliance**

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

*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.

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 have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses.

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 as Required by the Uniform Guidance**

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, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated November 18, 2019, 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.



Riverside, California  
February 14, 2020

**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, 2019**

Federal Grantor/Pass-through Grantor/Program Title	Federal Catalog Number	Program Identification Number	Total Program Expenditures	Total Amount Provided to Subrecipients	Total Federal Awards Expended for Loan or Loan Guarantee Programs
<b>U.S. Department of Housing and Urban Development</b>					
<b>CDBG - Entitlement Grants Cluster</b>					
<i>Direct Program</i>					
Community Development Block Grants	14.218	B-18-MC-06-0534	\$ 809,764	\$ 107,633	\$ -
		B-17-MC-06-0534	536,178	-	-
		B-16-MC-06-0534	51,987	-	-
		B-15-MC-06-0534	362,072	-	268,303
		B-14-MC-06-0534	29,415	-	12,968
			<u>1,789,416</u>	<u>107,633</u>	<u>281,271</u>
<b>Total CDBG - Entitlement Grants Cluster</b>			<u>1,789,416</u>	<u>107,633</u>	<u>281,271</u>
<i>Direct Program</i>					
Emergency Solutions Grants Program	14.231	E-18-MC-06-0534	107,009	93,869	-
		E-17-MC-06-0534	72,424	72,424	-
			<u>179,433</u>	<u>166,293</u>	<u>-</u>
<i>Direct Program</i>					
HOME Investment Partnership Program	14.239	M-18-MC-06-0526	90,391	-	-
		M-17-MC-06-0526	345,696	192,624	192,624
		M-16-MC-06-0526	117,777	-	117,777
			<u>553,864</u>	<u>192,624</u>	<u>310,401</u>
<b>Total U.S. Department of Housing and Urban Development</b>			<u>2,522,713</u>	<u>466,550</u>	<u>591,672</u>
<b>U.S. Department of Justice</b>					
<i>Direct Program</i>					
Edward Byrne Justice Assistance Grant (JAG)	16.738	2016-DJ-BX-0611	69,064	-	-
		2015-DJ-BX-0764	31,840	-	-
			<u>100,904</u>	<u>-</u>	<u>-</u>
<i>Passed through the County of Ventura</i>					
Equitable Sharing Program	16.922	2019 ESAC	86,069	-	-
			<u>86,069</u>	<u>-</u>	<u>-</u>
<b>Total U.S. Department of Justice</b>			<u>186,973</u>	<u>-</u>	<u>-</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**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)**  
**FOR THE YEAR ENDED JUNE 30, 2019**

Federal Grantor/Pass-through Grantor/Program Title	Federal Catalog Number	Program Identification Number	Total Program Expenditures	Total Amount Provided to Subrecipients	Total Federal Awards Expended for Loan or Loan Guarantee Programs
<b>U.S. Department of Homeland Security</b>					
<i>Passed through the County of Ventura</i>					
Emergency Management Performance Grant	97.042	2018-0008-111-00000	46,835	-	-
		2017-0007-111-00000	5,879	-	-
			<u>52,714</u>	-	-
<i>Direct Program</i>					
FEMA- AFG 2016	97.044	EMW-2016-FO-06278	6,081	-	-
FEMA- AFG LIGHT & AIR 2016	97.044	EMW-2016-FV-90082	12,836	-	-
			<u>18,917</u>	-	-
<i>Passed through the County of Ventura</i>					
Homeland Security Grant Program	97.067	2018-0054	2,027	-	-
		2017-0083-111-00000	9,010	-	-
		2016-0102-111-00000	14,553	-	-
			<u>25,590</u>	-	-
<b>Total U.S. Department of Homeland Security</b>			<u><b>97,221</b></u>	-	-
<b>U.S. Department of Transportation</b>					
<b>Highway Planning and Construction Cluster</b>					
<i>Passed through the State of California Department of Transportation</i>					
Rice Ave. & 5th Street Grade Separation	20.205	HSIPL-5129(084)	668,720	-	-
Bicycle Facilities in Northeast Specific Plan		CML-5129 (086)	2,470	-	-
C Street Bicycle Facilities		CML-5129 (087)	27	-	-
Westside of Rose Ave. Between Auto Ctr. & E. Collins		CML-5129 (079)	246	-	-
Northside Vta Blvd. Between Balboa & Rose Avenue		CML-5129 (078)	5,662	-	-
Channel Island Blvd over Mandalay Bay - Bridge		BHLS-5129(069)	4,371	-	-
Channel Island Blvd over Edison Canal - Bridge		BHLS-5129(070)	8,836	-	-
Cross Walk Beacon Phase II		CML-5129(091)	5,248	-	-
Traffic Signal Various Locations		HSIPL 5129 (093)	6,351	-	-
Vineyard Av Resurf PW 16-12		FERSTPL-5129(092)	1,650,360	-	-
City Wide Signal Mod		HSIPL 5129 (095)	1,171	-	-
			<u>2,353,462</u>	-	-
<b>Total Highway Planning and Construction Cluster</b>			<u><b>2,353,462</b></u>	-	-
<b>Highway Safety Cluster</b>					
<i>Passed through the State of California Office of Traffic Safety</i>					
State and Community Highway Safety	20.600	PT19084	91,300	-	-
		PT18108	27,363	-	-
			<u>118,663</u>	-	-
National Priority Safety Programs	20.616	PT18108	21,171	-	-
			<u>21,171</u>	-	-
<b>Total Highway Safety Cluster</b>			<u><b>139,834</b></u>	-	-
<i>Passed through the State of California Office of Traffic Safety</i>					
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	PT19084	157,413	-	-
		PT18108	91,883	-	-
			<u>249,296</u>	-	-
<b>Total U.S. Department of Transportation</b>			<u><b>2,742,592</b></u>	-	-
<b>Corporation for National and Community Service</b>					
<i>Direct Program</i>					
Retired and Senior Volunteer Program	94.002	16SRPCA005	68,277	-	-
		13SRPCA010	30,209	-	-
<b>Total Corporation for National and Community Service</b>			<u><b>98,486</b></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**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)**  
**FOR THE YEAR ENDED JUNE 30, 2019**

<u>Federal Grantor/Pass-through Grantor/Program Title</u>	<u>Catalog Number</u>	<u>Identification Number</u>	<u>Program Expenditures</u>	<u>Provided to Subrecipients</u>	<u>Expended for Loan or Loan Guarantee Programs</u>
<b>U.S. Department of Health and Human Services</b>					
<b>Aging Cluster</b>					
<i>Passed through the County of Ventura Area Agency on Aging</i>					
Special Programs for the Aging, Senior Nutrition Services	93.045	3500FY19-05	<u>137,973</u>	<u>-</u>	<u>-</u>
<b>Total Aging Cluster</b>			<u>137,973</u>	<u>-</u>	<u>-</u>
<b>Total U.S. Department of Health and Human Services</b>			<u>137,973</u>	<u>-</u>	<u>-</u>
<b>U.S. Department of the Interior</b>					
<i>Direct Program</i>					
State Coastal Conservancy - US Fish and Wildlife	15.630	F14AC00539	<u>822</u>	<u>-</u>	<u>-</u>
<b>Total U.S. Department of the Interior</b>			<u>822</u>	<u>-</u>	<u>-</u>
<b>U.S. Environmental Protection Agency</b>					
<i>Direct Program</i>					
<i>Environmental Workforce Development and Job Training</i>					
	66.815	99T03501	<u>4,477</u>	<u>-</u>	<u>-</u>
<i>Passed through the Ecology Action of Santa Cruz Inc.</i>					
Green Business Network	66.708	G16-EA-001	<u>7,193</u>	<u>-</u>	<u>-</u>
<b>Total U.S. Environmental Protection Agency</b>			<u>11,670</u>	<u>-</u>	<u>-</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<u>\$ 5,798,450</u>	<u>\$ 466,550</u>	<u>\$ 591,672</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, 2019

**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, 2019. 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* (the 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 expended \$22,362,346 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	\$ 5,798,450
Add: Expenditures of nonfederal awards	<u>205,536,691</u>
<b>TOTAL GOVERNMENTAL FUNDS EXPENDITURES PER THE FINANCIAL STATEMENTS</b>	<b><u>\$ 211,335,141</u></b>

**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, 2019:

<u>FEDERAL PROGRAMS</u>	<u>LOANS OUTSTANDING</u>
Community Development Block Grants (CFDA #14.218)	\$ 3,853,223
HOME Investment Partnership Program (CFDA #14.239)	9,643,697

**CITY OF OXNARD**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
 FOR THE YEAR ENDED JUNE 30, 2019

**SUMMARY OF AUDITOR'S RESULTS**

*Financial Statements*

Type of auditor's report issued: Unmodified

Internal control over financial reporting:  
 Material weaknesses identified?  yes  no  
 Significant deficiencies identified?  yes  none reported

Noncompliance material to financial statements noted:  yes  no

*Federal Awards*

Internal control over major programs:  
 Material weaknesses identified?  yes  no  
 Significant deficiencies identified?  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?  yes  no

Identification of major programs:

<u>CFDA No.</u>	<u>Name of Federal Program or Cluster</u>
14.218	Community Development Block Grants
14.239	HOME Investment Partnerships Program

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

Auditee qualified as low-risk auditee?  yes  no

**CITY OF OXNARD**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)**  
 FOR THE YEAR ENDED JUNE 30, 2019

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**PRIOR YEAR**

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**CITY OF OXNARD**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)**  
FOR THE YEAR ENDED JUNE 30, 2019

**PRIOR YEAR**

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## FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL PROGRAMS

### 2019-001 – Preparation of the Schedule of Expenditures of Federal Awards (NC)

**CFDA Title and Number:** 16.922 Equitable Sharing Program

**Name of Federal Agency:** U.S. Department of Justice

**Compliance Requirement:** Auditee Requirements

**Criteria:** CFR 200.510(b) states that the auditee must prepare a schedule of expenditures of Federal awards (SEFA) for the period covered by the auditee's financial statements which must include the total Federal awards expended as determined in accordance with §200.502 Basis for determining Federal awards expended. CFR 200.502 states that the determination of when a Federal award is expended must be based on when the activity related to the Federal award occurs. Generally, the activity pertains to events that require the non-Federal entity to comply with Federal statutes, regulations, and the terms and conditions of Federal awards, such as: expenditure/expense transactions associated with awards including grants, cost-reimbursement contracts under the FAR, compacts with Indian Tribes, cooperative agreements, and direct appropriations; the disbursement of funds to subrecipients; the use of loan proceeds under loan and loan guarantee programs; the receipt of property; the receipt of surplus property; the receipt or use of program income; the distribution or use of food commodities; the disbursement of amounts entitling the non-Federal entity to an interest subsidy; and the period when insurance is in force.

**Condition:** The amount reported as expended related to Equitable Sharing Program included approximately \$180,000 in funds received but not expended.

**Cause:** The staff member who prepared the SEFA was unaware of the criteria noted above.

**Effect or Potential Effect:** The SEFA is the basis of the auditor's identification of major programs. Our determination of major programs was impacted by the overstatement of expenditures.

**Questioned Cost:** None

**Context:** The errors were corrected during the audit.

**Repeat of a Prior-Year Finding:** No

**Recommendation:** We recommend the City to provide additional training to staff members who are responsible for preparing the SEFA.

**City's Response 2019:** The City's staff accountant who prepared the SEFA was new to the process. She followed how this item was reported in prior years and made an error in reporting the receipts for 16.922 Equitable Sharing Program. Going forward, all staff involved in grant accounting and reporting will attend formal training on the Uniform Guidance issued by the Office of Management and Budget (OMB) as well as stay abreast of current developments and new guidance issued by the State Controller's Office, Grants.Gov and the AICPA.

**Planned Implementation Date:** June 30, 2020

**Responsible Person:** Chief Financial Officer, Kevin Riper

## **FINDINGS AND QUESTIONED COSTS – FINANCIAL STATEMENTS**

### **2019-002 – Bank Reconciliations (SD)**

**Criteria:** The City has a policy to reconcile the General Checking bank statement to the City's general ledger monthly.

**Condition:** The General Checking bank reconciliation process sometimes takes up to 3 months to complete. The General Checking bank reconciliation for June 30, 2019 was completed more than 3 months after the end of the month.

**Cause:** The use of pooled cash batches is making the process very labor intensive and time consuming. Cash transactions are pooled in batches of the accounting system's various modules: (1) accounts payable, (2) accounts receivable, (3) payroll, and (4) cash receipts. In the process of reconciling bank statements, staff has to unravel these batches to identify reconciling items.

**Effect or Potential Effect:** The current manual bank reconciliation process results in significant delays in closing the City's books and preparation of financial statements.

**Repeat of a Prior-Year Finding:** 2015-029

**Recommendation:** We recommend the City to improve timeliness of bank reconciliation process by providing additional training and resources.

**City's Response 2019:** The City agrees with this recommendation. As of December 31, 2019, we have substantially restructured the process. We now reconcile the account as part of the monthly accounting close process which means that the reconciliation is completed within 15 days after each month end.

**Planned Implementation Date:** The new reconciliation process is in place. We will fully document the reconciliation procedures and conduct cross-training. The documentation and cross-training should be completed by June 30, 2020.

**Responsible Person:** Controller, Tonya Cheng

**2019-003 – Utility Billing Rates (SD)**

**Criteria:** Bills are generated and recorded using current authorized rates and prices.

**Condition:** Out of the 40 utility bills examined, we noted 1 customer was charged a fee that was lower than the current rate billed to other customers. Upon further inquiry with City staff, the customer was billed at a lower fixed fee, instead of a usage-driven rate, for at least 7 years when the tiered rate structure was implemented. City staff has performed a system-wide query to review other customer accounts and have identified 5 total having a similar issue.

**Cause:** The City does not have a regular process in place to verify that customer billing rates are current. Lack of internal controls over the regular review on the maintenance of the master bill rates used on all customers.

**Effect or Potential Effect:** Loss on utility revenue on customers being under billed.

**Repeat of a Prior-Year Finding:** No

**Recommendation:** We recommend the City to review the billing master file periodically. During the review process, the file should be compared to current effective billing rates and be reviewed by an authorized supervisory personnel.

**City's Response 2019:** The City Treasurer's Department annually runs a report of all flat rated (sewer) accounts to evaluate the accuracy of the rates being used on these customers.

**Planned Implementation Date:** July 1, 2019

**Responsible Person:** Treasury Supervisor, Armida Monares

## **2019-004 – Inventory Control (SD)**

**Criteria:** Having appropriate inventory control is essential in safeguarding the City's assets. Inventory control involves the process of initiating and approving purchases, receiving the goods purchased, tracking what's used (taking items off inventory), cost accounting, and physical inventory.

**Condition:** The City did not maintain appropriate inventory control at Fleet Division. The contractor was able to purchase and store parts and supplies with no checks and balances from Division staff. The Division could not produce purchase orders, receiving reports, or shipping documents. There was no indication of inventory counts.

**Cause:** Lack of policies and procedures over inventory. The Division relied on the contractor to maintain the inventory.

**Effect or Potential Effect:** The lack of documentation resulted in a dispute with the contractor over how much inventory remained when the contract was terminated. There is also potential for fraud, waste and abuse.

**Repeat of a Prior-Year Finding:** No

**Recommendation:** The City should establish and implement policies and procedures over inventory at the Fleet Division, these should include appropriate segregation of duties and periodic inventory counts.

**City's Response 2019:** The City has entered into an "On-Site Store" vendor agreement for parts and tires owned and managed by the vendor. Therefore the City only purchases parts as needed and no longer maintains its own inventory. The contractor will establish inventory in a City location to service the fleet part requirements of the City and to serve as the primary supplier of automotive replacement parts and other goods.

**Planned Implementation Date:** February 28, 2020

**Responsible Person:** Interim Fleet Manager, Joseph Rodriguez and Assistant Public Works Director, Brian Yanez.

**2019-005 – On-call Consultants (SD)**

**Criteria:** The City has a number of consultants who provide on-call services to the Public Works Department. The City has a policy that requires the issuance of a task order that is properly approved by the department head prior to commencement of each project.

**Condition:** It came to our attention that the approval process is not always followed. There have been instances when the department head only became aware that services were provided by an on-call consultant after the project had been completed and when the invoice was received.

**Cause:** This is caused either by lack of awareness by staff or lack of communication by management of the policy.

**Effect or Potential Effect:** This practice could result in City staff circumventing the City's standard bidding process for assignments outside the scope of on-call agreements, result in bills that exceed the contract maximum amounts, or exceeding the City's adopted budget.

**Repeat of a Prior-Year Finding:** No

**Recommendation:** We recommend strict enforcement of the City's approved policy, including imposing disciplinary action when necessary.

**City's Response 2019:** The City has reinforced the existing policy, taken disciplinary action, and on call work now goes through the City Engineer as an extra check to avoid this type of violation in the future.

**Planned Implementation Date:** Implemented

**Responsible Person:** Public Works Director, Rosemarie Gaglione

## **2019-006 – Retirement Enhancement Plan Eligibility (SD)**

**Criteria:** City benefits should only be granted and provided to City employees meeting eligibility requirements to ensure fairness and to protect City funds.

**Condition:** We noted one employee enrolled in the City's Retirement Enhancement Plan who does not meet the eligibility requirements.

**Cause:** Unknown. Employee in question shows multiple hire dates in employee plans, which might have led to confusion during the enrollment process.

**Effect or Potential Effect:** Enrolling ineligible employees results in the City providing benefits and expensing City funds that are not the City's obligation.

**Repeat of a Prior-Year Finding:** No

**Recommendation:** We recommend that the City periodically review and monitor its plan census data to ensure accuracy and detect any errors as early as possible. We also recommend that the City consider a plan of action regarding the employee that is ineligible but currently enrolled in the plan.

**City's Response 2019:** There should have been no additions to the City of Oxnard Supplemental Retirement Plan (the "Plan") subsequent to January 1, 2013, the date the California Public Employees' Pension Reform Act (PEPRA) took effect. This employee was added to the Plan by prior management in January 2013, and resolution with the employee is now in process. Since that time, no new employees have been added to the Plan. This single exception was found during an internal audit of the Plan upon conversion of administrators from PARS to MassMutual. Going forward, MassMutual will not allow new participants into the Plan.

**Planned Implementation Date:** Implemented

**Responsible Person:** Human Resource Manager/Risk Manager, Mike More

## **2019-007 – Use of Credit Cards (BP)**

**Criteria:** City staff may use City-issued credit cards (procurement cards) to pay for supplies and equipment purchased for the City and for City-related training and travel. The use of such procurement cards are governed by the Procurement Card Manual. The Manual states that the cardholder's department head or his/her designee must complete a procurement card request form to close the account as soon as notice of the employee's departure is given and obtain the procurement card from the departing employee.

In addition, the monthly statement of account shall be reviewed and approved by the cardholder's supervisor and department head prior to being submitted to accounts payable by the 10<sup>th</sup> day of the month.

**Condition:** During our testing in June 2019, we noted one active procurement card account for an employee that was terminated in December 2018. In addition, we noted that 11 out of the 35 procurement card statements were received late (after the 10<sup>th</sup> of the following month) and two out of 35 statements that were lacking either cardholder or manager signatures.

**Cause:** City did not actively enforce the procurement card policies and procedures.

**Effect or Potential Effect:** Failing to deactivate procurement cards when cardholder leaves the City could result in unauthorized use of City funds. Failing to review and approve transactions in a timely manner could result in invalid and unauthorized charges getting paid.

**Repeat of a Prior-Year Finding:** 2015-095 and 2015-096

**Recommendation:** We recommend that the City reinforce the policy by providing continuing training. The City should also effectively communicate to City procurement cardholders that they will be held accountable for any consequences caused by noncompliance with the policy.

**City's Response 2019:** The City of Oxnard will implement training sessions for all card holders, both online and in person engagements. We will reinforce the importance of the notice to cancel/reassign cards as well as reviewing/approving statements thoroughly and timely. In addition to the training, Human Resources has committed to sending the Purchasing Division a termination report monthly to ensure timely deactivation of terminated employees' purchasing cards.

**Planned Implementation Date:** March 2020

**Responsible Person:** Purchasing Manager, Dan Willhite

## **2019-008 – Journal Entries (BP)**

**Criteria:** Manual journal entries are prepared on a consistent internal process with appropriate backup to the authorized supervisory personnel for review and are entered into the journal entry log on a timely basis.

**Condition:** The City is not consistent in documenting journal entries using the journal voucher form template. In our review of 40 manual journal entries, 2 did not have the approved date, and 1 did not have the approver's name filled out. In addition, we noted 3 instances in which the City was delayed for more than 20 days in reviewing and approving a journal entry and 1 instance for 72 days.

**Cause:** Lack of implementation on the completeness of required fields on the journal voucher form documentation procedures over the manual journal entry preparation process. Lack of internal controls on the timely review of journal entries.

**Effect or Potential Effect:** Allowing journal vouchers to be entered into the accounting system despite required missing field information such as the approver's name on the journal voucher form template exposes the City in the processing of invalid journal entries. Financial statements could be misstated due to incorrect journal entries.

**Repeat of a Prior-Year Finding:** No

**Recommendation:** We recommend the City to only accept fully filled out and reviewed journal entry forms being entered into the accounting system.

**City's Response 2019:** The Finance Department established a new procedure "Manual General Ledger Journal Entry Policy and Procedure" effective July 1, 2018. We also implemented additional changes in February 2020 in an effort to continuously improve the efficiency and standardization of the journal entry submission process. In addition a checklist is being developed for the accounting staff responsible for processing journal entries in the system. Documentation standards were reiterated in a department-wide memo to all journal entry preparers and reviewers.

**Planned Implementation Date:** Implemented

**Responsible Person:** Controller, Tonya Cheng

## **2019-009 – Payroll Records (BP)**

**Criteria:** All employers are required to keep records of employment taxes, including W-4, for at least four years after filing the 4<sup>th</sup> quarter report for the year. In addition, the City should ensure that payroll paid and recorded are accurate based on actual hours worked by City employees.

**Condition:** Out of 40 employee files examined, we noted two W-4 Forms missing. In addition, out of 40 timesheets requested, one was unavailable for review.

**Cause:** City missed these errors due to the volume of transactions on a periodic basis.

**Effect or Potential Effect:** The missing W-4 results in incomplete Human Resources/Payroll documentation. The missing timesheet could potentially result in inaccurate payroll and abuse of funds.

**Repeat of a Prior-Year Finding:** 2018-012

**Recommendation:** For the missing W-4, the City has a policy in place that states a default election as single with zero exemptions if employees don't complete a W-4 Form. However, we recommend that the City ensure all required employment tax forms are obtained and maintained for best practices. For the missing timesheet, we recommend that payroll is only processed with sufficient documentation that the hours entered are valid and authorized and that such documentation is filed in an easily-retrievable manner.

**City's Response 2019:** In June 2018, the Finance Department and Human Resources Department met to review the current procedures and recordkeeping of employment taxes, including Forms W-4 and I-9. The Human Resources Department files maintain initial W-4, I-9 and new hiring information and forwards a copy to Payroll. Throughout the fiscal year, employee updates for W-4, direct deposits and deductions are maintained by Payroll. For missing timesheets, Payroll will run an hours proof twice, once when payroll starts and again before payroll is finalized to find any missing timesheets or errors that can be adjusted prior to finalizing payroll.

**Planned Implementation Date:** June 30, 2020

**Responsible Person:** Assistant Director Human Resources, Lisa Yoshimura and Payroll Manager, Casey Clay

**2019-010 – Vendor master files (BP)**

**Criteria:** The City has a policy to maintain an accurate database of vendor master files. Access to master vendor database is restricted to authorized personnel, and all changes are reviewed and approved by a supervisor. Vendors without transactions posted against them in a two-year period are flagged for deactivation.

**Condition:** A formal process has been made effective in the current year. However, out of 25 vendor information examined during the audit, we identified 3 vendors that did not have forms W-9 and 1099 on file. In addition, out of the total 3,073 vendor information scanned on their last transaction, we noted 8 vendors had been inactive for over 2 years but had not been deactivated.

**Cause:** Lack of thorough review of the existing vendor master files.

**Effect or Potential Effect:** Unauthorized and potentially fictitious vendors may exist.

**Repeat of a Prior-Year Finding:** No

**Recommendation:** We recommend the City to review the vendor master files periodically. During the review process, the file should be compared to vendor W-9 forms, addresses compared to employees' addresses, and inactive vendors removed.

**City's Response 2019:** The Purchasing Division will continue to review and audit the vendor file at least annually, with additional training for staff on key elements to look for.

**Planned Implementation Date:** June 2020

**Responsible Person:** Purchasing Manager, Dan Willhite

## **2019-011 – General Liability and Workers’ Compensation Allocation (BP)**

**Criteria:** Governmental and business-type activities should accurately reflect transactions that occurred during the period. Business-type activities should be allocated a portion of general liability and workers’ compensation liability for which they are responsible.

**Condition:** The City charges each fund an allocation of the estimated general liability and workers’ compensation expense/expenditure during the year. As such, the fund financial statements include an estimated general liability and workers’ compensation expense/expenditure. However, the City does not allocate the additional liabilities and related expense accrued at the end of the year between governmental and business-type activities on the government-wide financial statements.

**Cause:** A more complex methodology is necessary to determine the portion to be allocated to business-type activities rather than governmental activities.

**Effect or Potential Effect:** Passing on allocating accrued liabilities and related expenses for general liability and workers’ compensation results in an understatement of expenses and liabilities in the business-type activities and an overstatement in governmental activities.

**Repeat of a Prior-Year Finding:** No

**Recommendation:** We recommend that the City consider the need to establish a methodology to allocate accrued liabilities and related expenses for general liability and workers’ compensation to business-type activities.

**City’s Response 2019:** Staff will work with City’s actuarial consultants to identify a methodology to allocate general liability and worker’s compensation liabilities to business-type activities on the entity-wide financial statements.

**Planned Implementation Date:** June 30, 2020

**Responsible Person:** Financial Analyst II Jim Costello

CITY OF OXNARD  
SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2019

**FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL PROGRAMS**

**2018-001 - 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 Requirement:** Reporting

**Criteria:** 2 CFR Part 200, Appendix XI, Compliance Supplement 4-14.218 requires recipients to submit HUD 60002, Section 3 Summary Report, Economic Opportunities for Low and Very Low Income Persons.

**Condition:** The City was unable to provide the auditors the HUD-60002 Section 3 Summary Report.

**Cause:** Lack of internal controls over the preparation, review, and submission of the required performance report.

**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:** We requested a copy of the report multiple times but the Grants Manager was unable to provide it.

**Repeat of a Prior-Year Finding:** 2016-001 and 2017-001

**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 and ensure that all reports filed with oversight agencies are supported by proper records.

**E+P's Comment 2019:** Complete.

**2018-002 - 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 Requirement:** Cash Management

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

**Condition:** The City requested expenditure reimbursements in IDIS prior to check disbursements.

**Cause:** Drawdown procedures were not strictly enforced.

## **SCHEDULE OF PRIOR AUDIT FINDINGS (Continued)**

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

**Questioned Cost:** None

**Context:** During our testing, we found that 4 out of 40 drawdowns selected for testing were made prior to check disbursement dates.

**Repeat of a Prior-Year Finding:** 2017-002

**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 about the requirements of the block grant program.

**E+P's Comment 2019:** No longer required.

### **2018-003 - Source Documentation (SD)**

**CFDA Title and Number:** 14.218 - Community Development Block Grants  
**Name of Federal Agency:** Department of Housing and Urban Development  
**Compliance Requirement:** Cash Management

**Criteria:** 24 CFR Part 570.506 (h) Records to be Maintained states that 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.

**Condition:** The City does not maintain complete and accurate documentation to support drawdowns.

**Cause:** Reconciling and accurate drawdown tracking procedures were not strictly enforced due to the lack of internal controls related to the proper integration between actual drawdowns made and the City records per the General Ledger.

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

**Questioned Cost:** None

**Context:** The City does not maintain complete and accurate documentation of expenditures that support drawdowns. During the audit, City staff was able to provide a reconciliation of selected drawdowns; however the reconciliation was only prepared because auditors requested it.

**Repeat of a Prior-Year Finding:** 2017-006

**Recommendation:** The City should establish policies and procedures to require complete and accurate supporting documentation of all drawdowns and to ensure that Grants Management properly reviews and approves all drawdowns that are to be paid with Federal awards.

**E+P's Comment 2019:** Complete.

## **SCHEDULE OF PRIOR AUDIT FINDINGS (Continued)**

### **2018-004 - 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

**Compliance Requirement:** Allowable Costs

**Criteria:** 2 CFR 200.430(i) Standards for Documentation of Personnel Expenses states that charges to Federal awards for salaries and wages must be based on records that accurately reflect the work performed. These records must be supported by a system of internal control which provides reasonable assurance that the charges are accurate, allowable, and properly allocated. 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.

**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.

**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 and 2017-003

**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.

**E+P's Comment 2019:** Complete.

## **SCHEDULE OF PRIOR AUDIT FINDINGS (Continued)**

### **2018-005 - Subrecipient Monitoring (NC/SD)**

**CFDA Title and Number:** 14.218 - Community Development Block Grants

**Name of Federal Agency:** Department of Housing and Urban Development

**Compliance Requirement:** Subrecipient monitoring

**Criteria:** 2 CFR 200 Appendix XI Part 3 Compliance Requirements Section 3.2-M Subrecipient Monitoring states that a pass-through entity is responsible for monitoring their subrecipient's use of Federal awards through reporting, site visits, regular contact, or other means to provide reasonable assurance that the subrecipient administers Federal awards in compliance with laws, regulations, and the provisions of contracts and grant, and that performance goals are achieved.

**Condition:** We were unable to obtain evidence of an in-depth assessment and onsite monitoring of CDBG subrecipients during the current audit period. It is to note that a desk records audit was performed by the City related to expenditures made to the subrecipients for the current audit period.

**Cause:** Insufficient training of related City staff on program requirements and inadequate internal controls over the processes on conducting sufficient monitoring procedures over subrecipients.

**Effect or Potential Effect:** Subrecipients may be using awarded funds for unauthorized purposes and are not in line with performance goals as defined in the terms and conditions of the subaward.

**Questioned Cost:** \$15,872

**Context:** Two subrecipients were selected for compliance testing. The City was unable to provide supporting evidence of an in-depth assessment and on-site monitoring was performed. We also noted that during this testing, a vouched invoice for \$15,872 of a subrecipient was for the salary & benefits of personnel. We cannot ascertain whether such activities are towards the CDBG-eligible national objectives and/or allowable public services. It is to note, however, that the authorized submitting personnel of the subrecipient organization certifies and signs the invoice prior to submission that the expenses charged to the grant are allowable as outlined in the letter of agreement.

**Repeat of a Prior-Year Finding:** 2015-002

**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.

**E+P's Comment 2019:** No longer required.

## **SCHEDULE OF PRIOR AUDIT FINDINGS (Continued)**

### **2018-006 – Financial and Performance Reporting (NC/SD)**

**CFDA Title and Number:** 14.231 Emergency Solutions Grants Program

**Name of Federal Agency:** Department of Housing and Urban Development

**Compliance Requirement:** Reporting

**Criteria:** 2 CFR Part 200, Appendix XI, Compliance Supplement Part 4 No. 14 CFDA 14.231 ESG Program L. Reporting requires recipients to submit HUD 60002, Section 3 Summary Report and SF-425 Federal Financial Report. PR19-ESG Financial Summary Report is one of three reports used for financial reporting on the ESG program.

**Condition:** We were unable to obtain the PR19 report as well as the HUD 60002, Section 3 Summary Report.

**Cause:** Lack of proper guidance and training related to using IDIS online for the program setup for the transition of the Emergency *Shelter* Grants program (ESG) to Emergency *Solutions* Grants (HESG) program subsequent to the 2011 program year.

**Effect or Potential Effect:** Noncompliance exposes the City to grantor sanctions, potentially leading to a loss grant funding.

**Questioned Cost:** None identified

**Context:** We attempted to obtain the PR19 report from IDIS, however, it came up blank. Upon inquiry with HUD, we found that beginning the program year 2011 (FY 2012), HUD set up a new path within IDIS to account for the elements of the program for ESG. The City has not set up this new ESG path in order to run the PR19 report.

**Repeat of a Prior-Year Finding:** No

**Recommendation:** We recommend the City to be aware of which reports are required for submission to HUD and when they are due in order to address any such issues in a timely manner. We also recommend the City to use available resource items made available at HUD's website or through the City's designated HUD representative contact for further assistance.

**E+P's Comment 2019:** No longer required.

### **2018-007 – Maintenance of Homeless Shelters (NC/SD)**

**CFDA Title and Number:** 14.231 Emergency Solutions Grants Program

**Name of Federal Agency:** Department of Housing and Urban Development

**Compliance Requirement:** Special Tests and Provisions

**Criteria:** Maintenance as Homeless Shelters – Any building renovated with ESG Program funds for use as an emergency shelter for homeless persons must be maintained as a shelter for homeless persons for not less than a 3-year period or, if the renovation constitutes major rehabilitation or conversion of the building, for not less than a 10-year period. The minimum use period begins on the date the building is first occupied by a homeless individual or family after the completed renovation. The minimum period of use of 10 years must be enforced by a recorded deed or use restriction (24 CFR section 576.102(c)).

## **SCHEDULE OF PRIOR AUDIT FINDINGS (Continued)**

**Condition:** We were unable to obtain information from the City whether there were any buildings improved by the ESG program in prior years for use as an emergency shelter, and if so, whether they are being maintained as an emergency shelter / no longer being maintained.

**Cause:** The City lacks sufficient controls to track the use of ESG funds for maintenance of homeless shelters.

**Effect or Potential Effect:** Noncompliance exposes the City to grantor sanctions, potentially leading to a loss grant funding.

**Questioned Cost:** None

**Context:** The awarded funding of the program allows the recipient to fund the renovation and conversion of buildings to be used and maintained as emergency shelters for the homeless for a required time period. If such buildings exist, the renovation must be a major rehabilitation or if a conversion, must be have had a recorded deed or use restriction. We were unable to obtain information related to such building renovation or conversion activity. We also were unable to obtain information whether any such buildings that were improved in prior year are no longer being used as shelters.

**Repeat of a Prior-Year Finding:** No

**Recommendation:** We recommend that City staff be aware and are keeping adequate tracking of such building renovation and/or conversion activity in an ongoing basis with sufficient documentation.

**E+P's Comment 2019:** No longer required.

### **2018-008 – Payments to Subrecipients (NC/SD)**

**CFDA Title and Number:** 14.231 Emergency Solutions Grants Program

**Name of Federal Agency:** Department of Housing and Urban Development

**Compliance Requirement:** Obligation, Expenditure and Payment Requirements to Subrecipients, Special Tests and Provisions

**Criteria:** 2 CFR Part 200 Appendix XI Compliance Supplement, Section 4-14.231-17 states that recipients must pay each subrecipient for allowable costs within 30 days after receiving the subrecipient's complete payment request.

**Condition:** The city paid subrecipients over between 38 to 190 days past their receipt of the payment requests.

**Cause:** Lack of internal controls related to the timely payment of received payment requests submitted by subrecipients.

**Effect or Potential Effect:** Noncompliance exposes the City to grantor sanctions, potentially leading to a loss in grant funding.

**Questioned Cost:** None

## **SCHEDULE OF PRIOR AUDIT FINDINGS (Continued)**

**Context:** Out of 9 disbursements made to subrecipients, we noted 8 were paid after more than 30 days of receiving the subrecipient's complete payment request. The number of days elapsing for the noted 8 payments were between 38 to 190 days.

**Repeat of a Prior-Year Finding:** No

**Recommendation:** We recommend that the City date stamps invoices and other forms of payment requests from vendors so that they will be able to accurately track payments that are time-sensitive to be disbursed. City staff should be cognizant of specific program compliance requirements so that they will implement operational processes accordingly.

**E+P's Comment 2019:** No longer required.

### **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.

## **SCHEDULE OF PRIOR AUDIT FINDINGS (Continued)**

**City's Response 2019:** Staff was hired in Finance to develop indirect cost allocation plan in accordance with OMB's Uniform Guidance. Development is proceeding first with the Internal Service Funds (ISF) which will be complete for the FY2020-2021 budget. The indirect cost allocation plan will be ready to be implemented for the FY2021-2022 budget.

**Planned Implementation Date:** ISFs by July 1, 2020, Indirect Cost Allocations by July 1, 2021

**Responsible Person:** Financial Analyst II Jim Costello

**E+P's Comment 2019:** In progress.

### **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.

**E+P's Comment 2019:** Complete.

## SCHEDULE OF PRIOR AUDIT FINDINGS (Continued)

### FINDINGS AND QUESTIONED COSTS - FINANCIAL STATEMENTS

#### 2018-009 - 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.

**Condition:** The Finance Department lacks internal control procedures over properties held by the CDC. A transfer of a building from the CDC to the City during the fiscal year 2017-2018 was not recorded until 5 months after the year ended.

**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:** 2017-011

**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 2019:** Finance staff are working closely with staff in the Community Development Department to ensure that all monies received from future sale of Successor Agency capital assets contained within the Long Range Property Management Plan (LRPMP) are properly remitted to the County of Ventura pursuant to the California Health and Safety Code. In addition, Finance staff are working closely with the staff in the Community Development Department to ensure all such transactions, including additions and deletions due to sale of property that occur during the year are properly recorded in the appropriate period.

The City implemented "Successor Agency Program, Accounting and Reporting Procedures" effective July 1, 2018 which describe the joint responsibilities of the Successor Agency and City staff. In addition, the City has developed specific procedures for properties held by CDC. In parallel with this effort, Finance and the Community Development Department have received training and established regular communications. Finance and Community Development have developed appropriate procedures and processes to monitor the implementation of these controls going forward.

**Planned Implementation Date:** Implemented

**Responsible Person:** Management Accountant and Economic Development Project Manager  
Adam Smith

**E+P's Comment 2019:** To be tested.

## **SCHEDULE OF PRIOR AUDIT FINDINGS (Continued)**

### **2018-010 - Journal Entries (MW)**

**Criteria:** The City should have appropriate internal control over journal entries, including establishing policies and procedures regarding the initiation, recording, and processing of standard and non-standard journal entries and other adjustments, and assigning qualified individuals responsible for initiating entries to the general ledger and other individuals to review and approve the entries.

**Condition:** The City's internal control over non-standard journal entries is not sufficient to detect material errors. During the audit, we found material misstatements caused by errors in journal entries posted to the general ledger.

One of these entries resulted in an overstatement of approximately \$28 million of proceeds from refunding of bonds in the governmental funds and approximately \$2 million understatement of deferred gain in bond refunding in the governmental activities. Another entry resulted in approximately \$1.6 million overstatement of receivables in enterprise fund, and another caused an understatement of \$1.3 million in receivables in government funds.

**Cause:** Individuals assigned to prepare journal entries and individuals assigned to review and approve the entries are not sufficiently trained. 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, 2015-043 and 2017-012

**Recommendation:** The accounting skills of personnel should be improved. Additionally, non-standard journal entries should be reviewed more thoroughly.

**E+P's Comment 2019: Complete.**

### **2018-011 - 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. An appropriate allowance for doubtful accounts should be established for amounts not considered collectible.

**Condition:** During our audit, we noted gas tax receivable amounting to \$260,000 was not recorded.

**Cause:** The procedures in place for accrued receivables is not sufficient to ensure that receivables and revenue/unavailable revenue are properly 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:** 2017-014

## **SCHEDULE OF PRIOR AUDIT FINDINGS (Continued)**

**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.

**E+P's Comment 2019: Complete.**

### **2018-012 - 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 4<sup>th</sup> 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 40 employee files examined, we noted one W-4 was missing.

**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:** 2017-018

**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.

**E+P's Comment 2019: Repeat finding 2019-009**

### **2018-013 - Bank Reconciliations (MW)**

**Criteria:** Bank reconciliations must be completed at regular intervals, at least monthly, to ensure that the City's cash records are correct. They also help detect fraud and any cash manipulation.

**Condition:** Cash with fiscal agents accounts were not reconciled monthly to the general ledger. The reconciliation was only performed at the end of the fiscal year. In addition, bank reconciliations for the general and CDC accounts are behind by 2-3 months.

**Cause:** The Finance Department does not have proper procedures in place to perform the bank reconciliation of cash with fiscal agents on a timely basis. The bank reconciliation process for the general and CDC accounts is a long and tedious process which is exacerbated by a lack of sufficient controls over the month-end and year-end closing process. For instance, during the audit, the bank reconciliation for the general account at June 30, 2018 was revised 3 times due to journal entries posted to cash.

**Effect or Potential Effect:** Potential misstatement of cash and investments.

**Repeat of a Prior-Year Finding:** 2015-024

## **SCHEDULE OF PRIOR AUDIT FINDINGS (Continued)**

**Recommendation:** The bank reconciliation process should include reconciling cash with fiscal agents. Bank reconciliations should be part of the month-end closing process. Journal entries that affect cash should be recorded prior to the completion of the general and CDC bank reconciliations.

**E+P's Comment 2019: Complete.**

### **2018-014 - Cash Receipts (SD)**

**Criteria:** Cash is received in various locations within the City organization. Internal audits of cash receipts should be performed to determine whether internal controls over cash handling are properly designed and operating effectively.

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

**Cause:** Weakness in design of internal control over cash receipts at offsite locations.

**Effect or Potential Effect:** Lack of internal control over cash handling exposes the City to the risk of fraud.

**Repeat of a Prior-Year Finding:** 2015-041

**Recommendation:** To adopt written procedures to perform internal audits of cash receipts in various locations within the City organization.

**City's Response 2019:** City Treasurer's department created "Internal Control Cash Receipts Checklist" and distributed to departments who handle cash. The City Council, along with internal auditors Price Paige & Co., determines the internal audit plan for each City department and location.

**Planned Implementation Date:** Implemented

**Responsible Person:** Assistant City Treasurer, Eden Alomeri

**E+P's Comment 2019: To be tested.**

### **2018-015 – Lease Agreements (SD)**

**Criteria:** The City routinely enters into lease agreements. Lease agreements should be identified and evaluated by the Finance Department to determine proper accounting and ensure that they are properly reported in the City's financial reports.

**Finding:** The City has not implemented a process to identify and evaluate all lease agreements. In March 2018, the City entered into two capital lease agreements in the amount of \$5 million each, however the transaction was only recorded in September 2018 during audit fieldwork. In addition, one of the agreements was misclassified under the Wastewater Fund; instead of Environmental Resource Fund.

**Cause:** The Finance Department does not have a process to identify and evaluate all lease agreements.

**Effect or Potential Effect:** Misstatement of assets and liabilities.

## SCHEDULE OF PRIOR AUDIT FINDINGS (Continued)

### Repeat of a Prior-Year Finding: 2015-074

**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 properly reported in the financial statements and related disclosures. Communication should be made with those entering into agreements. The process should be documented in writing.

**City's Response 2019:** The Governmental Accounting Standards Board issued a new standard for lease accounting (GASB 87) in June 2017 for fiscal years beginning after December 15, 2019, with earlier implementation encouraged. The responsibility for monitoring and tracking the Bank of America lease activity, which was the subject of this finding, has been transferred from the Purchasing Division to the Accounting Division and the City has issued an RFP for GASB 87 implementation services. The firm selected will create a plan to implement the new leasing standard during the 2020-2021 fiscal year. The objective will be to establish appropriate control activities to capture and properly record all current and future lease agreements in accordance with Generally Accepted Accounting Principles (GAAP).

**Planned Implementation Date:** June 30, 2021

**Responsible Person:** Assistant CFO, Donna Ventura

**E+P's Comment 2019:** In progress.

### 2018-016 - Pension Plans (SD)

**Criteria:** The City has four separate pension plans covering certain groups of employees.

The calculation of the City's net pension liability, deferred inflows and outflows of resources and pension expense is based to a large extent on the census data provided by the City to the actuaries. The City should review the census data and correct any errors on an annual basis.

**Condition:** 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 as well as in prior years.

**Cause:** The City does not have a process in place to review the CalPERS and PARS census data.

**Effect or Potential Effect:** Potential misstatement of the net pension liability, deferred inflows and outflows of resources related to pension, and pension expense.

### Repeat of a Prior-Year Finding: 2015-092

**Recommendation:** Review the census data used by actuaries in calculating the net pension liability and ensure that discrepancies are investigated and resolved appropriately.

## SCHEDULE OF PRIOR AUDIT FINDINGS (Continued)

**City's Response 2019:** Payroll creates the PARS census data using information from HTE and the bi-weekly contribution reports. The PARS report is sent to Human Resources for their review. The employee data such as service date, date of birth, name, address, status (e.g., leave without pay, injury leave, etc.), compensation are reviewed and approved by HR annually. Payroll downloads the CalPERS census data from My CalPERS. Employee data are then reviewed by Payroll using audit procedures that have been developed.

**Planned Implementation Date:** Implemented

**Responsible Person:** Payroll Manager, Casey Clay

**E+P's Comment 2019:** To be tested.

### **2018-017 – Year-end Closing Process (MW)**

**Criteria:** The year-end closing process is crucial to the preparation of the City's financial statements and to the success of the City's audit. The goal is to ensure that all revenues and expenses are recorded in the proper time period under generally accepted accounting principles (GAAP). Among the steps to do this is to review subsequent receipts and disbursements, analyze recorded revenues and expenses by comparing to prior year and budget, analyze and reconcile balance sheet accounts, close-out temporary accounts, post adjusting entries and generate the adjusted trial balance.

**Condition:** The Finance Department's process for year-end closing took more than 3 months. Many adjustments were missed during the 3 month process, this resulting in many post-closing entries that necessitate changes to the adjusted trial balance which caused delays in the audit. Additionally, several temporary accounts were not closed out properly.

**Cause:** The year-end process was very disorganized. The City focused mainly on reconciling balance sheet accounts and not enough attention is given to analyzing revenues and expenses. In addition, the Finance Department waits until year-end to record adjusting entries many of which could be made during the month-end process.

**Effect or Potential Effect:** Potential misstatements in the financial statements.

**Repeat of a Prior-Year Finding:** No

**Recommendation:** The Finance Department should design and establish a plan for month-end and year-end closing processes.

**City's Response 2019:** Since FY 2015-16, the City has implemented many improvements such as checklists with staff assignments, City-wide audit schedules, trial balance reconciliations, policies and procedures, addition and training of new staff and year-end process training with departments. During the last fiscal year, several additional improvements were made. For instance, the City increased the number of accounting entries and activities performed on a monthly or quarterly basis instead of annually. Finance also implemented earlier cut-off of Accounts Payable (A/P) at year-end. As a result of these continuous improvement efforts, there were no material audit adjustments at year end and the City was able to file the Comprehensive Annual Financial Report on time. In fiscal year 2019-20 the City will identify and implement additional improvement opportunities including, but not limited to, developing a monthly/quarterly/year-end close check list, performing more timely reconciliation of critical balance sheet accounts, centralizing certain A/P activities and implementing an even earlier A/P cut off at year-end.

## **SCHEDULE OF PRIOR AUDIT FINDINGS (Continued)**

**Planned Implementation Date:** Ongoing through June 30, 2020

**Responsible Person:** Controller, Tonya Cheng

**E+P's Comment 2019:** In progress.

### **2018-018 – 2018-037 –Information Technology (IT) General Controls (SD)**

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

**Condition:** We evaluated the design and implementation of ITGCs and noted 20 findings. We communicated such findings to the IT Department. Because those findings reveal vulnerabilities to, or otherwise increase the potential for an attack on, information technology systems of the City, the details of the findings will not be published in this document. They will however be communicated to the City Council via a separate confidential written report.

**Repeat of a Prior-Year Finding:** No

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

**City's Response 2019:** The City's corrective action plan will be communicated to the City Council via a separate confidential written report. The auditors will follow-up on the City's implementation of its corrective action plan in the next audit.

**E+P's Comment 2019:**

**Complete: 15**

**To be tested: 2**

**In Progress: 3**

### **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.

**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.

## **SCHEDULE OF PRIOR AUDIT FINDINGS (Continued)**

**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 for 2019:** In FY2018-19 General Accounting and Payroll reviewed the balances of liability accounts at Year End to reconcile clearing accounts. Majority of the accounts were zeroed out with some accounts having balances due to timing differences. In FY2019-2020, we plan to review these accounts quarterly to ensure timely clearance of these payroll related accounts.

**Planned Implementation Date:** March 31, 2020

**Responsible Person:** Management Accountant/Auditor Zan Suko and Payroll Manager Casey Clay

**E+P's Comment 2019:** In progress.

### **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 deficiencies in data security controls. We communicated such findings to the IT department. Because those findings reveal vulnerabilities to, or otherwise increase the potential for an attack on, information technology systems of the City, the details of the findings will not be published in this document. They will however be communicated to the City Council via a separate confidential written report.

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

**City's Response 2019:** The City's corrective action plan will be communicated to the City Council via a separate confidential written report. The auditors will follow-up on the City's implementation of its corrective action plan in the next audit.

**E+P's Comment 2019:** In progress.

### **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.

## **SCHEDULE OF PRIOR AUDIT FINDINGS (Continued)**

**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 2019:** The Finance Department established a new procedure, "Developer and Other Security Deposits, Accounting and Reporting Procedures" effective July 1, 2018. The next phase will consist of evaluation and analysis of the account, review of practical application of the policy, and communication to departments on policies and procedures.

**Planned Implementation Date:** June 30, 2021

**Responsible Person:** Controller Tonya Cheng and Community Development Director Jeffrey Lambert

**E+P's Comment 2019: Policies and procedures in process.**

### **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 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.

**E+P's Comment 2019: Complete.**

### **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.

## SCHEDULE OF PRIOR AUDIT FINDINGS (Continued)

**City's Response 2019:** By December 31, 2020 management expects to recommend to the City Council a series of implementing policies to 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. Those policies will also reflect the guidance of the California State Controller's Office's Internal Control Guidelines - Local Government Agencies.

Implementing policies for the control environment, risk assessment and control activity components are already in preliminary draft form. Preliminary draft implementing policies for information and communication and monitoring will follow.

More detailed control documentation will be completed over the course of the next year to address Single Audit findings and other identified issues. In the fiscal year 2019-20 budget, a new position was approved for the Finance Department – Senior Manager of Internal Controls that will focus primarily on helping the organization strengthen its internal control framework and complete implementation of policies and procedures.

**Planned Implementation Date:** Throughout the course of fiscal years 2019-20 and 2020-21.

**Responsible Person:** CFO Kevin Riper and Senior Manager, Internal Controls Christine Williams

**E+P's Comment 2019: 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.

**City's Response 2019:** The Human Resources Department implemented a citywide employee performance evaluation system early in fiscal year 2017-18, including a new performance evaluation form for managers themselves – one that includes a criterion for conducting performance evaluations of their subordinates timely and thoroughly. The Finance Department is drafting ICIF policies to establish procedures relating to performance and accountability for internal controls.

**Planned Implementation Date:** The Finance Department expects to recommend ICIF policies to City Council by December 31, 2020.

**Responsible Person:** HR Director Steve Naveau and CFO Kevin Riper

**E+P's Comment 2019: 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.

## **SCHEDULE OF PRIOR AUDIT FINDINGS (Continued)**

**City's Response 2019:** Training of Finance staff continues to be a high priority in the Finance Department. All Finance Department staff have now received training, attended professional conferences and/or local chapter meetings of the California Society of Municipal Finance Officers. In addition, the Finance Department for the first time is consolidating all existing policies and procedures into a single, commonly accessible location. Finally, the new Enterprise Resource Planning (ERP) software implementation project with Tyler Technologies will include documentation of revised or new accounting, budgeting, purchasing, and other financial procedures.

**Planned Implementation Date:** Throughout the course of fiscal years 2019-20 and 2020-21

**Responsible Person:** CFO Kevin Riper, Assistant CFO Donna Ventura and Controller Tonya Cheng.

**E+P's Comment 2019: 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 2019:** In January 2019 the City Council's Finance & Governance Committee assumed the role of audit committee, overseeing the internal audit function, the annual external financial audit, and progress on the City's Corrective Action Plan.

**Planned Implementation Date:** Complete.

**Responsible Person:** City Council

**E+P's Comment 2019: Complete.**

### **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 2019:** There is almost no chance that this finding can be resolved before the City's other material weaknesses and significant deficiencies are addressed. True succession planning in municipal finance is an ideal devoutly to be wished, but rarely achieved, even in municipalities with significant financial resources, of which the City is not one. The current high demand for skilled workers in the finance field, especially in the accounting profession; the lowest unemployment rate in 50 years; fixed wages and benefits offerable to those workers who may happen to be interested in a local government career; and the well-known challenges facing the City all combine to militate against building a Finance Department workforce broad and deep enough to have successors in place for every --or even most-- critical positions.

## **SCHEDULE OF PRIOR AUDIT FINDINGS (Continued)**

Rather than spending scarce resources on a succession plan with only the slimmest chance of actually working, current management intends to focus on building the knowledge and skills of existing staff (Finding 2015-007); providing them with constructive feedback and career-building experiences (Finding 2015-006), and promoting organizational camaraderie and individual morale in an attempt to hold the team together for as long as possible while the other findings are resolved. Over the last 14 months this approach has yielded four promotions inside the Finance Department, and two more promotions out of the Finance Department and into other City departments.

**Planned Implementation Date:** By December 31, 2020

**Responsible Person:** CFO Kevin Riper

**E+P's Comment 2019: Policies and procedures in process.**

### **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.

**City's Response 2019:** In addition to the Organizational Assessment for support and governance functions described in this finding the City received more information about risks relating to its financial reporting through the internal control analysis completed by the independent financial auditors and reported in the Single Audit reports for FY 2014-15, FY 2015-16, FY 2016-17, and FY 2017-18. It also engaged consultants to do detailed reviews of reporting and compliance risks associated with special assessment districts.

In addition, the City Council has engaged an accounting firm as Internal Auditors to complete a fraud risk assessment and to monitor operation of controls in high priority areas, which the internal auditors have completed. 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 across the City who have identified additional issues that affect operating, reporting and compliance objectives.

**Planned Implementation Date:** Complete

**Responsible Person:** CFO Kevin Riper

**E+P's Comment 2019: To be tested.**

## **SCHEDULE OF PRIOR AUDIT FINDINGS (Continued)**

### **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.

**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 2019:** See response to 2015-005 "Control Environment," above.

**Planned Implementation Date:** Throughout the course of fiscal years 2019-20 and 2020-21.

**Responsible Person:** CFO Kevin Riper and Senior Manager, Internal Controls Christine Williams.

**E+P's Comment 2019: Policies and procedures in process.**

### **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.

**City's Response 2019:** The Finance Department has worked closely with its independent auditors to improve its processes to prepare financial statements that comply with GAAP. Significant progress has been made in establishing written policies and procedures in fiscal year 2018-19, including the following areas: Journal Entries, Accrued Receivables, Cash Receipts Process, Capital Assets, Grant Management, Accounts Payable, Vendor Master File, Accounts Receivable & Bad Debts, and Investments. The Accounting Division has made progress in performing key account reconciliations on a monthly or quarterly basis (rather than annual) depending on the risk and materiality of the accounts.

Over the next two to three 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 system. Many controls will be automated in the ERP such as data validation controls, which will reduce the risk of errors in financial reporting. Other controls will depend on retaining a competent team that communicates well. Significant progress has been made in building technical competencies through hiring of experienced staff and greater investment in training. The ICIF policies are expected to be presented to City Council by December 31, 2020.

**Planned Implementation Date:** Policy adoption: December 31, 2020

**Responsible Person:** Controller Tonya Cheng and Senior Manager, Internal Controls Christine Williams

**E+P's Comment 2019: Policies and procedures in process.**

## **SCHEDULE OF PRIOR AUDIT FINDINGS (Continued)**

### **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.

**City's Response 2019:** Significant progress has been made in establishing written policies and procedures in fiscal year 2018-19, including the following areas: Journal Entries, Accrued Receivables, Cash Receipts Process, Capital Assets, Grant Management, Accounts Payable, Vendor Master File, Accounts Receivable & Bad Debts, and Investments.

The Accounting Division has made progress in performing key account reconciliations on a monthly or quarterly basis (rather than annual) depending on the risk and materiality of the accounts. In fiscal year 2020 staff will focus efforts to design and implement ICIF control activities and to improve effectiveness through information and communication.

**Planned Implementation Date:** The ICIF policies are expected to be presented to City Council by December 31, 2020.

**Responsible Person:** Assistant CFO Donna Ventura and Controller Tonya Cheng

**E+P's Comment 2019: 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.

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

**City's Response 2019:** Significant progress has been made in building technical competencies through hiring of experienced staff and greater investment in training. In addition, draft ICIF policies 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 prepare, analyze and review technical accounting issues and provide reasonable assurance that reporting, compliance and operating objectives are achieved. In addition, the City is planning to engage an accounting firm to serve as a technical advisor on more complex transactions, implementation of new accounting pronouncements and financial reporting requirements. Timely and accurate financial reporting consistent with GAAP and regulatory requirements is a high priority for Finance. Implementing policies for appropriate review of accounting for non-standard items and new and restricted funds are planned for adoption before December 31, 2020.

## **SCHEDULE OF PRIOR AUDIT FINDINGS (Continued)**

**Planned Implementation Date:** December 31, 2020.

**Responsible Person:** Assistant CFO Donna Ventura and Controller Tonya Cheng

**E+P's Comment 2019: 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.

**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 2019:** In October 2019, the City Council approved the purchase of a new Enterprise Resource Planning (ERP) system. Implementation of the new ERP system has just begun and will require significant effort to clean-up the chart of accounts. Stronger controls have been implemented to ensure all changes to the chart of accounts are appropriate and consistent with financial reporting requirements. Additional training on the use of the HTE system is planned in this fiscal year. The Finance Department is exploring opportunities to leverage tools like Cognos to provide more efficient reporting and analysis to help staff detect issues and correct errors in a timely manner.

**Planned Implementation Date:** Control activities in the form of additional review have been implemented in practice. The ERP implementation of the core financial modules could be completed in the next three years.

**Responsible Person:** CFO Kevin Riper and Assistant CFO Donna Ventura

**E+P's Comment 2019: In progress.**

### **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.

**E+P's Comment 2019: Complete.**

## **SCHEDULE OF PRIOR AUDIT FINDINGS (Continued)**

### **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.

**E+P's Comment 2019: Repeat finding 2019-002**

### **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.

**E+P's Comment 2019: Complete.**

### **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.

**E+P's Comment 2019: Complete.**

### **2015-045 - Journal Entries to Cash (MW)**

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

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

**E+P's Comment 2019: Complete.**

### **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.

**E+P's Comment 2019: Complete.**

## **SCHEDULE OF PRIOR AUDIT FINDINGS (Continued)**

### **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.

**E+P's Comment 2019: No longer required.**

### **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.

**E+P's Comment 2019: No longer required.**

### **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.

**E+P's Comment 2019: No longer required.**

### **2015-051 - Accounts Receivable (MW)**

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

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

**E+P's Comment 2019: Complete.**

### **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 2019:** The City Treasurer's Department currently reviews the Accounting Receivable (A/R) Aging Report daily for collection purposes. Due to resource constraints and staff turnover, the A/R aging report has not been reconciled to the general ledger. The Finance Department and the City Treasurer's Department will jointly make an assessment on the level of effort involved to reconcile the balance between A/R ledger to the general ledger. After the assessment, the City Treasurer's and Finance Departments will establish the timeline and process to reconcile the balance going forward.

**Planned Implementation Date:** Assessment to be completed by June 30, 2020.

**Responsible Person:** Controller, Tonya Cheng and Assistant Treasurer, Eden Alomeri

**E+P's Comment 2019: Not 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.

**E+P's Comment 2019: Complete.**

### **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 2019:** Finance Department established a new procedure "Accounts Receivable & Bad Debt Policy and Procedures" effective July 1, 2019.

**Planned Implementation Date:** Implemented

**Responsible Person:** Controller, Tonya Cheng

**E+P's Comment 2019: To be tested.**

### **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.

**E+P's Comment 2019: Complete.**

## **SCHEDULE OF PRIOR AUDIT FINDINGS (Continued)**

### **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.

**E+P's Comment 2019: Complete.**

### **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 2019:** The City implemented the Capital Asset Policy and Procedure effective July 1, 2018. Departments are being instructed to notify the Finance Department throughout the fiscal year when there are grant related items that need to be capitalized and when capital assets are donated. Departments have also been instructed to notify Finance of any grant related restrictions associated with capital asset disposals. Finance will request an update from the departments at year-end. Training for the updated policy was completed in August of 2018 and will be refreshed each year-end.

**Planned Implementation Date:** June 30, 2020

**Responsible Person:** Management Accountant

**E+P's Comment 2019: In progress.**

### **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 2019:** Finance has been working with Housing to reconcile notes receivable to the general ledger on a quarterly basis. Finance also established a new procedure "Notes Receivable Procedure" effective July 1, 2018 and conducted training with staff from Housing. Additionally, Finance plans to complete the documentation of the end-to-end process and conduct cross-training.

## **SCHEDULE OF PRIOR AUDIT FINDINGS (Continued)**

**Planned Implementation Date:** March 31, 2020

**Responsible Person:** Grants Manager, Roel Briones and Controller, Tonya Cheng

**E+P's Comment 2019:** In progress.

### **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.

**E+P's Comment 2019:** Complete.

### **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 2019:** Housing Department is in the Request for Proposal (RFP) process to hire a consultant for updating policies and procedures for CDBG, HOME and HESG grant programs. Consultant will commence in June 2020 and is expected to complete towards latter part of fiscal year 2020-21. The consultant will assist in developing procedures to calculate residual payments and receipts in fiscal year 2019-20. Staff has implemented temporary working procedures for collection of residual revenues consistent with loan agreements for each development. Finance staff will develop procedures for collection of residual revenues from other non-residential developer agreements.

**Planned Implementation Date:** June 30, 2021

**Responsible Person:** Grants Manager Roel Briones and Controller, Tonya Cheng

**E+P's Comment 2019:** Not 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 2019:** Accounting procedures will be developed to document the correct treatment for calculating deferred balances. It should be noted, however, that there were no audit adjustments to the deferred balances reported in the City's CAFR.

## SCHEDULE OF PRIOR AUDIT FINDINGS (Continued)

**Planned Implementation Date:** June 30, 2020

**Responsible Person:** Senior Manager, Internal Controls, Christine Williams and Controller, Tonya Cheng

**E+P's Comment 2019: Not 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.

**City's Response 2019:** Indirect cost allocation model is being updated to improve accuracy, but manual application will continue until the new ERP system is implemented.

**Planned Implementation Date:** Updated indirect cost allocation plan to be implemented by July 1, 2021, ERP implementation expected to begin in FY2020-2021.

**Responsible Person:** Financial Analyst II, Jim Costello and Assistant CFO Donna Ventura

**E+P's Comment 2019: Not 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.

**City's Response 2019:** The Finance Department established a policy and procedure for capital assets and includes a section specifically on CIP. The Capital Asset Policy and Procedures was authorized and became effective July 1, 2018. The Capital Asset Policy and Procedures was supplemented with staff training, which was completed by Finance in August and September of 2018.

The Capital Asset Policy instructs Project Managers or City Department Managers (in lieu of the project manager), as the subjects responsible for informing the Finance Department when projects are complete throughout the fiscal year. Finance will continue to request an update from Project Managers at year-end as it did for FY 2017-18 and FY 2018-19. The request directs Project Managers to provide the notice of completion when the project is complete. For projects that are identified as being in progress, the Project Managers are requested to provide the expected completion date and an estimated cost to complete the project.

## **SCHEDULE OF PRIOR AUDIT FINDINGS (Continued)**

The Budget Division in Finance also monitors budgeted CIPs and requires proper close out to ensure projects stay within budget. A list of CIP projects is distributed via the City's shared drive for departments' review. Requisitions, purchase orders, and agreements are also reviewed by Budget for budget availability. As year-end approaches, Budget notifies managers of project status, reconciliation status of project if applicable, potential close out and carryover are analyzed and approved prior to project continuation in the new fiscal year.

The Finance Department meets periodically with Public Works to review projects, including status updates such as estimated completion date and other relevant information that may have financial impacts.

The Finance Department will conduct project onboarding meetings with Project Managers to establish a project number, assign the budget amount and the proper expenditure account for each project. Project Managers will also be informed of the Capital Asset Policy, which requires that the asset be placed in service when it is considered substantially complete (actual expenditures reach 95% of the budgeted amount).

**Planned Implementation Date:** by July 1, 2019

**Responsible Person:** Assistant CFO Donna Ventura

**E+P's Comment 2019:** In progress.

### **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.

**E+P's Comment 2019:** Complete.

### **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 2019:** A policy and procedure was established for capital assets and includes a section specifically on CIP. In addition, staff training was completed in August and September of 2018. Project managers have been instructed to inform the Finance Department when projects are complete throughout the fiscal year. Finance will continue to request an update from project managers at year-end. The City is also planning to bring the departments, such as Finance and Public Works, together to meet periodically throughout the year to review projects, including status updates such as estimated completion date and other relevant information that may have financial impacts.

## **SCHEDULE OF PRIOR AUDIT FINDINGS (Continued)**

**Planned Implementation Date:** Implementation began in FY 2017-18 with implementation of Capital Asset Policy and Procedure. Joint Finance/Public Works meetings were held during FY 2018-19 and will continue moving forward.

**Responsible Person:** Assistant CFO Donna Ventura

**E+P's Comment 2019:** In progress.

### **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 2019:** City staff has implemented a workaround solution until the new ERP system is in place. A procedure has been implemented to run an A/P reconciliation report as an alternative to an aging report.

**E+P's Comment 2019:** Complete.

### **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.

**E+P's Comment 2019:** Complete.

### **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.

**E+P's Comment 2019:** Complete.

## **SCHEDULE OF PRIOR AUDIT FINDINGS (Continued)**

### **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.

**City's Response 2019:** The City recorded new bond issuance (Wastewater 2018) and defeasances of debt (Wastewater 2004B and Wastewater 2006) that were reviewed by auditors in FY 2018-19 without adjustments. The Management Accountant works directly with the City's bond trustees and municipal advisor to record new debt retirements and issuances, which are reviewed and approved by the Assistant CFO before recording to the general ledger. Accounting staff performs quarterly reconciliations of bond trustee accounts to the City's general ledger, which are reviewed by the Management Accountant. Since the City uses one bank (Wells Fargo) as the trustee for all bond transactions, the quarterly reconciliation of these trustee accounts serves as a compensating control to identify any new debt-related transactions. In addition, Management Accountant and/or Assistant CFO communicates with the City's municipal advisors at least quarterly to review the City's debt portfolio. Any changes to long term debt will be evaluated and appropriately accounted for in accordance with GAAP.

**Planned Implementation Date:** Implemented

**Person responsible:** Management Accountant

**E+P's Comment 2019: Complete.**

### **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 2019:** The City has a management accountant whose primary focus is ensuring the proper accounting for the City's debt; in addition, the City has a capital asset accountant whose primary focus is ensuring the proper accounting for the City's capital assets. To ensure the City captures new debt agreements such as capital leases, the capital asset accountant reviews all transactions running through relevant general ledger expenditure accounts, pulling invoices to identify whether expenditures should be capitalized or accounted for as capital leases. In addition, Finance staff review all agendas and/or minutes of City Council meetings and communicate any new debt and lease agreements to the management accountant and capital asset accountant. Finally, the management accountant communicates with the bond trustees and the City's municipal advisor to determine if there are any new debt agreements, and the capital asset accountant communicates with the vendors with whom the City has master lease agreements to see if there are any changes, deletions, and/or additions to the lease agreements and/or the assets leased under those agreements. City is also in process of hiring third party to lead the implementation of GASB 87 to ensure compliance.

## **SCHEDULE OF PRIOR AUDIT FINDINGS (Continued)**

**Planned Implementation Date:** Implemented

**Person responsible:** Management Accountant and Capital Asset Accountant

**E+P's Comment 2019:** In progress.

### **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 2019:** The City has consulted with its municipal advisor 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. As a result of these consultations, the City has successfully refunded its variable rate bonds and terminated the related interest rate swap agreements, leading to improved bond ratings. In addition, the City developed a schedule with the municipal advisor delineating the City's responsibilities and the municipal advisor's responsibilities to ensure that the City meets its debt compliance requirements in a timely manner.

**Planned Implementation Date:** June 30, 2019

**Person responsible:** Management Accountant

**E+P's Comment 2019:** In progress.

### **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.

**E+P's Comment 2019:** Repeat finding 2019-007

### **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.

**E+P's Comment 2019:** Repeat finding 2019-007

## **SCHEDULE OF PRIOR AUDIT FINDINGS (Continued)**

### **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.

**E+P's Comment 2019: Complete.**

### **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.

**E+P's Comment 2019: Complete.**

### **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.

**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.

**E+P's Comment 2019: Complete.**

### **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.

**City's Response 2019:** City Council approved a new management agreement with American Golf Corporation (AGC) commencing on July 1, 2019. All gross revenues for the golf course are being collected and deposited by AGC into the City's bank account. The City conducts periodic (at least quarterly) meetings with the operator, AGC, to review the financial performance and budget status of the golf course operations. Both Public Works and Finance management participate in these meetings.

## **SCHEDULE OF PRIOR AUDIT FINDINGS (Continued)**

**Planned Implementation Date:** July 1, 2019

**Responsible Person:** Assistant Public Works Director, Brian Yanez

**E+P's Comment 2019:** Not started.

### **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 2019:** City Council approved a new management agreement with American Golf Corporation (AGC) commencing on July 1, 2019. Since the implementation of the agreement, AGC is billed for water per the agreement.

**Planned Implementation Date:** July 1, 2019

**Responsible Person:** Assistant Public Works Director, Brian Yanez

**E+P's Comment 2019:** In progress.

### **2015-103 - Review and Reconciliation of Clearing Funds (SD)**

**Finding:** Clearing funds are not reviewed and closed-out regularly. As a result of the 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 2019:** Finance staff made some progress in FY 2018-19 in reconciling certain clearing accounts. With the addition of the new Senior Manager, Internal Controls position as well as temporary staff hired in FY 2019-20, the City expects to complete this effort in FY 2019-20 and establish procedure to regularly reconcile and close-out clearing funds moving forward.

**Planned Implementation Date:** September 30, 2020

**Responsible Person:** Controller, Tonya Cheng

**E+P's Comment 2019:** Repeat finding 2017-013

## **SCHEDULE OF PRIOR AUDIT FINDINGS (Continued)**

### **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 2019:** In connection with the FY 2016-17 audit, consultants analyzed the detail of the private donations trust fund and corrected accounting for some donations recorded in the fund. Final analysis needs to be performed to fully reconcile and account for activity in this fund. A procedure needs to be established on acceptance of donations to the fund. The City is in the process of going through a work load priority assessment. Priorities deemed critical will be updated quarterly and/or included as part of the month end close process.

**Planned Implementation Date:** Critical Account Assessment will be completed by June 30, 2020

**Responsible Person:** Controller Tonya Cheng

**E+P's Comment 2019:** In progress.

### **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 2019:** The CFO shares relevant financial information with department heads at Senior Leadership Team meetings every two weeks. The most important communication channel between the Finance Department and the other City departments is not at the department head level. Rather, it is at the division manager and management analyst level that the Finance Department by far most frequently communicates with departments. Both General Accounting and Budget Divisions of the Finance Department have multiple identified liaisons in all the large City departments, and at least one administrator in the small City departments. In-person meetings, teleconferences, and especially e-mail communication between the Finance Department and these liaisons in the operating departments is what facilitates budget preparation, execution, monitoring and control; biweekly payroll processing; weekly accounts payable; ongoing accounts receivable; grant accounting and administration; periodic debt issuance and management; and general ledger maintenance. The new ERP software system will eventually allow operating departments to create and review their own preferred financial reports, rather than rely on the existing system's less flexible reporting capabilities.

## SCHEDULE OF PRIOR AUDIT FINDINGS (Continued)

**Planned Implementation Date:** Complete

**Responsible Person:** CFO Kevin Riper

**E+P's Comment 2019:** In progress.

### **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 Response 2019:** During the last three years the City has made significant progress in preparing financial information that is reliable. Future efforts will seek to improve timeliness and quality. Fundamental elements of the Internal Control Integrated Framework (ICIF) and associated policies have been drafted. The City plans to adopt ICIF implementing policies, that will address financial reporting control risks in the next year. Implementation had been delayed due to lack of resources and staff turnover. In FY 2019-20 the City added a new position – Senior Manager, Internal Controls, to support this effort and focus exclusively on helping the organization strengthen its internal control framework and complete implementation of policies and procedures. 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.

**Planned Implementation Date:** ICIF policies are expected to be presented to City Council by December 31, 2020.

**Responsible Person:** Assistant CFO Donna Ventura and Senior Manager, Internal Controls Christine Williams

**E+P's Comment 2019:** In progress.

### **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 2019:** During the last three years the City has made significant progress in preparing financial information that is reliable. Future efforts will seek to improve timeliness and quality. Fundamental elements of the Internal Control Integrated Framework (ICIF) and associated policies have been drafted. The City plans to adopt ICIF implementing policies, that will address financial reporting control risks in the next year. Implementation had been delayed due to lack of resources and staff turnover. In FY 2019-20 the City added a new position – Senior Manager, Internal Controls, to support this effort and focus exclusively on helping the organization strengthen its internal control framework and complete implementation of policies and procedures. 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.

## **SCHEDULE OF PRIOR AUDIT FINDINGS (Continued)**

**Planned Implementation Date:** ICIF policies are expected to be presented to City Council by December 31, 2020.

**Responsible Person:** Assistant CFO Donna Ventura and Senior Manager, Internal Controls Christine Williams

**E+P's Comment 2019:** In progress.

### **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 2019:** The City has met its debt service coverage ratio requirement for Wastewater bonds both of the last two fiscal years, and for Water bonds each of the last three fiscal years. The City has engaged a continuing disclosure consultant and dissemination agent to ensure the City complies with disclosure requirements mandated by Securities and Exchange Commission Rule 15(c)2-12. That firm has provided a disclosure schedule and written procedures that the Finance Department –seeking assistance from other City departments when needed– adheres to, overseen by the consultant.

**Planned Implementation Date:** Complete

**Person responsible:** CFO Kevin Riper and Assistant CFO Donna Ventura

**E+P's Comment 2019:** Complete.