

CITY OF COMPTON

Review Report

ADMINISTRATIVE AND INTERNAL ACCOUNTING CONTROLS

July 1, 2013, through June 30, 2016



BETTY T. YEE
California State Controller

March 2018



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California State Controller

March 15, 2018

The Honorable Aja Brown
Mayor of the City of Compton
205 South Willowbrook Avenue
Compton, CA 90220

Dear Mayor Brown:

Enclosed is the report of the State Controller's Office review of the City of Compton's administrative and internal accounting controls system. The review was conducted to assess the adequacy of the city's controls to safeguard public assets and to ensure proper use of public funds.

Our review found serious and pervasive administrative and internal accounting control deficiencies, as described in the Findings and Recommendations section of our report.

We assessed various aspects of the city's internal control components and elements based on the Internal Control Management and Evaluation Tool guidelines established by the Government Accountability Office. Of the 79 control elements evaluated, we found that 71, or 90%, were inadequate.

The results of our evaluation of internal control elements are included in the report as an Appendix. Our evaluation of the elements were based on the conditions that existed during our review period of July 1, 2013, through June 30, 2016.

In its response to the draft report, the city stated that it is in the process of developing corrective actions and implementing our recommendations. The city should be commended for taking these matters seriously and being proactive in resolving the noted deficiencies. We would like to express our thanks to the city staff and management, who were helpful throughout the review process.

As always, my staff and I are available to address your questions. You may contact Efren Loste, Chief, Local Government Audits Bureau, by telephone at (916) 324-7226, or by email at eloste@sco.ca.gov.

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

JVB/as

cc: Cecil W. Rhambo, Jr., City Manager
City of Compton
Rafaela King , City Controller
City of Compton
Janna Zurita, Councilmember
City of Compton
Isaac Galvan, Councilmember
City of Compton
Tana McCoy, Councilmember
City of Compton
Emma Sharif, Councilmember
City of Compton
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Review Report

Introduction

The State Controller's Office (SCO) conducted an evaluation of the City of Compton's system of administrative and internal accounting controls system for the period of July 1, 2013, through June 30, 2016. We expanded our testing as necessary to include prior-year and current-year transactions, to follow up on issues identified through interviews with city officials and through our review of the work of independent auditors and other audit reports.

We conducted this evaluation pursuant to Government Code (GC) section 12410, which requires the Controller to "superintend the fiscal concerns of the state. The Controller shall audit all claims against the state, and may audit the disbursement of any state money, for correctness, legality, and for sufficient provisions of law for payment."

We question the city's ability to provide reliable and accurate information regarding required financial reports. Therefore, under GC section 12464(a), we conducted an investigation/review to validate the Annual Report of Financial Transactions reports submitted by the city during the period of July 1, 2013, through June 30, 2016. Under GC section 12464(b), the costs of this investigation/review, including preparing a report of the results and transmitting copies to the City Council Members, will be borne by the city.

This report presents the findings and conclusions reached in our review of the city's administrative and internal accounting controls system.

We issued a separate report for our audit of the Special Gas Tax Street Improvement Fund, the Traffic Congestion Relief Fund allocations, and Proposition 1B Fund allocations.

Background

The City of Compton is an industrial suburb, located south of downtown Los Angeles. As of the 2010 census, the city had a population of 96,455. The city has a total area of 10.1 square miles (26 km²). 10.0 square miles (26 km²) of this area is land and 0.1 square miles (0.26 km²) of it (1.03%) is water. It was incorporated on May 11, 1888, under the laws of the State of California, and enjoys all rights and privileges applicable to a charter city. It is governed by an elected board.

Objective, Scope, and Methodology

The objective of this review was to evaluate the city's system of administrative and internal accounting controls to ensure:

- Effectiveness and efficiency of operations;
- Reliability of financial reporting;
- Compliance with applicable laws and regulations; and
- Adequate safeguarding of public resources.

To meet our review objective, we:

- Evaluated the city's formal, written internal policies and procedures;
- Conducted interviews with city employees and observed the city's business operations for the purpose of evaluating city-wide administrative and internal accounting controls;
- Reviewed the city's documentation and supporting financial records;
- Performed tests of transactions to ensure adherence with prescribed policies and procedures, and to validate and test the effectiveness of controls; and
- Evaluated various aspects of the city's internal control components and elements in accordance with the Internal Control Management and Evaluation Tool guidelines established by the Government Accountability Office (GAO).

Conclusion

We found the city's administrative and internal accounting control deficiencies to be serious and pervasive; in effect, controls are virtually nonexistent. The deficiencies resulted in the following findings that the city should address and correct:

- A deficit fund balance in the General Fund;
- The city may have paid its Council Members salary compensation in excess of the amount allowed by its Charter;
- Material weaknesses in internal control resulted in the city's losing \$3.72 million;
- City Council expenditures are substantially higher than those of comparable charter cities within the Los Angeles area;
- City Council expenditures of city funds on special projects and events exceed the approved budget;
- City officials failed to comply with purchasing procedures and contracting requirements;
- The city failed to exercise oversight over its financial and operational activities relating to contracted services;
- The city failed to exercise adequate control over expenditures charged to city-issued credit cards;
- Bank reconciliations were not performed, reviewed, or approved in a timely manner;
- A lack of segregation of duties;
- A lack of control over the city's Petty Cash Fund;
- The city's fixed assets were not properly and accurately accounted for;
- The city's Administrative Policies and Procedures manuals were incomplete and outdated;
- Turnover and lack of consistent leadership have hindered operational stability;

- The city was unable to produce financial statements on a timely basis;
- The city lacks adequate staff performing critical functions;
- The city failed to implement correcting procedures to prior-year audit findings; and
- The city lacks an established audit committee.

Of the 79 control elements evaluated, we found that 71, or 90%, were inadequate. The results of our evaluation of internal control elements are included in this report as an Appendix.

The city should develop a comprehensive remedial plan to address these deficiencies. The plan should identify the tasks to be performed, as well as milestones and timelines for completion. The City Council should require periodic updates at public meetings of the progress in implementing this remedial plan.

Views of Responsible Officials

We issued a draft report on January 31, 2017. Cecil W. Rhambo, Jr., City Manager, responded by mail on February 23, 2018. The city stated that it has taken steps to address the issues noted in our findings and will continue to make efforts to enhance its administrative and internal accounting controls. The city's response is included in this final review report as an Attachment.

Restricted Use

This report is solely for the information and use of the City of Compton and the SCO; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record.

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

March 15, 2018

Findings and Recommendations

Analysis of City's Administrative and Internal Control System

We found the city's administrative and internal accounting control deficiencies to be serious and pervasive; in effect, controls were virtually nonexistent. We found weaknesses in the city's administrative and internal accounting controls system, resulting in findings that the city should address and correct. We also found a lack of oversight by the City Council over the city's financial and operational activities.

We assessed various aspects of the city's internal controls components and elements based on the Internal Control Management and Evaluation Tool guidelines established by the GAO. Of the 79 control elements evaluated pertaining to internal control components, we found that 71, or 90%, were inadequate. In the Control Environment component—Integrity and Ethical Values, Commitment to Competence, and Management Philosophy and Operating Style—we found that only one of the 15 control elements were adequate.

Using the results of our evaluation of internal control elements (Appendix), we reviewed selected transactions to document examples of weak and nonexistent controls. The specific findings described in this report resulted, in part, from these deficiencies. Specific recommendations to address the findings are described within each finding section.

Recommendation

We recommend that the city continue to develop a comprehensive remedial plan to address the deficiencies noted in the Appendix. The plan should identify the tasks to be performed, as well as milestones and timelines for completion. In addition, we recommend that the City Council require periodic updates at public meetings of the progress in implementing the remedial plan.

FINDING 1— There is a deficit fund balance in the General Fund

For the period of July 1, 2009 through June 30, 2016, the city operated with a material deficit amount in its General Fund—an indication that the city's general operations include significant deficit spending.

According to the City Council minutes, beginning in April 12, 2011, the City Council faced scrutiny from citizens for reckless overspending of its General Fund revenues within a period of four years. The General Fund surplus of \$22.4 million at the beginning of fiscal year (FY) 2007-08 was totally exhausted, and had become a deficit of \$42.7 million by FY 2010-11 through overspending an average of \$16.3 million per year. The General Fund shortages for subsequent years were routinely covered by borrowing from other fund accounts, resulting in an estimated deficit of \$38.5 million for the fiscal year ended June 30, 2016. The successive years of operating deficits have caused financial hardship for the city.

The surpluses/deficits in the General Fund balance, as reported in the city's financial records, are as follows:

| Fiscal Year (FY) | Beginning Fund Balance | Net Change in Fund Balance | Ending Fund Balance | |
|-------------------------|---------------------------|-------------------------------|------------------------|---------|
| FY 2007-08 | \$ 22,418,586 | \$ (10,638,544) | \$ 11,780,042 | Surplus |
| FY 2008-09 | 11,780,042 | (14,366,552) | (2,586,510) | Deficit |
| FY 2009-10 | (2,586,510) | (12,021,192) | (14,607,702) | Deficit |
| FY 2010-11 | (14,607,702) | (28,117,112) | (42,724,814) | Deficit |
| FY 2011-12 | (42,724,814) | 4,813,408 | (37,911,406) | Deficit |
| FY 2012-13 | (37,911,406) | 1,530,265 | (36,381,141) | Deficit |
| FY 2013-14 | (36,381,141) | (106,983) | (36,488,124) | Deficit |
| FY 2014-15 ¹ | (36,488,124) | (6,375,204) | (42,863,328) | Deficit |
| FY 2015-16 ¹ | (42,863,328) | 4,366,306 | (38,497,022) | Deficit |

¹Amounts were calculated from unadjusted trial balances.

As shown above, the city operated with deficit General Fund balances beginning in FY 2008-09, which may suggest that it cannot meet the burden of its current government expenditures. It is essential that the city maintain an adequate General Fund balance to mitigate current and future risks, such as revenue shortfalls and unanticipated expenditures. Fund balances are a crucial consideration in long-term financial planning.

On December 20, 2011, city officials acknowledged that immediate steps were necessary to address the city's General Fund deficit. The city appeared to have slowly reduced the deficit beginning in FY 2011-12; however, the deficit materially increased again in FY 2014-15. On June 17, 2014, the City Council adopted Resolution No. 23,970 to implement a 15-year repayment plan to resolve the deficit. Our review of the city's financial records for FY 2014-15 reflected an estimated deficit increase of \$6.4 million in the city's General Fund, to \$42.9 million.

The Government Finance Officers Association has developed Fund Balance Guidelines for the General Fund, which state that governments should establish a formal policy on the level of unrestricted fund balance that is to be maintained in the General Fund. It further recommends that, at a minimum, general-purpose governments, regardless of size, maintain unrestricted fund balance in their General Fund of no less than two months of regular General Fund operating revenues or regular General Fund operating expenditures.

Recommendation

Although the city has taken certain steps to address its deficit issues, we recommend that it continue these efforts to address its deficit; adhere to its long-term plan to eliminate fund deficits and inter-fund borrowing; and create an appropriate level of General Fund reserves for the future. Additionally, the City Council should be more disciplined in controlling the city's operational spending. The city should also review all funds with deficit fund balances and determine an appropriate action plan.

City's Response

The City of Compton disagrees with the State's assertion that the FY 2010-11 deficit of \$42.7 million occurred as a result of overspending an average of \$16.3 million per year. The City's June 30, 2007 Annual Financial Report does reflect a \$22.4 million dollar **surplus** as the State indicated. However, the City's Internal Service Funds listed a deficit of \$31 million dollars. In contrast, the City's June 30, 2011 Annual Financial Report reflected a \$41.2 million dollar deficit while the City's Internal Service Funds reflected a positive cash balance of \$21.3 million dollars. It is our position that this data highlights the end of the City's practice that occurred over prior decades of carrying forward deficit accounts in the Internal Service Fund but does not represent overspending of actual cash during this time period as indicated by the State.

Furthermore, in 2012, the City sought and obtained with the assistance of Los Angeles County, Tax and Revenue Anticipation Notes (TRANs) financing to cover the City's annual cash flow shortages; thereby ending the need for internal service fund borrowing. TRANs financing continued through June 30, 2016.

The City will diligently continue to reduce its current general fund deficit by adhering to a long-term plan to eliminate fund deficits.

SCO's Comment

The finding remains as stated.

The city's audited financial statements for FY 2007-08, FY 2008-09, FY 2009-10, and FY 2010-11 show a deficit net change in General Fund balances of (\$10,638,544), (\$14,366,552), (\$12,021,292), and (\$28,117,112), respectively. These amounts, representing expenditures in excess of revenues, average to \$16.3 million per fiscal year.

The city's comment relating to the Internal Service Fund is irrelevant to this finding. The General Fund deficits, as noted in this finding, were based on each fiscal year's expenditures in excess of revenues.

We acknowledge that the city had surplus net changes in General Fund balances for FY 2011-12 and FY 2012-13 based on its audited financial statements, and an estimated surplus for FY 2015-16 based on its unadjusted trial balances. This shows that the city has implemented procedures to address its General Fund deficit. However, the estimated ending fund balance deficit of \$38.5 million for FY 2015-16 is still contributing to financial hardship for the city.

**FINDING 2—
The city may have
paid its Council
Members salary
compensation in
excess of the
amount allowed by
its Charter**

Our review of the accounting and reporting of salary costs revealed that the city may have overpaid salaries to its City Council Members. We extracted salary costs for Council Members for the period of January 1, 2010, through July 31, 2017 from the city's payroll records. Our review disclosed that during this period, Council Members were compensated a total of \$1.56 million. Section 504 of the city's Charter provides for monthly compensation of \$600 to City Council Members and the Mayor. Our evaluation of the extracted payroll records suggests that the city may have paid its Council Members \$1.29 million in excess of the amount

allowed by the City Charter. The following schedule shows the breakdown of questionable compensation paid to these Council Members:

| Calendar Year | Regular Salary | Car Allowance | Phone Allowance | Total | Allowed Per Charter | Overpayment |
|-------------------|---------------------|-------------------|------------------|---------------------|---------------------|---------------------|
| 2010 | \$ 226,000 | \$ 35,750 | \$ - | \$ 261,750 | \$ 36,000 | \$ 225,750 |
| 2011 | 239,050 | 33,800 | 375 | 273,225 | 36,000 | 237,225 |
| 2012 | 218,350 | 32,856 | 2,632 | 253,838 | 36,000 | 217,838 |
| 2013 | 237,800 | 38,645 | 4,568 | 281,013 | 36,000 | 245,013 |
| 2014 | 186,350 | 32,500 | 4,900 | 223,750 | 36,000 | 187,750 |
| 2015 | 130,350 | 15,275 | 3,600 | 149,225 | 36,000 | 113,225 |
| 2016 | 35,075 | 38,675 | 3,600 | 77,350 | 36,000 | 41,350 |
| 2017 ¹ | 18,000 | 19,500 | 1,800 | 39,300 | 18,000 | 21,300 |
| | <u>\$ 1,290,975</u> | <u>\$ 247,001</u> | <u>\$ 21,475</u> | <u>\$ 1,559,451</u> | <u>\$ 270,000</u> | <u>\$ 1,289,451</u> |

¹January 1, 2017, through June 30, 2017

According to the city, the salaries noted above consist of the \$600 allowed by the City Charter and additional amounts of approximately \$4,000 a month for the Council Members' memberships in various boards and commissions. Per the city, the additional payment structure, which has been in place since 1975, "is in conformance to a legally-recognized method of interpretation of the City Charter and case law."

In a letter to the city dated July 17, 2015, the Los Angeles County District Attorney's Office (DA) stated that "there is no legal authority in the Compton City Charter that allows the mayor or council member to pay themselves money over and above" the \$600 salary. The Compton City Attorney disagreed with the DA's interpretation in his letter dated August 17, 2015, which states:

Your letter contends that Section 504 of the Charter "is controlling as to the compensation" of the Mayor and Council Members, and that "[a]ny increase in salary must be specifically stated within, and authorized by" the charter. In my opinion, this position is contrary to case law. The courts have consistently rejected the notion that city charter must affirmatively authorize a city council to act on matter that is a municipal affair....

The City Council minutes from September 1, 2015, note that the City Attorney and the County District Attorney had a meeting wherein they exchanged legal viewpoints on these issues and ultimately agreed to disagree.

On September 15, 2015, the Mayor adjusted her salary. On October 15, 2015, the rest of the Council Members reduced their salaries to \$600 to comply with the Charter. However, City Council Members continued to receive their monthly car and phone allowances, increasing their total compensation over the amount allowed by the City Charter. We also noted that on December 31, 2015, City Council Members and the Mayor received additional salaries of \$7,475 labeled as "Other Earnings." The city was not able to provide documentation to justify these other earnings.

Recommendation

We recommend that the city follow up on the legal issue related to compensation paid to its elected government board officials in excess of

the \$600 salary per member, per month, to ensure that amounts paid since 1975 are in compliance with the City Charter.

City's Response

The City acknowledges the State's recommendation and will continue to review the City's practice of compensation and expense reimbursements that had been in effect since 1975 for ongoing compliance with its City Charter.

It is important to note that the City's Urban Community Development Commission (UCDC) which governs the City's Local Housing Authority still meets on an as needed basis. Its compensation is set by state law at \$75 per meeting attended and a maximum of \$150 a month.

Our financial department will continue to research the State's "Other Earnings" notation.

SCO's Comment

The city acknowledged our recommendation and agreed to follow up on the finding.

FINDING 3— Material weaknesses in internal control resulted in the city's losing \$3.72 million

On November 3, 2017, the former Deputy Treasurer of the city was sentenced to six and a half years in federal prison on charges stemming from his embezzlement of more than \$3.72 million of city funds from May 2010 through December 2016. The former Deputy Treasurer held his position for more than 20 years; his primary responsibilities included the verification of daily collections to the Cashier Count Report and completion of the bank deposit process.

According to a forensic audit report, dated March 2017, the city's former Deputy Treasurer was able to obscure his embezzlement scheme for over six years. This was partly because: (1) he embezzled small amounts on a daily basis by duplicating and otherwise falsifying bank deposit slips, while presenting accurate documents for recording in the city's accounting system; and (2) internal controls were insufficient to allow the theft to be detected, as city management failed to closely monitor bank accounts.

Given the city's continuing budget deficit, city management should have maintained rigorous internal controls over cash handling and reconciliation processes. Instead, the city failed to implement basic internal controls in its cash receipt process, resulting in a loss of millions of dollars badly needed by the city.

Some basic internal control deficiencies are as follows:

- Failure to implement proper segregation of duties, which is key to protecting assets such as cash. The former Deputy Treasurer was allowed to perform the first cash count and reconcile count by himself, and also to complete all necessary paperwork for the deposit process. This internal control deficiency provided him with the opportunity to embezzle cash;

- Failure to complete monthly bank reconciliations in a timely manner (see Finding 8); and
- Failure to implement read-only access for online monitoring of bank activity in the City Controller's Office. An employee assigned to monitor the city's banking activity might have been able to quickly identify discrepancies between the total cash deposited and the total cash amount stated in the Cashier Count Reports.

Recommendation

Although the city stated that it has implemented several new procedures within the Treasurer's Office, and that the City Controller's Office has implemented read-only access for monitoring bank activity, these procedures have yet to be incorporated in its formal Policy and Procedures manual. We recommend that the city update its formal Policy and Procedures manual to incorporate the recently implemented internal control procedures, and complete these updates as soon as possible.

City's Response

The City acknowledges the State's finding to update our formal Policy and Procedures manual to incorporate the recently implemented financial internal control procedures as soon as possible. (Please see Attachment)

SCO's Comment

The city stated that it has recently implemented financial control procedures. We recommend that the city incorporate the control procedures into its formal policies and procedures manual, and further monitor compliance with those procedures.

**FINDING 4—
City council
expenditures are
substantially higher
than those of
comparable charter
cities within the Los
Angeles area**

The City Council expenditures are substantially higher when compared to most of the other charter cities of comparable size in area and population within Los Angeles County. We excluded one city of comparable size and population that also included Council Assistants expenditures in its City Council budget. For FY 2013-14, FY 2014-15, and FY 2015-16, our review of the city's budget for its City Council revealed that it is approximately 300% greater than the average budget of comparable charter cities, as shown in the table below:

City Council Adopted Budgets

| City | Population | Area (Square Miles) | Budget | | |
|--|------------|---------------------|---------------------|---------------------|---------------------|
| | | | FY 2014 | FY 2015 | FY 2016 |
| Alhambra | 83,089 | 7.63 | \$ 332,059 | \$ 341,945 | \$ 345,634 |
| Burbank | 103,340 | 17.39 | 515,208 | 520,059 | 642,424 |
| Downey | 111,772 | 12.57 | 325,907 | 287,412 | 267,859 |
| Whittier | 85,331 | 14.66 | 34,185 | 32,967 | 32,967 |
| Total | | | \$ 1,207,359 | \$ 1,182,383 | \$ 1,288,884 |
| Average | | | \$ 301,840 | \$ 295,596 | \$ 322,221 |
| Compton | 96,455 | 10.12 | \$ 1,166,376 | \$ 1,290,671 | \$ 1,345,611 |
| Difference from Other Cities Average Budget | | | \$ 864,536 | \$ 995,075 | \$ 1,023,390 |
| Percentage of Difference to Average Budget | | | 286.42% | 336.63% | 317.60% |

Aside from excessive salaries paid to Council Members (see Finding 2), the largest contributing factor to the city's higher expense for City Council is compensation paid to Council Assistants. Unlike other charter cities, the city has created five Council Assistants—one for each Council Member and one for the Mayor. The total compensation paid to these Council Assistants for the calendar years 2014, 2015, and 2016 is presented below:

| Calendar Year | Regular Earnings | Other Pay and Allowances | Total Pay | Total Benefits | Total Pay and Benefits |
|---------------|-------------------|--------------------------|-------------------|-------------------|------------------------|
| 2014 | \$ 226,567 | \$ 21,359 | \$ 247,926 | \$ - | \$ 247,926 |
| 2015 | 226,565 | 12,266 | 238,831 | - | 238,831 |
| 2016 | 267,284 | - | 267,284 | 133,992 | 401,276 |
| Total | \$ 720,416 | \$ 33,625 | \$ 754,041 | \$ 133,992 | \$ 888,033 |

The Council Assistant is an unclassified hourly employee (part-time) position, according to the City Charter. Council Assistants work under the general direction of the City Manager or designated management official, with the general purpose of performing administrative support functions for the City Council Members. However, the City Manager does not provide general direction to the Council Assistants. Instead, each Council Assistant works under the general direction of his or her designated City Council Member and performs tasks for specific programs of that Council Member. These programs are most often specific to the Council Member's own district, and are very seldom, if ever, city-wide. Council Assistants' work hours should be limited to, at most, 36 hours per week. However, in most instances, they work and are paid for 40 hours a week and are occasionally paid for overtime hours.

From our review of available documents, we cannot determine how the city benefits from the work performed by Council Assistants for its Council Members.

Recommendation

We recommend that the city evaluate the City Council's expenses, including the Council Assistant positions and their relevance and importance to the overall purpose and operation of the city.

City's Response

As cited in the audit, the City lacks the staffing to address all of the constituent concerns that occur in the City. The role of the Council Liaison is critical to service delivery in that it provides a conduit between the Mayor and Council District constituents to the various departments via the City Manager's Office. Their roles are an extension of each City Department's ability to deliver services and assist the City Manager's Office in that delivery. Additionally, the liaisons must be allowed to work flexible schedules to ensure that Mayor and Council Town Halls, special events, and meetings are coordinated with the proper departments.

The City acknowledges that the positions should not work over their 36 hour work week. To address the number of hours worked by the liaisons, administration has been closely monitoring the actual hours worked by the liaisons and have informed the Mayor and Council that the Liaison positions are not to be assigned work in excess of their 36 hour work week and that no overtime will be paid for this position.

SCO's Comment

The city did not dispute this finding; it remains as stated.

**FINDING 5—
City Council
spending of city
funds on special
projects and events
exceeds the
approved budget**

Based on our review of City Council expenses, we determined that the City Council not only received compensation in excess of allowed amounts (see Finding 2) and incurred additional costs for Council Assistants (see Finding 4), but it also has incurred expenses for special projects and events in excess of the amounts approved in its budget. During FY 2015-16 and FY 2016-17, the City Council spent a total of \$403,734 on special projects and events, with the breakdown as follows:

| Special Projects and Events - Council Expenses | | | |
|---|--------------------|-------------------|--------------------|
| Council Member | FY 2015-16 | FY 2016-17 | Total |
| A | \$ 110,478 | \$ 36,017 | \$ 146,495 |
| B | 68,060 | 46,761 | 114,821 |
| C | 2,776 | 42,852 | 45,628 |
| D | 4,493 | 19,751 | 24,244 |
| E | 25,354 | 32,549 | 57,903 |
| Joint Program | 9,479 | - | 9,479 |
| Citywide Program | 1,505 | - | 1,505 |
| Other Expenses | 3,659 | - | 3,659 |
| Total | \$ 225,804 | \$ 177,930 | \$ 403,734 |
| Approved Budget | 55,000 | 125,000 | 180,000 |
| Expenses in Excess of the Approved Budget | \$ 170,804 | \$ 52,930 | \$ 223,734 |
| Percentage of Expenses Over Budget Amount | 310.55% | 42.34% | 124.30% |

A budget is perhaps the most important managerial tool available to a local government. Because a budget reflects almost all of a local government's activities, it acts as an effective management tool at various stages of governmental activity. However, the City Council appears to ignore its established budgets. As shown above, the City Council spent over the approved budget by \$223,734 during FY 2015-16 and FY 2016-17. This failure to control spending further increases the city's General Fund deficit.

Recommendation

We recommend that the City Council and city management limit their spending to adopted budget amounts. In addition, we recommend that the City Council regularly request reports from city management showing a comparison of budgeted to actual expenditures to ensure that the city does not spend in excess of approved budgets.

City's Response

The City acknowledges the State's recommendation to limit spending to adopted budget amounts. To that end, the City's administration will propose greater use of line itemization in the upcoming FY 2018-2019 budget for greater detail. The City will also continue its recent practice of quarterly budgetary updates at City Council meetings where a comparison between budget and actual expenditures are presented.

SCO's Comment

The city acknowledged our recommendation and agreed to establish greater control over expenditures.

**FINDING 6—
City officials failed
to comply with
purchasing
procedures and
contracting
requirements**

During our review of the city's contracting process from July 1, 2013, through June 30, 2016, we noted that neither city officials nor the City Council complied with the city contracting requirements. Purchases and contracts for supplies, services, and equipment that exceed \$25,000 must be made with a written contract and a written purchase order to the lowest responsible bidder. City officials made numerous questionable decisions by not following the contract process. We identified numerous contracts and transactions that raised questions about the reasonableness and proper usage of public funds, as follows:

- Contracted services were not subjected to competitive bidding—Ron's Maintenance, Inc:

On October 27, 2015, the City Council adopted Resolution No. 24,248 authorizing the City Manager to enter into a multi-year agreement with Ron's Maintenance, Inc., for city-wide catch basin cleaning services. The City Manager entered into a new two-year contract agreement with Ron's Maintenance, Inc., at \$154,836 per fiscal year. The new contract extended a contract that ended June 30, 2015, to June 30, 2017. The city has consecutively renewed its contract with Ron's Maintenance, Inc., since January 23, 2010, and paid a total of \$946,178 between July 1, 2011, and June 30, 2017.

The city's initial contract with Ron's Maintenance, Inc. shows that the proposal and contract negotiating process excluded other contractors from bidding on the project. Additionally, our review of documents suggests that the city did not consider exploring other options or seek bids from other companies. As such, the city failed to comply with the open bidding process as mandated by its contracting requirements.

In addition, during our review we noted that the city failed to obtain competitive bids for the following contracts:

| Vendor Name | Description | Resolution No. | Approval Date | Contract Amount |
|----------------------------------|---|----------------|-------------------|-------------------|
| All-Star Interpreting Services | Interpreting Services | 23,984 | June 8, 2014 | \$ 35,000 |
| | Interpreting Services | 24,197 | July 28, 2015 | 35,000 |
| Evan Brooks Associates | Consultant – Grant application | 24,072 | January 13, 2015 | 56,100 |
| | Consultant – Traffic engineering services | 24,214 | September 1, 2015 | 40,000 |
| New West Landscaping | Landscaping | 23,759 | May 21, 2013 | 25,000 |
| | Landscaping | 23,759 | October 14, 2014 | 18,000 |
| Urban Graffiti Enterprises, Inc. | Graffiti Removal | 23,759 | May 21, 2013 | 25,000 |
| Willdan Financial Services | Comprehensive schedule of fees study | 23,908 | February 25, 2014 | 62,260 |
| Total | | | | <u>\$ 296,360</u> |

- The city extended existing contracts without completing a competitive bidding process—Trimming Land Company, Inc.:

On May 18, 2014, the City Council adopted Resolution No. 23,916 to amend an existing contract by increasing the scope of work and compensation by \$454,980, to a total amount of \$654,980—an increase of 227%. In addition, the City Council adopted Resolution No. 23,856 on November 16, 2015, to extend the contract for another year.

The city amended this contract without completing the competitive bidding process.

None of the documents we reviewed provided evidence that city officials conducted a competitive bidding process or considered exploring any other options. Accordingly, this contract extension is not fair and equitable to the city and its residents. As such, city officials violated the city's contracting requirements.

- The city approved contract change orders in violation of the California Public Contract Code.

The city approved a change order in the amount of \$1,747,782 to cover additional work for a city-wide traffic signal upgrade project. The change order expanded the scope of work to include additional "potholing" repairs as a result of an underground utility survey. This change order represents a 36% increase over the original contract amount of \$4,922,469. The change order was approved by the city on March 17, 2015; however, work was completed before the change order was approved.

The city adopted the California Public Contract Code as its law governing contract awards relating to street works, and also adopted the Green Book's Standard Specifications for Public Works Construction (Green Book) for construction standard practices, which are widely accepted. City management asserted that the 36% increase of the contract through a change order was legal and had been approved by the City Manager. City management further explained that the change order included major "potholing" repairs because the original contract had not included that work.

A change order should cover increased costs only within the original project scope. These additional improvements were not within the scope of the original contract.

These change order practices raise serious concerns and issues relative to the city's compliance with the California Public Contract Code:

- The city failed to comply with its contracting requirements when it approved the change order. The change order increased the contract by \$1,747,782. The city's Financial Policies and Procedures Manual (Section 9.6) references the California Public Contract Code, section 20455, which states that changes to the original contract should not exceed \$150,000.
- By extending project scope through change orders, the city repeatedly circumvented the bidding process. Change orders that alter project scope or exceed \$150,000 should be awarded only after competitive bidding. Contracts not competitively bid as required by Public Contracts Code are void as a matter of law. Moreover, Public Contract Code section 20163 states that "[e]very person who willfully violates the provision of this section is guilty of a misdemeanor."
- The city did not perform a detailed review and analysis of the change order and, therefore, failed to properly exercise its oversight responsibilities. It appears that the city approved change orders by relying on staff recommendations, without independently performing a due diligence review of the approval

process. All responsible parties appeared to rely on the Public Works Director's recommendations without seeking any input from legal counsel.

As a result of the city's violation of the Public Contract Code, reimbursement of its state and federal projects may be disallowed.

Recommendation

We recommend that the City Council fulfill its fiduciary responsibility by exercising meaningful oversight over the city's affairs. The city also should develop and implement policies and procedures to ensure that its management performs a detailed review and gains full understanding before entering into any type of legally-binding agreement. This is especially critical when approving long-term extensions to existing contracts. All proposed agreements should be presented to the City Council, with full explanations of the services to be provided and the benefits to the city, prior to approval and formal execution.

In future, the city should consult with its legal counsel to ensure that it complies with the Green Book, the Public Contract Code, and all other applicable laws, rules, and regulations. It is imperative that city officials perform due diligence when overseeing and approving city contracts and projects.

City's Response

The City acknowledges the State's recommendation to uphold its obligation to contract within our purchasing regulations. To that end, the City's administration will propose including a Centralized Purchasing Officer and Contract Compliance Officer to ensure the City is meeting its purchasing and contracting obligations.

SCO's Comment

The city acknowledged our recommendation and agreed to establish greater control over purchasing.

FINDING 7— The city failed to exercise oversight over its financial and operational activities relating to contracted services

During our review, we noted that payments for goods and services were readily approved by the City Council and other city officials without detailed review or analysis of the reasonableness of these costs. During several City Council meetings, payments of warrants were approved without review or evaluation of payment. We identified the following contracts and transactions that raise questions regarding reasonableness and proper use of public funds:

- Unallowable payments were made for professional services due to lack of approved contracts.

During our review, the city failed to provide approved contract agreements between itself and several service providers. In addition, there was no evidence from the City Council minutes that the Council had approved a resolution for these professional services. As a result,

the city made unauthorized payments of \$291,537, as presented below:

| Contractor | FY 2013-14 | FY 2014-15 | FY 2015-16 | Total |
|----------------------------|------------------|-------------------|-------------------|-------------------|
| The Hutt Group | \$ - | \$ 15,033 | \$ 15,034 | \$ 30,067 |
| Joe's Sweeping | - | - | 25,000 | 25,000 |
| Calmat | 26,534 | 23,862 | 25,000 | 75,396 |
| Chamber of Commerce | 11,074 | 25,000 | 50,000 | 86,074 |
| CA Cities of Self Reliance | - | 25,000 | 25,000 | 50,000 |
| Foddrill Constuction Corp | - | 25,000 | - | 25,000 |
| Total | <u>\$ 37,608</u> | <u>\$ 113,895</u> | <u>\$ 140,034</u> | <u>\$ 291,537</u> |

- The city made payments for auditing services without ensuring that the work was satisfactorily completed.

On November 20, 2015, the city and Macias Gini & O'Connell, LLC (MGO) entered into a contract for professional auditing services for FY 2013-14 and FY 2014-15. The total approved contract was \$648,879, prorated at \$324,439 for each fiscal year to complete the Comprehensive Annual Financial Reports (CAFR) and Single Audit Reports for FY 2013-14 and FY 2014-15.

The city was billed for single audit work for FY 2013-14 in the amount of \$70,483, of which the city paid \$56,822. The city did not provide a completed Single Audit Report for FY 2013-14. Additionally, the SCO has no record of receiving a completed Single Audit Report for FY 2013-14.

Furthermore, the city was billed and paid for work related to the completion of the CAFR for FY 2013-14. We obtained a copy of an MGO-completed FY 2013-14 CAFR dated November 17, 2016. However, the city informed us that this report had been recalled by MGO, and should not be relied upon.

- Payment was made for professional services without detailed review of invoices.

The city paid MGO \$46,145 for services related to the FY 2014-15 Single Audit Report. However, on November 6, 2017, the City Controller's Office informed us that the city was still in the process of preparing its Schedule of Expenses for Federal Award—the basis for preparation of Single Audit Report. The city did not perform a detailed review of the invoices for work completed before paying this amount.

Recommendation

We recommend that the city ensure that payments do not exceed contract amounts; and that payments are for contracted services and work that is properly completed, and in accordance with contract terms.

City's Response

The City acknowledges the State's concern regarding the City's use of our warrant system. Consequently, the City will undertake review and updating of our Policies and Procedures regarding our warrant system.

Also, the City administration believes that the increased use of budget line itemization will also serve to minimize the need to use our warrant system.

Finally, the City will review its expenditures to Macias Gini & O'Connell, LLC (MGO) for possible reimbursement of overpaid monies.

SCO's Comment

The city acknowledged our recommendation and agreed to establish greater control over the payment system.

FINDING 8— The city failed to exercise adequate control over expenditures charged to city- issued credit cards

During our review, we noted that city management did not enforce a strict policy for governing city-issued credit cards. From July 1, 2013, through June 30, 2016, city management charged a total of \$51,695 in expenditures on city-issued credit cards. We reviewed all \$51,695 of the charges, and we found all charges to be questionable.

The city did not provide any policies and procedures governing city-issued credit cards and business-related travel. In addition, the city failed to follow established procedures for making purchases; nor did the city maintain proper documentation to support the charges. Our review found that charges were incurred before purchase orders and purchase requisitions had been fully approved.

Chapter 4, Section 11, of the city's Municipal Code states, in part:

(1) All purchases made on behalf of the City shall be by purchase order only issued by the City Manager. (2) No purchase order shall be issued by the City Manager except upon a requisition upon which the City Controller shall endorse that there exists an unencumbered appropriation in the fund account against which such purchase is to be charged.

Our review found that most of the charges were not supported by original receipts, nor was any justification or reason for the expenditure included to support most of the charges. The questionable expenditures included travel charges, late fees, and miscellaneous charges.

Travel Charges

Questionable expenditures for travel totaled \$24,404, or approximately 47% of total charges to city-issued credit cards. We noted that the purpose for these travel expenses was missing, unclear, excessive, or not properly documented. Some of the questionable charges are as follows:

- On February 10, 2015, \$1,193 was charged for airfare to Washington, D.C.; the purpose of the charge was missing and unsupported.
- On May 22, 2015, \$1,028 was charged for lodging in Hartford, Connecticut; it was unclear whether the charge was for city business and no supporting documentation was provided.
- On June 24, 2015, a total of \$1,494 was charged for round-trip airfare to Miami, Florida, and an unknown period of lodging there; there was no record to justify the trip and no supporting documentation.

- On December 12, 2015, \$1,492 was charged for one night of lodging in New York, New York; the charge was unsupported and excessive.
- On June 11, 2016, \$708 was charged for one night of lodging in Las Vegas, Nevada; the charge was unsupported and excessive.

Late Payment Charges

For the period of October 29, 2014, through June 30, 2016, we noted that several late payment and delinquency fees were charged to city-issued credit cards. Late payments and delinquency fees occur when payments are made after the due date. Although late payments and delinquency fees are immaterial within the amount we reviewed, they remain cause for concern if monitoring is not implemented to ensure that invoices are paid in a timely manner.

- The city was charged \$130 on January 28, 2015, and \$305 on July 28, 2015, for late fees. Both charges include additional higher fees incurred because the payments were more than 60 days late.

Miscellaneous

Other miscellaneous expenses totaled \$16,334, or 32%. These expenses lacked documentation—either they were unsupported by expense reports, or there was no documentation of the reasons for the charges—and, in some cases, receipts were missing. For example:

- On April 29, 2015, charges of \$1,990 to an online office supply warehouse for certificate holders for the City Council; the charges were unsupported.
- On May 30, 2015, charges of \$1,975 for supplies; we could not determine the purpose or type of supplies.
- On December 3, 2015, charges of \$1,274 to an electronics store for a camera; there was no record to justify that this purchase was for city business.

Recommendation

We recommend that the city implement appropriate control measures to ensure proper review and approval of all charges related to meals, lodging, and incidental expenses involving city-issued credit cards. These measures should include:

- A comprehensive travel policy that establishes clear guidance for travel, including the allowable purposes for travel and documentation requirements, and sets limits on the maximum amounts allowable for lodging, meals, and other travel expenses;
- A policy governing circumstances under which business meals are authorized, including documentation requirements, and limits on the maximum amount allowable for business meals; and
- An expedited payment process to avoid late charges.

We also recommend that the city review the questionable charges noted above, and determine whether the city officials and employees responsible for these charges should be required to refund the city for all or part of

them. Furthermore, we recommend that the city consider performing a review of travel and meal expenses for the period of our review to determine whether additional refunds should be sought.

City's Response

The City has an authorized written travel policy consistent with state law and updated as recently as 2016. That being stated, the City will review the State's findings regarding travel and credit card expenses and update/revise our internal control policy as applicable.

SCO's Comment

The city agreed to update/revise internal control policies for travel and credit card expenses, as applicable. We recommend that the city monitor compliance with these policies.

We reviewed the Expense and Reimbursement Policy, dated April 19, 2016, that was provided to us by the city on February 21, 2018. Based on our review of this policy, we noted that the city did not enforce its policy for its city-issued credit cards. According to policy, "Officials shall submit expense reports" and expense reports "shall be accompanied by the receipts documenting each expense." Furthermore, the policy specifies that "expenses should be clearly documented on the Expense Reimbursement Report form." All charges to city-issued credit cards were missing expense reports, and were unclear, excessive, and undocumented.

FINDING 9— Bank reconciliations were not performed, reviewed, or approved in a timely manner

As of November 29, 2017, the city had failed to complete bank reconciliations for the period of July 1, 2014, through June 30, 2017.

Bank reconciliations are effective tools to detect mistakes, errors, and embezzlement if they are prepared in a timely manner, reviewed in detail, and approved by a second person (see Finding 3). Bank reconciliations also assist in regular monitoring of a city's cash flows, and assure accuracy and timeliness of expenses and deposits.

Recommendation

We recommend that the city establish and implement procedures to ensure that bank reconciliations are completed, reviewed, and approved in a timely manner. In addition, we recommend that the city evaluate its 37 different bank accounts and consider combining some of the less active accounts to shorten the reconciliation process.

We acknowledge that the new management team in the City Controller's Office has been working diligently to process a backlog of bank reconciliations.

City's Response

The City will review the State's recommendation to establish and implement procedures to ensure that bank reconciliations are completed, reviewed and approved in a timely manner. We will also review combining less active bank accounts to shorten the reconciliation process.

The City appreciates the State's acknowledgement that bank reconciliations are a priority to not only the City Controller's Office, but to City Officials, and policy makers.

SCO's Comment

The city acknowledged our recommendation and agreed to establish greater control over bank reconciliation.

FINDING 10— There is a lack of segregation of duties

Proper segregation of duties helps ensure that funds and assets are properly recorded, protected, and appropriated. During our review of city employee duties for the period of July 1, 2013, through June 30, 2016, we noted that several employees performed incompatible functions, including cash counting, timesheet reporting, and accounts payable.

Cash counting

Cash counting functions were not properly segregated. The initial cash count was not safeguarded from loss through watchful and accountable processes. The former Deputy Treasurer counted cash, prepared daily deposit slips, and performed end-of-day reconciliations. These are incompatible duties; one person should not be responsible for all of them. The cash counting procedure, deposit slip preparation, and reconciliation to computerized total cash receipts generated by the Springbrook System should be executed under close supervision and in full view of two people.

Timesheet reporting

Staff performing time-keeping functions are able to adjust employee timecards without management approval, which leaves timesheet reporting susceptible to abuse. Employees performing the time-keeping function should not be allowed to make changes. This practice may result in inaccurate records for payroll purposes, which decreases the reliability of the financial records.

Any necessary changes to the time attendance record should be completed by a supervisor or manager, to ensure control and proper authorization.

Accounts Payable

The city's current process is for the operating departments to assume responsibility for many of the fiscal management functions related to their purchases. The departments' account payable clerks prepare Purchase Requisitions and request Purchase Orders. On some occasions, the clerks were allowed to request payments for billing invoices and to mail warrants for payments, which are incompatible functions. There should be proper separation of duties among the various types of transaction processes (e.g., procurement, accounts payable, and disbursements).

Recommendation

We recommend that the city assess its current processes and implement policies and procedures to segregate incompatible functions.

City's Response

The City Treasurer's Office has undertaken the task of assessing its current processes and has implemented policies and procedures to segregate incompatible functions. The City will ensure that these financial processes are reflected within the City's written policies and procedures.

SCO's Comment

The city agreed to update written policies and procedures to establish greater control over segregation of duties.

**FINDING 11—
There is a lack of
control over the city's
Petty Cash Fund**

During our review, we noted that cash advances granted to city departments, totaling \$15,950, had been recorded in the city's accounting record as Petty Cash Fund. The amount recorded as advanced to city departments exceeded the actual amount available in the Petty Cash Fund. On July 27, 2017, the City Controller's Office conducted a cash count and confirmed that the total petty cash amount was only \$2,497. The city does not have an explanation for the difference of \$13,453.

In addition, we noted several instances in which city employees circumvented the petty cash reimbursement policy. The reimbursement claim form clearly states that petty cash may only be used for items up to \$100. However, we found evidence of purchases in excess of \$100 that had been split into amounts less than \$100, so that employees could be reimbursed from the Petty Cash Fund.

Recommendation

We recommend that the city ensure that policies and procedures relating to petty cash controls are consistently enforced. In addition, we recommend that the city investigate and seek recourse to recover the cash missing from the Petty Cash Fund, and ensure that records are accurate.

City's Response

The City Controller's Office will continue to research the difference in petty cash amount and the amount of receipts to come to a conclusion regarding writing off the difference as a loss. The Controller's Office will also upgrade the petty cash policy to include preventative methods to ensure the policy is not circumvented by splitting reimbursement claim forms and adding a routine to do a physical count of the cash fund as often as quarterly.

SCO's Comment

The city agreed to update the petty cash policy to minimize cash control deficiencies.

**FINDING 12—
The city's fixed assets
were not properly
and accurately
accounted for**

During our review and inquiry with different city personnel, we were informed that physical inventories of city assets were conducted annually. However, after several requests, the city was unable to provide records of when the last physical inventory had been conducted.

All fixed assets owned and purchased by the city should be properly recorded and accounted for in its listing of fixed assets, and included in its CAFR and its annual Financial Transaction Reports submitted to the SCO.

An accurate and complete listing of fixed assets is important to city governance and management because it provides information that is essential to:

- Safeguarding fixed assets, for ensuring that assets are properly recorded so that they can be easily located and maintained;
- Financial and managerial reporting, for determining capitalized cost and depreciation;
- Insurance coverage, for recording replacement and insurance values;
- Facilities and administration rate proposals, for recording use, location, funding source, and depreciation; and
- Compliance with reporting requirements, for assuring accountability.

Recommendation

We recommend that the city establish city-wide procedures for fixed asset accounting, management, control, and accountability including:

- Proper financial accounting and reporting in accordance with Generally Accepted Accounting Principles, the Governmental Accounting Standards Board, and other applicable government accounting standards;
- A complete and accurate listing of fixed assets of significant value;
- A description of the responsibilities of stewardship of valuable assets; and
- Maintenance of fixed asset records for the life of each asset, which should be retained in accordance with the city's records retention program.

City's Response

The City Controller's Office is working to update the City's procedures for fixed asset accounting, management, & control process. These processes will be reflected within the City's written policies and procedures.

SCO's Comment

The city agreed to update its procedures for fixed asset accounting, management, and control processes. We recommend that the city monitor compliance with these procedures.

**FINDING 13—
The city’s
Administrative
Policies and
Procedures manuals
were incomplete and
outdated**

During our review and inquiry with city management and several city employees, we noted that the city does not have a process in place to routinely review and update its Administrative Policies and Procedures manuals. Therefore, documentation for completeness, accuracy, and consistency with existing processes is lacking. Specific deficiencies related to the city’s Administrative Policies and Procedures manuals are as follows:

- The Personnel Rules and Regulations Manual, setting forth the policies and procedures related to the city’s employment practices, was last revised in November 1979.
- The Financial Policies and Procedures Manual, last updated on June 30, 2009, was incomplete. The accounting policies did not include a number of important procedures relating to:
 - Financial reporting
 - Information Systems and Technology
 - Reimbursement policies

In addition, although most employees had information on the procedures and processes for their particular assignments, these procedures and processes are outdated. Also, the city does not have comprehensive documentation of the overall procedures and processes for its accounting system. Therefore, most staff members only have an understanding of the accounting system as it relates to their assigned duties.

A well-designed and properly maintained system of accounting policies and procedures enhances both accountability and consistency. The resulting documentation can also serve as a useful training tool for staff. Undocumented and outdated policies and related internal controls result in unclear roles and responsibilities, and lead to improper handling of transactions. Monitoring is an essential element of internal control; this includes verification by management that policies and procedures are regularly updated to adequately address new challenges identified by ongoing risk assessments.

Recommendation

We recommend that the city continue to review and update its Administrative Policies and Procedures manuals to ensure consistency with current processes and organizational structure; and perform periodic and ongoing reviews to ensure proper documentation, accuracy, and completeness in its financial transactions and records. When completed, the updated Administrative Policies and Procedures manuals should be readily available to all responsible employees. The manuals should clearly state the authority and responsibility of all employees, especially the authority to authorize transactions and the responsibility for the safekeeping of assets and records.

City’s Response

The City’s administration has prepared an update to the City’s Personnel Rules and Regulations. In order to roll out this comprehensive revision of the Rules, the City will introduce changes to the Rules one chapter at

a time to the applicable employee union for input and discussion. Subsequently, the proposal will be presented to the City's Personnel Commission for further discussion and implementation.

The City Controller's Office is reviewing the City's Financial Policies and Procedures Manual and will update the document accordingly.

SCO's Comment

The city stated that it has updated its personnel rules and regulations. We recommend that the city monitor compliance with these rules and regulations.

FINDING 14— Turnover and lack of consistent leadership have hindered operational stability

During our review, we noted that the city experienced a high degree of management turnover, which can result in a lack of consistent leadership, lack of operational stability, and inefficient provision of services to its citizens. Between January 1, 2010, and January 18, 2017, nine different individuals served as City Manager. In addition, the city did not have a permanent Controller for the nine months before it hired a permanent Controller on March 20, 2017.

The high turnover has contributed to a lack of leadership and, in some cases, a lack of management oversight. For example, our review of available documents showed no adjustment of the city's master fee schedule since January 1, 2010. Although there was a public hearing on July 12, 2016, the city did not adjust its master fee schedule until October 10, 2017. Other cities in the area annually adjust their master fee schedule to the Consumer Price Index for the Los Angeles region; however, the City of Compton has not followed suit. The city has not adjusted its master fee schedule in over seven years, resulting in non-collection of badly-needed additional revenue that could potentially have improved the city's financial condition.

The city plans to fill some vacant management positions; however, the position of the city's Human Resources Director has been vacant for over three years, significantly delaying the hiring process for critical positions within several city departments. The City Controller's Office, especially, needs to fill its vacant positions to perform critical functions (e.g., bank reconciliation has not been completed since June 30, 2014); and audited financial statements have not been completed for FY 2014-15, FY 2015-16, and FY 2016-17.

Recommendation

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

City's Response

Turnover and lack of Consistent Leadership have hindered Operational Stability.

The current administration quickly identified the concerns with the high turnover in upper management. The need to recruit high quality, committed managers was identified as critical in addressing the challenges facing the City. As a result, all upper level positions are recruited both internally and externally [nationwide] for the most qualified candidate(s).

Additionally, a professional development program is being put in place to identify and mentor middle and upper management personnel to fill in voids when (if) the need arises. The training will consist of personnel management, leadership skills, documentation, ethics, etc. among other topics. Shadowing will also be part of the professional development program.

SCO's Comment

The city acknowledged the finding and agreed to establish a professional development program to improve operational stability.

FINDING 15— The city was unable to produce financial statements on a timely basis

The city has not produced the required financial statements in a timely manner, delaying information needed to assess the city's financial condition. City management is responsible for the timeliness and accuracy of its financial statements, including disclosures.

The following table lists past due reports as of November 29, 2017:

| Report Name | Due Date | Number of Months Past Due |
|--------------------------------|-------------------|---------------------------------|
| FY 2013-14 CAFR ¹ | December 31, 2014 | 35 months |
| FY 2014-15 CAFR | December 31, 2015 | 23 months |
| FY 2015-16 CAFR | December 31, 2016 | 11 months |
| FY 2013-14 Single Audit Report | March 31, 2015 | 32 months |
| FY 2014-15 Single Audit Report | March 31, 2016 | 20 months |
| FY 2015-16 Single Audit Report | March 31, 2017 | 8 months |

¹ The completed CAFR for FY 2013-14, dated November 17, 2016, was recalled by the external auditors; therefore, the report can not be relied upon.

For FY 2013-14, FY 2014-15, and FY 2015-16, the city failed to submit its Single Audit Report package (audited financial statements and Single Audit Report) within nine months after the end of fiscal period. Failure to submit the required Single Audit Report package in a timely manner will result in the city not qualifying for low risk status for the following year's single audit.

Furthermore, the city's financial records for FY 2014-15, FY 2015-16, and FY 2016-17 were not yet closed as of November 29, 2017, the last day of our fieldwork.

The lack of timely annual financial reports is troubling, as these reports provide critical information that can be used by the City Council and city management to identify upcoming issues and take prompt action to address them. Timely and complete financial reporting is especially

important for the city given its continued financial challenges.

Recommendation

We recommend that the city assign a higher priority to, and direct more resources towards completing, its audited financial statements by the deadline of no later than six months after fiscal year-end.

City's Response

City Council and Management have placed audit completion as the number one financial priority of the City.

The City of Compton has taken steps in the 2017-18 Adopted Budget to expedite completion of the outstanding audited financial statements. These actions include:

- Providing funds to pay for outstanding audits for Fiscal Years 2013-2017 in the City Controller's Budget. A contract was executed with the Accounting firm of Eadie + Payne for \$850,000 to complete all outstanding financial audits including the 2013-14 Single Audit; the 2014-15 CAFR and Single Audit; 2015-16 CAFR and Single Audit; and 2016-17 CAFR and Single Audit.
- Providing two (2) additional management positions in the Controller's Office to increase the capacity of the audit functions. These positions are a second Deputy Controller and an Accounting Supervisor.
- Funds have been budgeted for "contract resources" to assist with audit preparation.

Following the unexpected resignation of the City Controller hired in March 2017, the City Council moved swiftly to hire a permanent City Controller with a Certified Public Accountant designation and extensive municipal auditing experience. The new Controller was hired to begin her term the next day after the effective date of the former Controller's resignation. This prompt action demonstrates the seriousness and urgency the City places on bringing current all audit responsibilities of the City.

The new City Controller expects to hire two (2) Deputy City Controllers, an Accounting Specialist, an Accountant II and contract for Accounting supervision and audit preparation services within thirty (30) days of her employment, which was February 13, 2018.

Note: *Management disagrees with the ability of the 2013-14 completed CAFR to be withdrawn by MGO. MGO submitted the completed CAFR to the City of Compton on November 17, 2016. The completed 2013-14 CAFR was subsequently placed on the City Council Agenda for the February 28, 2017 City Council Meeting. The City Clerk of the City of Compton subsequently advertised via the City of Compton website and posted the City Council agenda at Compton City Hall on Friday, February 24, 2017, providing Public Notice of the completed Audit Report for the City Council to adopt pursuant to the State of California Open Meeting Laws. The City Council subsequently received and filed the completed 2013-14 CAFR at the February 28, 2017 City Council Meeting per its Agenda. The City's position is that the completed 2013-*

14 CAFR is a lawfully received document, pursuant to a contract for performance with MGO; and that in every legal respect, the 2013-14 CAFR for the City of Compton has been lawfully submitted by MGO and received by the City of Compton as its official 2013-14 CAFR.

SCO's Comment

The city partially agreed with this finding and stated that it has implemented procedures to address timely issuance of required audited financial reports.

On June 20, 2017, during our field work, the city notified us that the city's FY 2013-14 CAFR was being recalled by its external auditors, MGO. Additionally, on October 13, 2017, MGO informed us that it had become aware of a potential fraud within the City Treasury and informed the city that it was recalling its opinion on the completed CAFR for FY 2013-14. The recalled financial statement can no longer be relied upon until reissued.

As of March 15, 2018 (final report date), a completed CAFR for FY 2013-14 has not been reissued.

FINDING 16— The city lacks adequate staff performing critical functions

The city implemented personnel layoffs and a furlough schedule to control spending. On May 24, 2011, the City Council approved Resolution No. 23,329, declaring the city's revenue shortfall and workforce reduction for FY 2011-12. On June 12, 2012, Resolution No. 23,558 was approved, establishing the FY 2012-13 furlough schedule for city employees. On August 23, 2013, Resolution No. 23,813 was approved further declaring the city's revenue shortfall and workforce reduction for FY 2013-14.

City management implemented workforce reductions in FY 2011-12, established a furlough schedule in FY 2012-13, and implemented additional workforce reductions in FY 2013-14. Due to these workforce reductions, some employees were assigned new positions in which they lacked experience and training. In addition, the furlough schedule did not prove effective to operations of city departments. These workforce reductions and furloughs created a deficiency in the internal control due to lack of knowledgeable and experienced staff performing critical functions. For example:

- For the period of July 1, 2014, through June 30, 2017, the City Controller's Office was not adequately staffed, impeding its ability to carry out its basic accounting functions. As of November 29, 2017, the City Controller's Office has seven vacant positions. The city is far behind schedule in processing transactions, balancing accounts, ensuring that significant accounts are supported by detailed records and ledgers, and preparing annual financial reports. For example, monthly bank reconciliations have not been completed since June 30, 2014 (see Finding 9).

Additionally, accounting staff did not thoroughly and periodically analyze and reconcile the city's account balances to supporting records. In FY 2013-14, the external auditor made a material correction to errors in the restatement of the beginning balances of the

financial statements. For example, the beginning net positions in governmental activities was reduced from \$73.69 million to \$41.54 million, a decrease of \$32.15 million due to correction of errors.

- The Human Resources Department has been operating with vacancies in critical positions, including the Human Resources Director, which has impeded the department's ability to make timely decisions. For example, both hiring new employees and rehiring of previously laid-off employees appear to be extremely slow processes.
- The business license fee section of the Building and Safety Department is understaffed, which has led to a loss of substantial revenue from business license fees. Based on our inquiry, this section is currently staffed with two officers; it was previously staffed by four officers.

Recommendation

We recommend that the city implement a remedial action plan to adequately staff the noted departments. Most importantly, the City Controller's Office should be staffed with qualified and experienced individuals who can contribute immediately to the performance of its accounting functions. In addition, we recommend that the city implement policies to address the importance of experience and proper training of back-up staff when regular staff members are not available. Inexperienced staff may cause material impact in the city's operations in terms of incurring additional costs, delaying the processing of financial transactions, and failing to keep city management and the City Council updated with accurate information.

City's Response

City Council and Management have adopted a balanced Budget in FY 2017-18 that provides resources to finance key departmental operations and personnel.

The City of Compton adopted its 2017-18 City Budget with approximately \$1.4 million in additional funds allocated to the City Controller's Office. These actions include:

- Providing \$850,000 in funds to pay for outstanding audits for Fiscal Years 2013-2017 in the City Controller's Budget. The City Council adopted a resolution on January 9, 2018 and a contract was executed on January 24, 2018 with the Accounting firm of Eadie + Payne for \$850,000 to complete all outstanding financial audits including the 2013-14 Single Audit; the 2014-15 CAFR and Single Audit; 2015-16 CAFR and Single Audit; and 2016-17 CAFR and Single Audit. Funds have been budgeted for "contract resources" to assist with audit preparation.
- Providing five (5) additional management positions in the City Controller's Office to increase the capacity of audit functions, internal financial controls; and fiscal management of the City. These positions include a second **Deputy Controller**; an **Accounting**

Supervisor; a Contract & Compliance Analyst/Officer; a Budget Analyst; and permanent salary contingency to upgrade an existing staff position (possibly Payroll Supervisor) to Payroll & Accounts Payable Supervisor to oversee Payroll & Accounts Payable.

- **Accounting Supervision.** The Accounting Supervision is supplemented with a newly adopted **Accounting Supervisor**. Contract funds have been allocated to supplement City staff in Audit preparation duties.
- **Contract Management.** The **Contract and Compliance Analyst/Officer** was added to provide pre-audit contract compliance milestones and to enhance monitoring of contract bidding to ensure compliance with City, state & federal procurement guidelines. The Contract and Compliance Analyst/Officer will assist with Grants & Intergovernmental Funds Oversight & Compliance, minimizing post-program review adverse findings.
- **Centralized Purchasing.** The City Manager's Budget Message for 2017-18 calls for the creation of Centralized Purchasing. It is contemplated that centralizing purchasing will eliminate most procurement errors by removing this function from decentralized departmental control.

Following the unexpected resignation of the City Controller hired in March 2017, the City Council moved swiftly to hire a permanent City Controller with a Certified Public Accountant designation and extensive municipal auditing experience. The new Controller was hired to begin her term the next day after the effective date of the former Controller's resignation. This prompt action demonstrates the seriousness and urgency the City places on bringing current all audit responsibilities of the City.

The new City Controller expects to hire two (2) Deputy City Controllers and contract for Accounting supervision and audit preparation services within thirty (30) days of her employment, which was February 13, 2018.

- In the area of Human Resources, the City expects a new **Human Resources Director** to begin serving on February 21, 2018. Since May 2017, City Management hired a new **Assistant City Manager** with oversight of Administrative Services including Human Resources.
- Management has filled a **Human Resources Analyst** position to expedite recruitment and has hired a contract **Human Resources Analyst** to expedite classification of new positions and create new class specifications necessary to the proper functioning of the City government. The City has recently completed recruitment of the Human Resources Specialist and will have added one permanent member of this classification on February 15, 2018 and anticipates a second Human Resources Specialist will begin employment with the City of Compton on March 5, 2018.

SCO's Comment

The city stated that it has adopted a balanced budget that provides resources to finance key departmental operations and personnel. We recommend that the city ensure that the resources are used for critical city functions.

**FINDING 17—
The city failed to
implement correcting
procedures to prior-
year audit findings**

The city management failed to address auditor-significant issues. In the Single Audit Report for the year ended June 30, 2010, none of the 14 recommendations to resolve audit issues had been implemented by June 30, 2011. Accordingly, these unresolved issues were presented again as current audit issues in the following year. Additionally, the Single Audit Report for the fiscal year ended June 30, 2013, noted that 20 of the 24 recommendations in the prior report had not been fully implemented.

As no Single Audit Report was issued for FY 2013-14, FY 2014-15, and FY 2015-16, we followed up on some of the issues noted in the Single Audit Report for FY 2011-12 that were repeated again in FY 2012-13. We reviewed issues relating to information technology internal controls, because these controls are a critical mechanism for ensuring the integrity of information systems and the reporting of the city's financial information. There are ten recommendations for correcting noted deficiencies; seven had not yet been implemented as of November 29, 2017—over three years after the issuance of the FY 2011-12 Single Audit Report.

The issues noted above suggest significant shortcomings in the operations and activities of the city that resulted from inadequate oversight and poor management.

Recommendation

We recommend that the city adopt formal governance processes and procedures to provide appropriate oversight of internal audit functions and activities, and respond in a timely manner to recommendations. In addition, we recommend that the city consider establishing an audit committee (see Finding 18).

City's Response

The City hired a new Certified Public Accountant with extensive Audit expertise as its new City Controller on February 13, 2018. Our new Controller will lead the revision of policies & procedures to address this matter. The City is committed to implementation of all necessary and appropriate corrective procedures as advised in prior audits.

Regarding the Audit Committee, please see Response 18.

SCO's Comment

The city stated that it will revise policies and procedures to address prior-year audit findings. We recommend that the city monitor compliance with these policies.

**FINDING 18—
The city lacks an
established audit
committee**

On June 30, 2012, the Los Angeles County Civil Grand Jury (Grand Jury) issued a final report of its findings and recommendations pertaining to county government matters during FY 2011-12. In its report, the Grand Jury recommended to 24 charter cities within Los Angeles County—Compton included—that they establish formal audit committees to provide independent review and oversight for the cities’ financial reporting processes, internal controls, and independent auditors.

On November 26, 2012, the city responded to the Grand Jury report regarding the audit committee issue, stating that this recommendation would require further analysis by the city’s management, as the City Charter has a built-in mechanism to ensure independence between the Chief Executive and the City Controller. The city has yet to establish a formal audit committee.

The purpose of an audit committee is to oversee all aspects of the financial reporting process, including preparation and filing of financial statements, internal control over financial reporting, and related risks. Some of an audit committee’s major areas of responsibility include oversight of the internal control system, oversight of the internal audit function and external auditors, review of financial filings, and establishment and oversight of a “whistleblower” process.

As noted in previous findings of this report, the city is not timely in the preparation of needed reports (see Finding 15) and failed to correct prior audit findings (see Finding 17). An audit committee could address most of these issues.

Recommendation

We recommend that the city formally establish an audit committee that will be directly responsible for the appointment, compensation, retention, and oversight of independent auditors engaged for the purpose of issuing audit reports or other independent audit or review services. The audit committee should be formally established through a city resolution.

City’s Response

The City lacks an established Audit Committee.

City administration is reviewing the 2012 Los Angeles County Grand Jury report, which is the origin of this recommendation. Additionally, staff is working with other Charter cities that were cited in that report as having such an audit committee for best practices.

SCO’s Comment

The city agreed to follow up on the recommendation related to the establishment of an Audit Committee.

Appendix— City of Compton Evaluation of Internal Control Elements¹

| Management Oversight and Control (Control Environment) | | YES | NO | COMMENTS |
|--|---|-----|----|---|
| A1. | Integrity and Ethical Values | | | |
| | a. Are codes of conduct and other policies regarding acceptable business practices, conflicts of interest, or expected standards to ethical and moral behavior established and communicated to all city management and employees? | | X | <p>The city has policies and procedures that address the code of conduct, acceptable business practice, conflicts of interest, and ethical and moral behavior. However, we noted several issues that may affect integrity and ethical values such as:</p> <p>A. On December, 15, 2016, the city's Deputy Treasurer admitted to embezzling money from the city's cash receipts. This scheme lasted from May 2010 until December 2016 (see Finding 3).</p> <p>B. On July 24, 2012, the Mayer Hoffman McCann CPA firm reported that it was unable to reach an opinion on whether the city's FY 2010-11 June financial statements were free of material misstatements, due to its inability to obtain sufficient evidence from the Mayor or the city with respect to the Mayor's concerns over fraud.</p> <p>C. Governance practices recommended by the FY 2011-12 Civil Grand Jury Report were not implemented, such as:</p> <ul style="list-style-type: none"> • Develop a strategic plan; • Develop and report on performance measures; • Develop specific goals for the city's executive; and • Conduct annual evaluations of the city's executive. <p>D. The City Council failed to exercise oversight over the city's financial and operational activities (see Finding 7).</p> <p>E. Prior years' audit and review findings and recommendations were not implemented (see Finding 17).</p> |

¹This evaluation tool is based on the Internal Control Management and Evaluation Tool guidelines established by the GAO. It serves as a guideline to aid local government agencies in identifying internal control weaknesses. The SCO uses the same evaluation tool for its administrative and internal accounting control reviews of local government agencies, regardless of size.

Appendix (continued)

| Management Oversight and Control (Control Environment) | | YES | NO | COMMENTS |
|--|---|-----|----|---|
| b. | Is the reasonable management attitude of “Tone at the Top” established and communicated to city management and staff? | | X | See A1.a. |
| c. | Is everyday interaction with vendors, clients, auditors and other parties based on honesty and fairness? | | X | See A1.a. Questionable payments were made to contractors (see Finding 6). The city’s staff circumvented the petty cash reimbursement policy (see Finding 11). |
| d. | Is appropriate remedial action taken in response to non-compliance? | | X | See A1.a. |
| e. | Is management appropriately addressing intervention or overriding established controls? | | X | See A1.a. |
| A2. Commitment to Competence | | | | |
| a. | Is management identifying and defining the tasks required to accomplish particular jobs and fill various positions? | | X | The city failed to develop specific goals for its executive department, and failed to evaluate performance of key city management personnel. Pertinent key positions were not properly filled due to staff reductions and furloughs that the city implemented in FY 2011-12, FY 2012-13, and FY 2013-14 (see Finding 16). |
| b. | Does the city conduct appropriate analysis of the knowledge, skills, and abilities needed to perform job assignments? | | X | See A2.a. |
| c. | Is the city providing training and counseling in order to help employees maintain and improve their job competence? | | X | Per our inquiry, newly hired city employees learn their specific job tasks through on-the-job training. During our review period, no city-wide training was offered to city employees for the purpose of improving job performance. |
| A3. Audit Committee | | | | |
| a. | Does the city have an audit committee that is appropriate for the size and nature of the entity? | | X | The Los Angeles County Grand Jury Report for Fiscal Year 2011-12 recommended that the City of Compton establish an audit committee. The city failed to implement this Grand Jury recommendation as of November 29, 2017. |
| b. | Are members of the audit committee independent from the city management? | | X | See A3.a. |

Appendix (continued)

| Management Oversight and Control (Control Environment) | | YES | NO | COMMENTS |
|--|--|-----|----|--|
| c. | Do audit committee members have sufficient knowledge, experience, and time to serve effectively? | | X | See A3.a. |
| d. | Does the audit committee meet regularly to set policies and objectives, review the city's performance, and take appropriate actions; and are minutes of such meetings prepared and signed on timely basis? | | X | See A3.a. |
| e. | Do the members of the audit committee regularly receive the information they need to monitor management's objectives and strategies? | | X | See A3.a. |
| f. | Does the audit committee review the scope and activities of the internal and external auditors? | | X | See A3.a. |
| g. | Does the audit committee meet privately with the Chief Financial Officer and/or accounting officers, internal auditors, and external auditors to discuss the reasonableness of the financial reporting process, the system of internal control, significant comments or recommendations, and management performance? | | X | See A3.a. |
| h. | Does the audit committee take actions as a result of its audit findings? | | X | See A3.a. |
| A4. | Management Philosophy and Operating Style | | | |
| a. | Is management conservative in accepting risks, and does management move carefully, and proceed only after careful evaluation? | | X | <p>The city experienced a high degree of management turnover, which can result in a lack of consistent leadership, operational stability, and efficiency. Between January 1, 2010, and January 18, 2017, nine different individuals served as City Manager. Given their brief tenures, most of the former City Managers did not spend enough time on the job to make proper evaluations of city operations.</p> <p>Audit issues noted in prior years' review and audit reports were not corrected. Likewise, recommendations to address the noted issues were not implemented.</p> |

Appendix (continued)

| Management Oversight and Control (Control Environment) | | YES | NO | COMMENTS |
|--|---|-----|----|---|
| b. | Are procedures or activities in place to regularly educate and communicate to management and employees the importance of internal controls and to raise the level of understanding control? | | X | See A4.a. |
| c. | Is personnel turnover in key functions at an acceptable level? | | X | Due to the implemented layoffs, “bumping rights” were exercised by some employees, resulting in the assignment of several employees to new positions for which they lacked experience and training. In addition, the implemented furlough schedule did not prove effective to the operations of the various city departments. |
| d. | Does management have a positive and supportive attitude towards internal control and audit functions? | | X | See A1.a and A4.a. |
| e. | Are valuable assets and information safeguarded from unauthorized access or use? | | X | The city failed to exercise adequate control over expenses charged to city-issued credit cards (see Finding 8). The city failed to provide records of its annual inventory of capital assets. As a result, all fixed assets owned and purchased by the city were not accurately listed in its listing of fixed assets (see Finding 12). |
| f. | Are there frequent interactions of senior management and operation management? | X | | |
| g. | Is management attitude appropriate towards financial, budgetary and other operational reporting? | | X | Some recommended steps in the County Grand Jury Report pertaining to governance practices and financial management were not fully implemented. Likewise, recommendations to correct noted deficiencies in prior audit reports have not been put into effect. |
| A5. Organizational Structure | | | | |
| a. | Is the city’s organizational structure appropriate for its size and the nature of its operation? | | X | Some key management positions remain vacant, affecting the city’s operational efficiency in delivering services to its citizens. For example, street maintenance is not adequately staffed; thus the city constantly has designated employees on standby status to provide services after normal working hours. In addition, the City Controller’s Office is so understaffed that some of its basic functions have not been accomplished (see Finding 16). |

Appendix (continued)

| Management Oversight and Control (Control Environment) | | YES | NO | COMMENTS |
|--|---|-----|----|---|
| b. | Are key areas of authority and responsibility defined and communicated throughout the organization? | X | | |
| c. | Have appropriate and clear reporting relationships been established? | X | | |
| d. | Does management periodically evaluate the organization's structure and make changes as necessary in fluctuating conditions? | | X | See A4.a. |
| e. | Does the City employ an appropriate number of employees, particularly in managerial positions? | | X | See A5.a. |
| A6. Assignment of authority and responsibility | | | | |
| a. | Is the City appropriately assigning authority and delegating responsibility to the proper personnel to deal with organizational goals and objectives? | | X | Several upper management positions remain unfilled. For example, the Director of Human Resources position has been vacant for over three years. The process of hiring new employees and rehiring previously laid-off employees has been extremely slow. |
| b. | Does each employee know how his or her work interrelates to others in the way in which authority and responsibility are assigned, and how duties are related concerning internal control? | | X | There is lack of segregation of duties relating to some critical functions (see Finding 10). |
| c. | Is delegation of authority appropriate in relation to the assignment of responsibility? | X | | |
| A7. Human Resources policies and practices | | | | |
| a. | Are policies and procedures established for hiring, training, and promoting employees and management? | X | | |
| b. | Are background checks conducted on candidates for employment? | | X | The Personnel Rules and Regulations were last updated in November 1979, and do not state the requirements for conducting background checks of new employees. |

Appendix (continued)

| Management Oversight and Control (Control Environment) | | YES | NO | COMMENTS |
|--|---|-----|----|---|
| | c. Are employees provided the proper amount of supervision? | | X | Generally, city departments have assigned adequate management supervision to staff, except for Human Resources (the Director of Human Resources position has been vacant for over three years). In addition, adequate supervision relating to cash receipts was lacking in the Treasurer's Office (see Finding 10). |
| Risk Assessment | | YES | NO | COMMENTS |
| B1. | Establishment of Entity-wide Objectives | | | |
| | a. Are there entity-wide objectives that were established by management? | | X | The County of Los Angeles Civil Grand Jury Report for FY 2011-12 recommended that charter cities, including the city of Compton, develop and adopt a strategic plan that articulates the mission, vision, core values, and priorities (goals and objectives) for the city. In its response, the city stated that it will implement its plan in the near future. As of November 29, 2017, the city had not yet implemented a strategic plan. |
| | b. Are city-wide objectives clearly communicated to all employees, and does management obtain feedback signifying that communication has been effective? | | X | Most of the staff members we interviewed were not aware of the city-wide goals and objectives. |
| | c. Is there a relationship and consistency between the department's operational strategies and the city-wide objectives? | | X | See B1.a. |
| | d. Is there an integrated management strategy and risk assessment plan that considers the city-wide objectives and the relevant sources of risk from internal management factors and external sources, and that establishes a control structure to address those risks? | | X | See B1.a and A4.a. |
| B2. | Risk Identification | | | |
| | a. Is management appropriately and comprehensively identifying risk using various methodologies? | | X | No risk assessment, evaluation, or risk prioritization was completed during our review period. |
| | b. Are there mechanisms in place to anticipate, identify, and react to routine events or acts that affect achievement of objectives? | | X | See A4.a and B2.a. |

Appendix (continued)

| Risk Assessment | | YES | NO | COMMENTS |
|--------------------|---|-----|----|--|
| | c. Do adequate mechanisms exist to identify risks to the city arising from external factors? | | X | See A4.a and B2.a. |
| | d. Is management assessing other factors that may contribute to or increase the risk to which the city is exposed? | | X | See A4.a and B2.a. |
| | e. Is management identifying risks city-wide and for each significant activity level of the city? | | X | See A4.a and B2.a. |
| B3. | Risk Analysis | | | |
| | a. After risks to the city have been identified, does management undertake a thorough and complete analysis of the possible effect? | | X | See A4.a and B2.a. |
| | b. Has management developed an approach for risk management and control based on how much risk can be prudently accepted? | | X | See A4.a and B2.a. |
| Control Activities | | YES | NO | COMMENTS |
| C1. | Policies and Procedures (General Applications) | | | |
| | a. Do appropriate procedures, techniques, and mechanisms exist with respect to each city Department's activities? | X | | |
| | b. Are the control activities identified as necessary in place and being applied? | | X | Outside of the City Controller's Office, most of the staff members that we interviewed were unaware of control activities in place or how they are being applied. |
| | c. Are control activities regularly evaluated to ensure that they are still appropriate and working as intended? | | X | See C1.b. |
| C2 | Common Categories of Control Activities | | | |
| | a. Are top level reviews made of actual performance relative to budgets, forecasts, and prior periods? | | X | There were approvals of budget and budget amendments. However, there were no reviews of actual to budget costs for FY 2013-14, FY 2014-15, and FY 2015-16. During these fiscal years, audits of the financial statements were not completed. |

Appendix (continued)

| Control Activities | | YES | NO | COMMENTS |
|-------------------------------|--|-----|----|--|
| b. | Do managers review performance reports? | | X | See C2.a. |
| c. | For information processing, are varieties of controls in place for performing check accuracy, completeness, and authorization of transactions? | | X | During our review period, there were no systems of segregation of duties in place for cash receipts, purchasing, and timesheet recording. |
| d. | Are controlled items periodically counted and compared to amounts shown on control records? | | X | There were no records to show that counts and comparisons of controlled items had been conducted (see Finding 12). |
| e. | For performance indicators, does management compare different sets of data and investigate differences? | | X | There were no documents to show that management had reviewed and compared different sets of data relating to performance indicators. |
| f. | Are duties properly segregated among different people to reduce the risk or error or inappropriate actions? | | X | See Finding 10. |
| g. | Are administrative and operation policies in writing, current, and do they set clear procedures for compliance? | | X | There were written administrative and operation policies; however, these policies and procedures have not been updated (see Finding 13). |
| Information and Communication | | YES | NO | COMMENTS |
| D1. | Information | | | |
| a. | Are mechanisms in place to obtain relevant information on legislative or regulatory developments and program, budget, or economic changes? | | X | The comparison of budget to actual (revenues, expenditures, and fund balances) that is presented in the external Comprehensive Annual Financial Report was not available for FY 2013-14, FY 2014-15, and FY 2015-16. The audited financial statements for these fiscal years have not been completed. The city has been understaffed due to layoffs and furloughs. This is not a high priority for the city; accordingly, no staff had been assigned to obtain the relevant information for regulatory programs. |
| b. | Is information provided to the right people in sufficient detail and on time to enable them to carry out their responsibilities efficiently and effectively? | | X | See D1.a. |

Appendix (continued)

| Information and Communication | | YES | NO | COMMENTS |
|-------------------------------|--|-----|----|--|
| c. | Is development or revision of information systems based on the strategic plan linked to the entity's overall strategy, and is it responsive to achieving city-wide objectives? | | X | See B1.a. |
| d. | Does management support the development of necessary information systems and show its support by committing appropriate resources. | | X | See D1.a. |
| D2. | Communications | | | |
| a. | Does management ensure that effective internal communications occur? | | X | Our observation and inquiry suggests that employees receive clear communication from top management; however, management does not receive significant information from employees. For example, billings approved by the City Manager, although questionable due to lack of adequate review and documentation, were never questioned by city employees. |
| b. | Does management ensure that effective external communication occurs regarding issues with serious impact on programs, projects and other activities? | | X | Recommendations to correct prior years' audit issues were not implemented (see Finding 17). |
| c. | Does the city employ various forms and means of communicating important information with employee and others? | | X | See D2.a. |
| d. | Does the city manage, develop, and revise its information systems in an effort to continually improve usefulness and reliability? | | X | We cannot determine from our review if pertinent information was identified, captured, and communicated in a form and timeframe that allowed employees to carry out their responsibilities. |

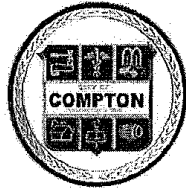
Appendix (continued)

| Monitoring | | YES | NO | COMMENTS |
|------------|--|-----|----|---|
| E1. | On-going monitoring | | | |
| | a. Does management have a strategy to ensure that ongoing monitoring is effective and will trigger separate evaluations? | | X | The city's strategic plan had not yet been implemented during our review. In addition, there is no audit committee to implement on-going monitoring and to take proactive actions relating to audit and internal control issues. |
| | b. Do city personnel, in the process of performing their regular duties, obtain information about whether internal control is functioning properly? | | X | City Controller's Office staff are aware of internal controls in place; however, other city employees appeared to lack knowledge about internal control functions. |
| | c. Are communications from external parties corroborated with internally generated data and able to indicate problems with internal control? | | X | Internal control issues noted in prior years' reviews and audits had not been addressed by management. |
| | d. Is there appropriate organizational structure and supervision to help provide oversight of internal control functions? | | X | An Audit Committee has not been established (see Finding 18). |
| | e. Are data recorded by information and financial systems periodically compared with physical assets and discrepancies are investigated? | | X | We are not aware of any asset inventory having been conducted by the city (see Finding 12). |
| | f. Are the City Auditor's Office and other auditors regularly providing recommendations for improvements in internal control, and is management taking appropriate follow-up action? | | X | The city does not have an internal audit unit. There is an internal auditor position, which was vacant at the time of our review; however, the previous internal auditor in office for approximately four years had not completed any audit reports or reviews. |
| | g. Are meetings with employees used to provide management with feedback on whether internal control is effective? | | X | City employees cannot remember when the last meeting relating to internal controls was conducted between employees and management. |
| | h. Are employees' regularly asked to state explicitly whether they comply with the city's code of conduct? | | X | Some of the city staff that we interviewed did not appear to be well-informed about the city Code of Conduct. |

Appendix (continued)

| Monitoring | | YES | NO | COMMENTS |
|------------|---|-----|----|--|
| E2. | Separate evaluation | | | |
| | a. Are the scope and frequency of separate internal control evaluations appropriate for the city? | | X | Annually, as part of the Comprehensive Annual Financial Report. However, these annual reports were not completed for FY 2013-14, FY 2014-15, and FY 2015-16. |
| | b. Are the methodologies for evaluating the city's internal control logical and appropriate? | X | | |
| | c. If the evaluations are conducted by the City Auditor's Office, does the office have sufficient resources, ability, and independence? | | X | The city does not have a City Auditor's Office. |
| | d. Are deficiencies found during separate evaluations promptly resolved? | | X | See A1.a. |
| E3. | Reporting deficiencies | | | |
| | a. Are there means of obtaining reports of deficiencies from both internal and external sources? | X | | |
| | b. Is there ongoing monitoring of internal controls? | | X | Prior years' audit issues had not been corrected. Some issues noted in the FY 2011-12 Los Angeles County Grand Jury Report were still outstanding as of the end of our field work. |
| | c. Are deficiencies reported to the person directly responsible and to a person at least one level higher? | | X | See A1.a. |
| | d. Are the identified transactions or events investigated to determine causes and correct problems? | | X | Prior years' audit and review issues had not been corrected. |

**Attachment—
City of Compton's Response to Draft Review Report**



City Manager's Office City of Compton

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February 23, 2018

CERTIFIED MAIL-RETURN RECEIPT REQUESTED

Jeffrey V. Brownfield, CPA
Chief, Division of Audits
California State Controller's Office
3301 C Street, Suite 700
Sacramento, California 95816

RE: CITY OF COMPTON RESPONSES TO JANUARY 2018 REVIEW REPORT

Dear Mr. Brownfield:

Please find the City's responses to your office's review report below. Please contact me with any items that you wish further discussion.

CITY'S RESPONSE TO FINDING 1---

The City of Compton disagrees with the State's assertion that the FY 2010-11 deficit of \$42.7 million occurred as a result of overspending an average of \$16.3 million per year. The City's June 30, 2007 Annual Financial Report does reflect a \$22.4 million dollar **surplus** as the State indicated. However, the City's Internal Service Funds listed a deficit of \$31 million dollars. In contrast, the City's June 30, 2011 Annual Financial Report reflected a \$41.2 million dollar deficit while the City's Internal Service Funds reflected a positive cash balance of \$21.3 million dollars. It is our position that this data highlights the end of the City's practice that occurred over prior decades of carrying forward deficit accounts in the Internal Service Fund but does not represent overspending of actual cash during this time period as indicated by the State.

Furthermore, in 2012, the City sought and obtained with the assistance of Los Angeles County, Tax and Revenue Anticipation Notes (TRANS) financing to cover the City's annual cash flow

shortages; thereby ending the need for internal service fund borrowing. TRANS financing continued through June 30, 2016.

The City will diligently continue to reduce its current general fund deficit by adhering to a long-term plan to eliminate fund deficits.

CITY'S RESPONSE TO FINDING 2---

The City acknowledges the State's recommendation and will continue to review the City's practice of compensation and expense reimbursements that had been in effect since 1975 for ongoing compliance with its City Charter.

It is important to note that the City's Urban Community Development Commission (UCDC) which governs the City's Local Housing Authority still meets on an as needed basis. Its compensation is set by state law at \$75 per meeting attended and a maximum of \$150 a month.

Our financial department will continue to research the State's "Other Earnings" notation.

CITY'S RESPONSE TO FINDING 3---

The City acknowledges the State's finding to update our formal Policy and Procedures manual to incorporate the recently implemented financial internal control procedures as soon as possible. (Please see Attachment)

CITY'S RESPONSE TO FINDING 4---

As Cited in the audit, the City lacks the staffing to address all of the constituent concerns that occur in the City. The role of the Council Liaison is critical to service delivery in that it provides a conduit between the Mayor and Council District constituents to the various departments via the City Manager's Office. Their roles are an extension of each City Department's ability to deliver services and assist the City Manager's Office in that delivery. Additionally, the liaisons must be allowed to work flexible schedules to ensure that Mayor and Council Town Halls, special events, and meetings are coordinated with the proper departments.

The City acknowledges that the positions should not work over their 36 hour work week. To address the number of hours worked by the liaisons, administration has been closely monitoring the actual hours worked by the liaisons and have informed the Mayor and Council that the Liaison positions are not to be assigned work in excess of their 36 hour work week and that no overtime will be paid for this position.

CITY'S RESPONSE TO FINDING 5---

The City acknowledges the State's recommendation to limit spending to adopted budget amounts. To that end, the City's administration will propose greater use of line itemization in the upcoming FY 2018-2019 budget for greater detail. The City will also continue its recent practice of quarterly budgetary updates at City Council meetings where a comparison between budget and actual expenditures are presented.

CITY'S RESPONSE TO FINDING 6---

The City acknowledges the State's recommendation to uphold its obligation to contract within our purchasing regulations. To that end, the City's administration will propose including a Centralized Purchasing Officer and Contract Compliance Officer to ensure the City is meeting its purchasing and contracting obligations.

CITY'S RESPONSE TO FINDING 7---

The City acknowledges the State's concern regarding the City's use of our warrant system. Consequently, the City will undertake review and updating of our Policies and Procedures regarding our warrant system.

Also, the City administration believes that the increased use of budget line itemization will also serve to minimize the need to use our warrant system.

Finally, the City will review its expenditures to Macias Gini & O'Connell, LLC (MGO) for possible reimbursement of overpaid monies.

CITY'S RESPONSE TO FINDING 8---

The City has an authorized written travel policy consistent with state law and updated as recently as 2016. That being stated, the City will review the State's findings regarding travel and credit card expenses and update/revise our internal control policy as applicable.

CITY'S RESPONSE TO FINDING 9---

The City will review the State's recommendation to establish and implement procedures to ensure that bank reconciliations are completed, reviewed and approved in a timely manner. We will also review combining less active bank accounts to shorten the reconciliation process.

The City appreciates the State's acknowledgement that bank reconciliations are a priority to not only the City Controller's Office, but to City Officials, and policy makers.

CITY'S RESPONSE TO FINDING 10---

The City Treasurer's Office has undertaken the task of assessing its current processes and has implemented policies and procedures to segregate incompatible functions. The City will ensure that these financial processes are reflected within the City's written policies and procedures.

CITY'S RESPONSE TO FINDING 11---

The City Controller's Office will continue to research the difference in petty cash amount and the amount of receipts to come to a conclusion regarding writing off the difference as a loss. The Controller's office will also upgrade the petty cash policy to include preventative methods to ensure the policy is not circumvented by splitting reimbursement claim forms and adding a routine to do a physical count of the cash fund as often as quarterly.

CITY'S RESPONSE TO FINDING 12---

The City Controller's Office is working to update the City's procedures for fixed asset accounting, management, & control process. These processes will be reflected within the City's written policies and procedures.

CITY'S RESPONSE TO FINDING 13---

The City's administration has prepared an update to the City's Personnel Rules and Regulations. In order to roll out this comprehensive revision of the Rules, the City will introduce changes to the Rules one chapter at a time to the applicable employee union for input and discussion. Subsequently, the proposal will be presented to the City's Personnel Commission for further discussion and implementation.

The City Controller's Office is reviewing the City's Financial Policies and Procedures Manual and will update the document accordingly.

CITY'S RESPONSE TO FINDING 14---

Turnover and lack of Consistent Leadership have hindered Operational Stability.

The current administration quickly identified the concerns with the high turnover in upper management. The need to recruit high quality, committed managers was identified as critical in addressing the challenges facing the City. As a result, all upper level positions are recruited both internally and externally [nationwide] for the most qualified candidate(s).

Additionally, a professional development program is being put in place to identify and mentor middle and upper management personnel to fill in voids when (if) the need arises. The training will consist of personnel management, leadership skills, documentation, ethics, etc. among other topics. Shadowing will also be part of the professional development program.

CITY'S RESPONSE TO FINDING 15---

City Council and Management have placed audit completion as the number one financial priority of the City.

The City of Compton has taken steps in the 2017-18 Adopted Budget to expedite completion of the outstanding audited financial statements. These actions include:

- Providing funds to pay for outstanding audits for Fiscal Years 2013-2017 in the City Controller's Budget. A contract was executed with the Accounting firm of Eadie + Payne for \$850,000 to complete all outstanding financial audits including the 2013-14 Single Audit; the 2014-15 CAFR and Single Audit; 2015-16 CAFR and Single Audit; and 2016-17 CAFR and Single Audit.
- Providing two (2) additional management positions in the Controller's Office to increase the capacity of the audit functions. These positions are a second Deputy Controller and an Accounting Supervisor.
- Funds have been budgeted for "contract resources" to assist with audit preparation.

Following the unexpected resignation of the City Controller hired In March 2017, the City Council moved swiftly to hire a permanent City Controller with a Certified Public Accountant designation and extensive municipal auditing experience. The new Controller was hired to begin her term the next day after the effective date of the former Controller's resignation. This prompt action demonstrates the seriousness and urgency the City places on bringing current all audit responsibilities of the City.

The new City Controller expects to hire two (2) Deputy City Controllers, an Accounting Specialist, an Accountant II and contract for Accounting supervision and audit preparation services within thirty (30) days of her employment, which was February 13, 2018.

Note: *Management disagrees with the ability of the 2013-14 completed CAFR to be withdrawn by MGO. MGO submitted the completed CAFR to the City of Compton on November 17, 2016. The completed 2013-14 CAFR was subsequently placed on the City Council Agenda for the February 28, 2017 City Council Meeting. The City Clerk of the City of Compton subsequently advertised via the City of Compton website and posted the City Council agenda at Compton City Hall on Friday, February 24, 2017, providing Public Notice of the completed Audit Report for the City Council to adopt pursuant to the State of California Open Meeting Laws. The City Council subsequently received and filed the completed 2013-14 CAFR at the February 28, 2017 City Council Meeting per its Agenda. The City's position is that the completed 2013-14 CAFR is a lawfully received document, pursuant to a contract for performance with MGO; and that in every legal respect, the 2013-14 CAFR for the City of Compton has been lawfully submitted by MGO and received by the City of Compton as its official 2013-14 CAFR.*

CITY'S RESPONSE TO FINDING 16---

City Council and Management have adopted a balanced Budget in FY 2017-18 that provides resources to finance key departmental operations and personnel.

The City of Compton adopted its 2017-18 City Budget with approximately \$1.4 million in additional funds allocated to the City Controller's Office. These actions include:

- Providing \$850,000 in funds to pay for outstanding audits for Fiscal Years 2013-2017 in the City Controller's Budget. The City Council adopted a resolution on January 9, 2018 and a contract was executed on January 24, 2018 with the Accounting firm of Eadie + Payne for \$850,000 to complete all outstanding financial audits including the 2013-14 Single Audit; the 2014-15 CAFR and Single Audit; 2015-16 CAFR and Single Audit; and 2016-17 CAFR and Single Audit. Funds have been budgeted for "contract resources" to assist with audit preparation.
- Providing five (5) additional management positions in the City Controller's Office to increase the capacity of audit functions, internal financial controls; and fiscal management of the City. These positions include a second **Deputy Controller**; an **Accounting Supervisor**; a **Contract & Compliance Analyst/Officer**; a **Budget Analyst**; and permanent salary contingency to upgrade an existing staff position (possibly Payroll Supervisor) to **Payroll & Accounts Payable Supervisor** to oversee Payroll & Accounts Payable.
 - **Accounting Supervision.** The Accounting Supervision is supplemented with a newly adopted **Accounting Supervisor**. Contract funds have been allocated to supplement City staff in Audit preparation duties.
 - **Contract Management.** The **Contract and Compliance Analyst/Officer** was added to provide pre-audit contract compliance milestones and to enhance monitoring of contract bidding to ensure compliance with City, state & federal procurement guidelines. The Contract and Compliance Analyst/Officer will assist with Grants & Intergovernmental Funds Oversight & Compliance, minimizing post-program review adverse findings.
 - **Centralized Purchasing.** The City Manager's Budget Message for 2017-18 calls for the creation of Centralized Purchasing. It is contemplated that centralizing purchasing will eliminate most procurement errors by removing this function from decentralized departmental control.

Following the unexpected resignation of the City Controller hired in March 2017, the City Council moved swiftly to hire a permanent City Controller with a Certified Public Accountant designation and extensive municipal auditing experience. The new Controller was hired to begin her term the next day after the effective date of the former Controller's resignation. This prompt action demonstrates the seriousness and urgency the City places on bringing current all audit responsibilities of the City.

The new City Controller expects to hire two (2) Deputy City Controllers and contract for Accounting supervision and audit preparation services within thirty (30) days of her employment, which was February 13, 2018.

- In the area of Human Resources, the City expects a new **Human Resources Director** to begin serving on February 21, 2018. Since May 2017, City Management hired a new **Assistant City Manager** with oversight of Administrative Services including Human Resources.
- Management has filled a **Human Resources Analyst** position to expedite recruitment and has hired a contract **Human Resources Analyst** to expedite classification of new positions and create new class specifications necessary to the proper functioning of the City government. The City has recently completed recruitment of the Human Resources Specialist and will have added one permanent member of this classification on February 15, 2018 and anticipates a second Human Resources Specialist will begin employment with the City of Compton on March 5, 2018.

CITY'S RESPONSE TO FINDING 17---

The City hired a new Certified Public Accountant with extensive Audit expertise as its new City Controller on February 13, 2018. Our new Controller will lead the revision of policies & procedures to address this matter. The City is committed to implementation of all necessary and appropriate corrective procedures as advised in prior audits.

Regarding the Audit Committee, please see Response 18.

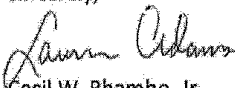
CITY'S RESPONSE TO FINDING 18---

The City lacks an established Audit Committee.

City administration is reviewing the 2012 Los Angeles County Grand Jury report, which is the origin of this recommendation. Additionally, staff is working with other Charter cities that were cited in that report as having such an audit committee for best practices.

Thank you for this opportunity to respond to the State's preliminary findings. Again, I welcome an opportunity to discuss these issues with you further at your convenience.

Sincerely,


for Cecil W. Rhambo, Jr.
City Manager

Attachment

cc: Efren Loste, Chief, Local Government Audits Bureau
State Controller's Office

City of Compton:

Aja Brown, Mayor
Janna Zurita, Councilwoman District 1
Isaac Galvan, Councilman District 2
Tana McCoy, Councilwoman District 3
Emma Sharif, Councilwoman District 4
Alita Godwin, City Clerk
Craig J. Cornwell, City Attorney
Douglas Sanders, City Treasurer
Rafaela King, City Controller
Laurence Adams, Assistant City Manager
Gail Dixon-McMahon, Assistant City Manager
Triphenia Simmons, Budget Officer

ATTACHMENT

January 23, 2017

TO: CECIL W. RHAMBO, JR., CITY MANAGER
FROM: DOUG SANDERS, CITY TREASURER
SUBJECT: CASH HANDLING PROCEDURES

In response to the incident with a staff member of the Treasurer's office on December 7, 2016, I initiated more policies and procedures in handling cash on December 8, 2016. Previous cash handling procedures have been audited by all Certified Public Accounting Auditing firms in the Treasurer office.

The following are the steps taken as cash is counted and audited every morning:

- Cash drawer report is printed, including all operators for previous day's work (2 copies) one copy for Treasurer's office files and one for Controller's office. Cash report shows grand total of net cash received.
- Cash count sheets from 3 cashiers are added and compared to Springbrook reports
- Each cash drawer is verified individually and matched to the cash drawer report provided by cashiers
- Once all 3 cash registers are counted, they are added together and total must match the cash drawer reports for the day's work (printed in the morning)
- Change is sold to cashier's (excess tens, fives and singles)
- All money with original deposit slip matching Springbrook report, total cash count sheet, and cash submitted by cashiers is given to a second person for verification
- Second person verifies: cashiers totals, report totals, deposit slip total and total money in cash bag
- Initials of original counter and verifier are placed on sealed cash bag, cash drawer report, and total cash count sheet (both counters are present)
- Total cash amount is logged in Sect ran's book for pick up by courier
- Copy of deposit slip is kept for verification of bank receipt, copy of deposit slip is sent to Controller's office for verification, and copy of deposit slip is kept for Treasurer's records
- No bags, purses or backpacks of any kind are allowed when processing the cash count
-

We respectfully request that Controller's office reconciles our daily activity. In addition, bank statements should be reconciled between 30-45 days from day of receipt; this pertains to our General account.

CC: Mayor, City Council, Controller and City Attorney.

STANDARD OPERATING PROCEDURES

TREASURER'S OFFICE

CASH HANDLING PROCEDURES

This policy states the requirements for cash handling. All monies received by Treasurer's office are deposited daily into the City's active bank account.

1. Review and Initial Grand Total of Net Cash received from the Cash Drawer Receipts Report for previous day's work from Springbrook cashiering system
2. Obtain each individual Cash Receipt Report and Spreadsheet from all three clerks
3. In dual custody, take all three tills and all dropped cash bags out of safe from previous day's work
4. In dual custody, count and leave \$300 in till to prepare for next day's work; pull out the remaining cash from till and from its assigned cash bags
5. In dual custody, count all cash
6. In dual custody, enter counts in spreadsheet
7. In dual custody, include checks' totals, credit cards, direct deposits, etc..., from individual Cash Receipt Report
8. In dual custody, include total deposit amount and verify to balance the till
9. Repeat steps 4-8 for count of two remaining tills
10. Include in spreadsheet total for IVR/ONL, Web Fees and Lockbox from the Cash Receipt Report
11. Include Grand Total Deposit amount and verify to balance the previous day's work against reports
12. A second employee will verify all cash; should match the Grand Total of Net Cash from Springbrook and cash count Spreadsheet; both counters will initial all documents
13. Second employee will prepare Deposit Slips and both counters will initial the Deposit Slip
14. Second employee will put cash inside a Cash Deposit Bag and seal; both counters will initial Bag
15. Log bag in Sect ran's book and lock in safe until armored courier picks up

STANDARD OPERATING PROCEDURES

TREASURER'S OFFICE

BUS FARE PASSENGER COUNT PROCEDURES

IMPORTANT: All cash handling is to be done in dual custody at all times.

The City has five bus routes. We receive one fare box for each bus daily. Fare boxes are transported from the bus depot in Paramount to the Treasurer's office by MLES security personnel. On Monday, we receive a total of three days fares (Friday, Saturday and Monday), for a total of fifteen fare boxes. Each day will have a Passenger Count sheet showing passenger counts for each bus/route. This Passenger Count sheet provides us with an estimate of monies received for bus fare.

- In dual custody, Open and empty all fare boxes
- In dual custody, Separate bills from coin and count bills received; make note of bills amount total on Passenger Count sheet -- to be verified and initialed by both employees
- In dual custody, Discard transfer slips; staple Vault slips to Passenger Count sheet
- In dual custody, Place coin and bills in respective bags
- In dual custody, Lock up both bags in safe -- supervisor with safe access required
- Repeat this process daily.

A deposit of monies received shall be prepared once a week, generally after the weekend delivery of 15 fare boxes.

- Input the passenger count figures from the Passenger Count sheets provided into the Excel spreadsheet to attain an estimate of the monies received for that day.
- Repeat this process for each day, for the six days of the week. (buses do not run on Sundays)
- Add each day's total to attain a grand total for the week. This total would be an estimate of all monies received and includes bills and coin.
- Add all noted daily amounts of bills from each Passenger Count sheet to attain a grand total of bills received for the week.
- In dual custody, Count all bills. Paper bills total should coincide with sum of noted daily dollar amount grand total as described in previous step above.
- Once you have confirmed and verified total paper bills received you can prepare a deposit slip for this amount. In dual custody, Deposit is made to the Prop A account at Bank of the West.
- In dual custody, Insert deposit slip into the bag and seal bag. It is now ready for pick up by armored courier.
- You can attain an estimate of total coin received by subtracting the bills total from the grand total from your Excel spreadsheet computation for the week as described above.

- In dual custody, prepare a second deposit slip for this amount. Deposit is made to the Prop A account at Bank of the West
- In dual custody, Insert deposit slip into the bag and seal bag. It is now ready for pick up by armored courier.

Notify a supervisor that you have prepared the deposits so they can input into the pick-up log book and lock the bags in the safe.

STANDARD OPERATING PROCEDURES

TREASURER'S OFFICE

LOCKBOX PAYMENT PROCEDURES

A utility bill payment lockbox file is made available for download by Bank of the West every business day after 4:00 pm. This file is to be downloaded, imported and processed daily, and immediately upon availability. Being that we are closed on Fridays, we shall process that day's file the next business day.

- Log-in to the Bank of the West secure website to access the lockbox file.
- Download the file and save it to the designated location on your computer.
- In Springbrook, define a new batch with the appropriate batch number.
- Once the batch has been defined, you can proceed with importing the file from the saved location.
- Once the import has been completed, confirm that the total posting in Springbrook is the same as the file total downloaded.
- If the totals match, proceed with committing the batch.
- If there is a difference, notify a supervisor for further assistance.

STANDARD OPERATING PROCEDURES

TREASURER'S OFFICE

DAILY AUDIT FOR CASH RECEIPTS PROCEDURES

This policy states the requirements for conducting a daily audit for cash receipts.

- Print a Detailed Cash Receipt Listing by GL for the day's work being audited
- Organize in order all receipts by account number and receipt number
- Check every receipt for input accuracy in account and dollar amount; verify against report
- If there are any input errors, list them in the Request for Cash Receipts Adjustment sheet; include the incorrect GL#, dollar amount, correct GL#, and receipt #; after all errors are entered
- The following reports are submitted in this order to the City Controller's Office along with all the Cash Receipts
 1. A copy of the Summary Cash Receipt Listing by GL
 2. If there are any errors, a copy of the Request for Cash Receipts Adjustment
 3. The Detailed Cash Receipt Listing by GL that the cash receipts were verified against
 4. A copy of the Cash Drawer Receipts Report
 5. A copy of the Cash Spreadsheet
 6. Copies of all the clerk's end of day spreadsheets
 7. Copy of the Lockbox Deposit Summary
 8. Copies of the Credit Card Settled Activity
 9. Copy of IVR Report
 10. Copy of Online Report
 11. Copies of all the blue deposit slips and original direct deposit slips
- The following reports are kept in the City Treasurer's Office along with all the yellow Transmittal Voucher / Receipts
 1. A copy of the Summary Cash Receipt Listing by GL
 2. If there are any errors, a copy of the Request for Cash Receipts Adjustment
 3. A copy of the Cash Drawer Receipts Report
 4. A copy of the Cash Spreadsheet
 5. Originals of all the clerk's end of day spreadsheets
 6. Copies of all the yellow deposit slips and yellow direct deposit slips

*Total of deposit slips and direct deposit slips should equal to total of
Summary Cash Receipt Listing by GL, total of Detailed Cash Receipt Listing
by GL, and total of Cash Drawer Receipts Report

STANDARD OPERATING PROCEDURES

TREASURER'S OFFICE

DAILY DEPOSIT PROCEDURES

Run the Cash Drawer Report for the previous business day. This report will show a summary of all monies received, by all payment methods, for the date specified.

CREDIT CARD BALANCING PROCEDURES

- Log in to Converge website to print out previous day's credit card settlement reports for both PARKING and WATER terminals
- Add all credit card sales receipts received (all clerks) from previous day and verify in balance with settlement reports
- Prepare the appropriate deposit slip(s) for this total for verification by Chief Deputy Treasurer and Controller's office

CHECK BALANCING PROCEDURES

For each account clerk:

- Verify check total submitted by clerk matches total on Cash Drawer Report
- Scan checks for deposit to the appropriate account into Bank of the West EDS website
- Upon completion of scanning checks, website will give you a check total; verify as correct to the Cash Drawer Report; account for any differences
- Repeat this process for each clerk
- Verify as correct: the sum of all checks scanned in for deposit for all clerks, and any checks not scanned in that are to be deposited directly to the bank, and any lockbox exception items, shall total **Total Check** grand total figure on the Cash Drawer Report
- Prepare the appropriate deposit slip(s) for this total for verification by Chief Deputy Treasurer and Controller's office

OTHER BALANCING PROCEDURES

Other transactions include the following:

- IVR payment activity (UBPay payment method)
- Online payment activity (UBPay payment method)
- Direct Deposit transactions (DD payment method)
- Lockbox payments (Lock payment method)
- Credit card transactions (CARD payment method)
- Online payment fees (WEBPayments pay method)
- Prepare the appropriate deposit slip(s) for this total for verification by Chief Deputy Treasurer and Controller's office

**State Controller's Office
Division of Audits
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<http://www.sco.ca.gov>