

CITY OF SOUTH EL MONTE

Review Report

ADMINISTRATIVE AND INTERNAL ACCOUNTING CONTROLS

July 1, 2013, through June 30, 2015



BETTY T. YEE
California State Controller

May 2017



BETTY T. YEE
California State Controller

May 25, 2017

The Honorable Gloria Olmos
Mayor of the City of South El Monte
1415 Santa Anita Avenue
South El Monte, CA 91733

Dear Mayor Olmos:

Enclosed is the report of the State Controller's Office review of the City of South El Monte's administrative and internal accounting controls system. The review was conducted to assess the adequacy of the city's controls for safeguarding assets and ensuring proper use of public funds.

Our review found weaknesses in the city's accounting and administrative controls system. We also noted deficiencies, as described in the Findings and Recommendations section of our report.

As a part of the review, we assessed 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 pertaining to internal control components, we found 69, or 88%, that were inadequate, and one that was not applicable.

The results of our review and evaluation of the elements of internal control are included in this report as an appendix. Our assessments of the elements were based on the conditions that existed during our review period of fiscal year (FY) 2013-14 and FY 2014-15.

The city stated that it is in the process of developing corrective actions and implementing our recommendations. Therefore, 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, Interim 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/lis

cc: Jennifer E. Vasquez, Interim City Manager
City of South El Monte
Mike Blazenski, Interim Finance Director
City of South El Monte
Angelica R. Garcia, Mayor Pro Tem
City of South El Monte
Hector Delgado, Councilmember
City of South El Monte
Joseph J. Gonzales, Councilmember
City of South El Monte
George Lolas, Chief Operating Officer
State Controller's Office

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Review Report

Introduction

The State Controller's Office (SCO) reviewed the City of South El Monte's system of administrative and internal accounting controls for the period of July 1, 2013, through June 30, 2015 (fiscal year [FY] 2013-14 and FY 2014-15). We expanded our testing as necessary to include prior-year and current-year transactions to follow up on issues identified through our interviews of city officials and through our review of the work of the independent auditors' reports and other audit reports.

We conducted this review pursuant to Government Code 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 questioned the city's ability to provide reliable and accurate information regarding required financial reports. Therefore, under Government Code section 12464(a), we conducted an investigation/review to validate the Annual Financial Transactions Reports submitted by the city during FY 2013-14 and FY 2014-15. Under Government Code section 12464(b), the costs of this investigation/review, include preparing a report of the results and transmitting copies to the city council members, will be borne by the city.

We also performed an audit of the city's Special Gas Tax Street Improvement Fund and the Proposition 1B Fund allocations under Government Code section 12410. The costs of this audit will be borne by the SCO.

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

A separate report was issued for our audit of the Special Gas Tax Street Improvement Fund and the Proposition 1B Fund allocations.

Background

The City of South El Monte is an industrial suburb of Los Angeles in the San Gabriel Valley region of Los Angeles County. The city was incorporated on July 30, 1958, as a general-law city and operates under a council-manager form of government system. The four-member city council is elected by voters at large to a four-year term.

The city had a population of 3,900 at incorporation and is now home to more than 20,000 residents. The city has a total area of 2.8 square miles, virtually all land. The land uses within its boundaries are 54% industrial, 26% residential, and the remaining 20% retail, office/commercial, and amenities.

Objectives, 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 safeguards of public resources.

To accomplish our objective, we:

- Evaluated the city's formal written internal policies and procedures;
- Conducted interviews with city employees and observed the city's business operations to evaluate city-wide administrative and internal accounting controls;
- Reviewed the city's documentation of business operations and supporting financial records;
- On a limited basis, performed tests of transactions to ensure adherence with prescribed policies and procedures and to validate and test the effectiveness of controls; and
- Assessed 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 that the city's administrative and internal accounting control deficiencies are serious and pervasive. We found weaknesses in the city's administrative and internal accounting controls system, resulting in the following findings that the city should address and correct:

- The city failed to collect \$314,000 due from other city governments (Finding 1).
- The city incorrectly billed and received payments from another city (Finding 2).
- City officials failed to comply with its purchasing procedures and may have violated the city's municipal code regarding contracts (Finding 3).
- The city failed to exercise oversight over the city's financial and operational activities (Finding 4).
- The city failed to exercise adequate control over expenses charged to city-issued credit cards (Finding 5).
- The city's Administrative Policies and Procedures manuals were incomplete and outdated (Finding 6).
- Bank reconciliations were not performed, reviewed, or approved in a timely manner (Finding 7).

- There is a lack of permanent staff to perform critical functions (Finding 8).
- There is a lack of segregation of duties (Finding 9).
- The city did not produce financial statements on a timely basis (Finding 10).
- The city did not reevaluate its advocacy and lobbying contracts (Observation).

As part of our review, we assessed aspects of the city's internal control 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 69, or 88%, that were inadequate, and one that was not applicable. The results of our review and evaluation of elements of internal control 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 the remedial plan.

Views of Responsible Officials

We issued a draft report on April 21, 2017. Jennifer E. Vasquez, Interim City Manager, responded by email on May 11, 2017 and in a letter postmarked May 11, 2017. The city stated that it has taken substantial corrective actions and continues 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 South El Monte and the SCO; it is not intended to be and should not be used by anyone other than these 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

May 25, 2017

Findings and Recommendations

Analysis of the City's Administrative and Internal Accounting Controls

We found that the city's administrative and internal accounting control deficiencies are serious and pervasive. We found weaknesses in the city's administrative and internal accounting controls, 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 also assessed 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 69, or 88%, that were inadequate, and one that was not applicable. In the components under control environment for integrity and ethical value, commitment to competence, and management oversight and control, we found that only one of the 15 control elements was adequate.

Using the results of our internal control matrix, we performed reviews of selected transactions to document examples of weak and nonexistent controls. The specific findings described in this report resulted, at least in part, from these deficiencies.

Recommendation

Specific recommendations to address the findings are described below; however, 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.

City's Response

...the City is ... considering the comments in the Appendix to aid the City as it addresses the identified internal control weaknesses.

SCO's Comment

We thank the city for considering the comments in the Appendix to address the identified internal control weaknesses.

**FINDING 1—
The city failed to collect
\$314,000 due from other
city governments**

On May 5, 2009, the city hired Mike Roos and Company (consultant) to lobby the Metropolitan Transit Agency to select Alternative 1 as a route for the second phase of the Metro Gold Line Eastside Extension. Under this contract, the city is obligated to pay the consultant \$10,000 per month and reimbursements for all ordinary expenses incurred in connection with this service.

On May 21, 2009, the city reached an agreement with the cities of Monterey Park, El Monte, Montebello, and Rosemead (local agencies) in support of the Metro Gold Line Eastside Extension.

On May 22, 2009, the local agencies each agreed to reimburse the city for one-fifth of the fees and costs incurred by the city.

During our review, we noted that the city failed to collect a total of \$314,000 due from two of the cities. The two cities stopped paying their share as agreed to in the reimbursement agreement. The city management was not sure how to pursue the collection of these amounts due. Subsequently, the city stopped sending monthly billing invoices to these two cities.

Recommendation

The city should develop a policy or a set of internal guidelines to ensure that proper management of accounts receivable is implemented within the Accounts Receivable Department.

Furthermore, the city should try to collect unpaid invoices and reconsider its reimbursement agreement with the local agencies.

City's Response

The City has adopted a Cash Receipts procedure to document the manner in which payments are received by the City and bank deposits are made. Included in this procedure is a segregation of the various duties of cash receipts. In addition, the Finance Department personnel have been designated to review the various City accounts receivable accounts on a monthly basis. Additionally, all payments to the City are to be receipted at the time the payment is received and a receipt deposit report, including all supporting documentation, will be prepared daily and reviewed by the Accounting Manager.

The City has also adopted a Budget Accountability policy which provides procedures for the Finance Director, Department Directors, and City Manager to meet at least every two months to review the status of departmental/division expenditures and revenues.

Furthermore, the City has received the payment from the City of El Monte and is exploring the City's options in respect to the City of Monterey Park.

SCO's Comment

The city stated that it is implementing our recommendations. We further recommend that the city monitor its implementation process.

**FINDING 2—
The city incorrectly
billed and received
payments from another
city**

The city has been incorrectly billing a neighboring city for its share of consulting costs regarding the Metro Gold Line Eastside Extension (see Finding 1).

The reimbursement agreement that was executed with the local agencies on May 22, 2009, did not include this neighboring city. In addition, the city failed to provide a different reimbursement agreement to show that it is entitled to bill and collect money from this neighboring city.

During the period of July 16, 2014, through October 18, 2016, this neighboring city was billed and paid a total of \$56,000. In the absence of a reimbursement agreement the city is not entitled to the money it received from this neighboring city.

Recommendation

The city should develop policies and procedures relative to its accounts receivable and consider returning the money to the neighboring city.

Furthermore, the city should document its billing arrangements with written agreements.

City’s Response

The City has adopted procedures that require all billings of unique items be approved by the Finance Department and City Manager to insure that the proper authorizations have been obtained from the related party. In addition, reviews are made monthly to insure that receivables are reviewed. The City’s Budget Accountability policy also covers this concern; as there must be a review of departmental/division expenditures and revenues by the Finance Director, Department Directors and City Manager at least every two months.

The City of Industry joined the SR-60 coalition after the Coalition was formed and agreed to pay its proportionate share for services rendered on behalf of the Coalition.

SCO’s Comment

The city stated that it is implementing our recommendations. We further recommend that the city monitor its implementation process.

**FINDING 3—
City officials failed to
comply with purchasing
procedures and may
have violated the city’s
municipal code regarding
contracts**

During our review of the city’s contracting process from January 1, 2011, through June 30, 2015, we noted that city officials and the city council did not comply with its purchasing procedures and, therefore, violated the city’s Municipal Code Chapter 3-16. Among other requirements, this code requires a written contract for purchases of supplies and services greater than \$25,000. City officials made numerous decisions without following the contract process, including not obtaining city council approval when required.

In addition, when contracts were actually submitted to the city council, the meeting minutes lacked evidence of analysis, discussion, or deliberation. As a result of these deficiencies, instances of non-compliance, and violations of the city's municipal code, we expanded our review to city council minutes from March 24, 2009, through December 13, 2016, made available for our review.

We identified the following contracts and transactions that raised questions regarding reasonableness and compliance with established rules and regulations.

1. Contracted services were not subjected to competitive bidding

Arroyo Strategy Group

The OH Consulting Services dba Arroyo Strategy Group (Arroyo) had been providing professional services to the city since June 29, 2005. The contract with Arroyo had been amended several times and renewed twice. The first contract renewal was executed on December 11, 2012, with the term expiring in December 31, 2014, for a total compensation not to exceed \$175,000 per year. The second and last renewal was executed on December 1, 2014, with the contract term to expire on December 30, 2017, and a compensation with no maximum fee limit. Forty-three types of services were to be provided under this contract and none could be determined to be specialized.

The two contract renewals were unanimously approved by the city council through Resolution 12-83 (contract dated December 11, 2012) and Resolution 14-87 (contract dated December 1, 2014). During our review, we found no evidence that city management and the city council considered subjecting these contracts to open competitive bidding as required by the city's municipal code.

Seven additional contracts with amounts in excess of \$25,000 were executed between the city and Arroyo during the period of March 8, 2011, through June 6, 2015. All of these contracts were for various general professional services that could be provided by other consultants in the local market; in other words, these providers were not the sole sources of these services. These contracts should have been subject to the competitive bidding process.

ECM Group, Inc.

On April 28, 2008, the city and ECM Group, Inc. (ECM) entered into a contract agreement for the performance of various engineering services from July 1, 2008, through June 30, 2011, without a maximum fee provision. The contract was amended three times to extend the term. The last amendment extended the term of the contract to June 30, 2018; however, prior to the expiration of the contract the city decided to terminate the contract effective May 1, 2016.

For the period of July 18, 2011, through April 30, 2016, the contractor billed the city a total of \$3.13 million, an annual average of \$627,000.

The scope of services provided by the contractor appears to be general engineering and not specialized expertise or unique skills. Accordingly, this agreement should have been subject to competitive bidding when the contract was initially executed or during the contract amendment process. The city's Municipal Code section 3.16.040 requires that purchases of supplies and equipment and provision of services of an estimated value greater than the currently adjusted maximum (\$25,000) shall be subject to notice of open competitive bid. Our determination that these contracts with Arroyo and ECM should be subject to open competitive bidding was consistent with the conclusion presented in a review report by other auditors.

2. The city failed to obtain requests for proposal from providers of professional services

Mike Roos and Company

On May 5, 2009, the city entered into a professional services agreement with Mike Roos and Company (consultant) to perform services such as lobbying for stimulus funding from metro, state, and federal agencies, act as a liaison and facilitator to resolve issues or disputes between the city and other agencies, and perform duties as requested by the city.

Under the terms of this agreement, the consultant will be paid \$10,000 per month plus reimbursement for ordinary expenses incurred in connection with this service. The term of this agreement was from May 13, 2009, to November 13, 2009. Accordingly, this initial contract amounts to \$60,000.

Several contract amendments were approved through city council resolutions to extend the contract terms; however, there was no evidence that city officials considered obtaining proposals from other consultants. The latest amendment was approved on May 25, 2016, extending the contract to December 31, 2016. As of September 13, 2016, the consultant was paid a total of \$870,000.

According to the city's Municipal Code section 3.16.070, this contract with the consultant may be made without following bidding procedures, because the consultant possessed specialized expertise. However, the city is required to select a professional service provider based on demonstrated competence and professional qualifications by using a request for proposal in order to determine the best qualified vendor for professional services. According to the documents we reviewed, the city did not solicit a request for proposal before entering into this professional service agreement.

3. Contracts in excess of \$25,000 (currently adjusted maximum) were approved without city council approval

Maiques Inspection Service

On August 20, 2010, the city manager entered into a contract agreement with a consultant (a former city employee) to assist the city with duties related to the Building and Safety Division within the Community Development Department. According to the provisions of

the agreement, the contract will continue indefinitely, until terminated by either party upon 30 days prior written notice, and the consultant will be compensated for services rendered at a rate of \$80 per hour. For the period of August 9, 2011, through September 13, 2016, the total consultant billing for services totaled \$372,000.

Although the total contract did not state the maximum fee provision, we determined that the contract cost was in excess of \$25,000. The city's purchasing manual requires the city council to approve all contracts in excess of \$25,000. In our review of the city council meeting minutes, we cannot find an approved resolution relating to this contract.

We also noted that several contracts with Arroyo and ECM were agreed to without city council approval.

4. Contract for services were not in writing

Madrid Consulting Group, LLC

The city and Madrid Consulting Group, LLC (Madrid) has an existing contract agreement dated January 28, 2011, to supplement and enhance the existing Compass Study by providing additional planning, transportation, and economic services. This contract agreement was amended several times to increase contract costs, add scope of work, and extend the term of the contract.

The city council unanimously approved two resolutions authorizing the City Manager to execute two additional agreements on behalf of the city with Madrid. On February 14, 2012, the city council approved Resolution 12-14 for supplemental and enhanced scope of services for light rail on Santa Anita Avenue and on June 12, 2012, it approved Resolution 12-46 for site engineering analysis development planning of the 21-acre site on Santa Anita Avenue. Both resolutions authorized funding of \$25,000 each.

The city failed to provide copies of the contracts approved by the above resolutions. The staff report documents submitted to the city council for the approval of a resolution did not include copies of these contract agreements. The city's Municipal Code section 3.16.030(2) requires that contracts for services in excess of \$2,500 must be in writing.

5. The city extended existing contracts, thus by-passing the required solicitation of requests for proposal from other competing service providers

Pacific Atlantic Partners

On April 26, 2011, the city entered into a contract agreement with Pacific Atlantic Partners (consultant) to serve as an advocate on behalf of the city to lobby for stimulus funding from metro, state, and federal agencies, act as a liaison and facilitator to resolve issues or disputes between the city and other agencies, and perform duties as requested by the city. According to the contract, the city will pay the consultant

\$6,000 per month, not to exceed \$72,000 in total. The contract was amended several times to extend the contract terms. On September 14, 2014, the city council unanimously approved Resolution 14-76 to extend the contract and increase the cost to \$12,000 per month. There was no detailed review or analysis to justify the increased cost. As of September 27, 2016, the consultant has billed the city \$492,000.

During our review, resolutions approved by the city council to amend this contract failed to show any consideration to solicit requests for proposal relating to consulting services. In addition, there was no evidence that city officials considered exploring other options or sought proposals from other competing companies.

Athens Services

We reviewed Amendment 3, dated January 14, 2014, between the city and Arakelian Enterprises, Inc. dba Athens Services (Athens). During our review of other related contract documents, we noted the following:

On October 28, 2008, the city approved contract Amendment 2 to the Amended and Restated Agreement between the city and Athens dated September 13, 2000, for the collection of solid waste, recyclables, yard waste, and other compostables. This amendment modified a "Twenty Year Rolling Term" to a "Thirty Year Rolling term." A thirty-year rolling term contract automatically extends the 30-year contract for one year at every anniversary date; thus, the contract term remains at a constant 30 years. Either party can terminate the automatic one-year extension; however, the agreement will terminate 30 years after the termination date is given.

Furthermore, an additional scope of services (street sweeping) was added to Amendment 2. For these services, the contractor will be compensated \$5,000 per month for the entire contract term (thirty-year rolling term). The total costs of additional services will amount to \$1.86 million dollars during the contract period. The city did not solicit requests for proposal from competing service providers for these services.

Based on available documents provided for our review, it does not appear that this contract extension is fair and equitable to the city and its residents. We were not provided with evidence that the city's management and council considered exploring any other options or sought requests for proposal from other companies. It is more than likely that this contract extension will eventually burden the city, as it may not be able to negotiate a more reasonable rate for its citizens. This could also lead to rate increases for at least the next 30 years that the city will lack the ability to control.

As with the agreement with Pacific Atlantic Partners, there is no evidence that the city council considered exploring other options or sought bids from other companies. As such, the city council violated its purchasing policies and procedures and failed to comply with the bidding process required by its municipal code.

This finding is consistent with the audit finding presented in the State Controller Office's Audit Report of the Special Gas Tax Street Improvement Fund for the period of July 1, 2011, through June 30, 2015.

6. Several employment contracts for upper management employees were not renewed in a timely manner

Most of the city's upper management are performing services under employment agreements that were approved by the city council through resolutions. We reviewed 10 employment contracts that were approved for three city management officials. Based on our review, we noted that nine of the 10 contracts were renewed well past the contract expiration date. More than half of the contracts were not renewed for almost a year after the expiration dates.

Recommendation

The city council should direct city officials to comply with the city's municipal code pertaining to contracting. In addition, the city should ensure that contracts are properly executed and approved, including the use of competitive bidding and city council approval when required.

In addition, the city should develop policies and procedures to ensure that employment contracts are regularly reviewed and properly tracked in order to execute contract renewals in a timely manner.

City's Response

In December 2015 the City's Purchasing Ordinance was updated; it established the "currently adjusted maximum," which is the maximum unit price of an individual item that the city manager may purchase without submitting to formal competitive bidding procedures. Furthermore, the Purchasing Manual adopted in March 2016 established formal procedures which requires supplies, equipment, non-professional services and professional/consultant services over the "currently adjusted maximum" be taken to the City Council for approval. There are also procedures set forth for the Purchasing Officer (Finance Director) that allow for further oversight of purchases for services and construction. The City's purchasing manual also requires that the City Attorney prepare all contracts over \$2,500. Lastly, the City Attorney has issued an updated professional services agreement template, and is working with staff on other contract templates.

The City has upgraded its current accounting software to assist with monitoring contracts and once it is implemented it will automatically track the progress of contracts, through purchase orders, to ensure the City is not paying vendors above and beyond the approved not-to-exceed amounts, or subsequent to the contract expiration dates. Additionally, the City Clerk's office has purchased software to track all contracts, including employment contracts, to monitor contract expiration dates.

It is anticipated that the tracking software will be implemented on July 1, 2017.

SCO's Comment

The city stated that it is implementing our recommendations. We further recommend that the city monitor its implementation process.

**FINDING 4—
The city failed to exercise oversight over the city's financial and operational activities**

During our review, we noted that payments for goods and services were readily approved by city officials and the city council without detailed review or analysis of the reasonableness of these costs. There were several city council meetings at which specific warrants were questioned by one of the council members; however, the majority approved the payment of the questioned warrants without critical review and evaluation of payment. Likewise, city officials made payments to contractors without limits to contract amounts. We identified the following contracts and transactions that raised questions regarding reasonableness and proper use of public funds.

1. Payment to consultants after the authorized contract period

On several occasions, the city failed to renew or extend contracts in a timely manner and made payments after the contract expired. For example:

For the period of July 1, 2009, through September 13, 2016, the contract for professional services between the city and Mike Roos and Company was amended seven times in order to extend the contract term. The city did not approve any of these amendments in a timely manner. For example, Amendment 1 to extend the original contract ending date of November 13, 2009, was not approved until December 1, 2011, more than two years later. In the meantime, the city continued to pay the consultant's monthly invoices. The city paid \$390,000 to the consultant for professional services at a period when the contract had expired (see Finding 3-2).

Similarly, for the period of August 21, 2011, through September 27, 2016, Pacific Atlantic Partners were paid \$108,000 after the contract had expired (see Finding 3-5).

2. Payments to contractors in excess of the contract amount

Approved contracts between the city and Madrid total \$120,000. However, during the period of August 30, 2011, through September 27, 2016, Madrid billed and the city paid \$189,250. Accordingly, the city paid \$69,250 in excess of the approved contract amount. The city failed to provide an additional contract to support this overpayment (see Finding 3-4).

3. Unallowable payments for professional services due to lack of approved contract

Arroyo Strategy Group

For FY 2013-14, Arroyo billed the city \$91,750 for services under the 2015 Active Transportation Planning Grant. The city was billed three times for these services as follows:

<u>Date</u>	<u>Amount</u>
March 6, 2014	\$ 52,500
April 9, 2014	15,000
May 22, 2014	<u>24,250</u>
Total	<u>\$ 91,750</u>

We could not find an approved contract agreement between the city and Arroyo to authorize these services prior to March 6, 2014, the date of first payment. In addition, there was no evidence from the city council minutes that the council approved a resolution for these professional services. As a result, the city made an unauthorized payment of \$91,750.

4. Billings for professional services lacked adequate supporting documentation

Arroyo Strategy Group

For the period of July 1, 2013, through June 30, 2016, Arroyo billed the city \$1.039 million for various professional services. Most of these costs were for direct labor hours incurred for a specific project, including \$99,362 for services related to SR 60 Coalition advocacy work, \$152,933 for professional services planning, \$133,693 for the CalHome Grant, \$209,985 for miscellaneous projects, and \$443,570 for other contracted projects (see Schedule).

During our review of documents supporting the invoices billed, we noted that no time cards were submitted to support labor hours charged to a project. Instead, the only support was a weekly summary of direct hours charged to each project. Upon further inquiry, the city informed us that time cards were not kept and that weekly summaries were the only supporting documents for labor charges. Furthermore, review of Arroyo's supporting documents performed by other auditors for FY 2014-15 noted that Arroyo kept no substantiating documentation for hours worked on these projects.

In the absence of time cards supporting direct labor hours, the summary of labor charges supporting the Arroyo's billing invoices is inadequate. The contract agreement for professional services dated December 11, 2012, and other agreements between the city and Arroyo, stated that all records, invoices, time cards, cost control sheets, and other records maintained by the consultant in connection with these agreements should be made available upon request.

ECM Group, Inc.

For FY 2008-09 through FY 2014-15, we reviewed the expenditures to the Special Gas Tax Street Improvement Fund and Proposition 1B fund. These expenditures were for professional services provided by ECM. Based on our review, we determined that \$229,762 in costs claimed lacked adequate supporting documentation, as follows:

Fiscal Year	Gas Tax	Prop 1B	Totals
2008-09	\$ -	\$ 67,608	\$ 67,608
2011-12	18,162	-	18,162
2012-13	9,897	17,073	26,970
2013-14	47,041	-	47,041
2014-15	69,981	-	69,981
	<u>\$ 145,081</u>	<u>\$ 84,681</u>	<u>\$ 229,762</u>

These costs were for direct labor hours incurred for professional services provided by ECM. During our review, we were unable to determine how hours are charged to specific projects, as the time cards did not contain a detailed explanation of work charges. Upon further inquiry, the city informed us that payments to ECM were made without checking time cards and without reconciling direct labor charges to a completed project.

In addition, for FY 2014-15, other auditors concluded in their reviews that some ECM billings for labor claims are fictitious and were generated in order to secure the maximum fee under the contracts. The city acknowledged and did not disagree with this conclusion.

Recommendation

The city council should fulfill its fiduciary responsibility by engaging in oversight over the city's affairs. The city also should develop and implement policies and procedures to ensure that when processing payments for goods and services, its management performs a thorough review of the invoices. The invoices should be properly supported by detailed documentation before being paid.

City's Response

The City's purchasing manual requires that the City Attorney prepare all contracts over \$2,500. Furthermore, the City Attorney has issued an updated professional services agreement template to the City to ensure that the issues described with the Arroyo contract are addressed.

Additionally, the City Council adopted finance policies in March 2016 that specifically address this finding. Under the Budget Accountability Policy, the Finance Department is required to provide budget status reports for both staff and City Council on a specified schedule. Furthermore, the Accounts Payable Policy, also adopted March 2016, establishes a policy and procedures relative to the issuance of checks. It calls upon department directors to be responsible for the proper approval of payments and provides specific procedures as to how a payment is authorized and prepared.

SCO's Comment

The city stated that it is implementing our recommendations. We further recommend that the city monitor its implementation process.

**FINDING 5—
The city failed to exercise
adequate control over
expenses charged to city-
issued credit cards**

The city did not have policies and procedures governing city-issued credit cards and business-related travel. From July 1, 2012, through September 30, 2016, city employees and city council members charged a total of \$288,878 in expenses on city-issued credit cards. Of the total expenses incurred, we reviewed \$128,931 and found \$63,629 (49%) to be questionable.

Our review found that many of the charges, particularly those incurred by the former City Manager and some city council members, are questionable. Most of the claimed expenses were not supported by original receipts. Credit card bank statements and/or periodic statements of credit card charges were used. Receipts are necessary to verify and support whether the expenses charged on the credit cards are business-related. Furthermore, it is the city's general policy that warrants will not be paid on statements but rather on original receipts, in order to preclude duplicate payments.

City employees involved in processing credit card expenses assumed that all card expenses are used for allowable purposes. For the entire period reviewed, we noted that all credit card expenses submitted were accepted and processed without question. However, we noted during our review that the following expenses are questionable.

Hotel Charges

During our review period, the city did not have a policy governing city hotel charges. Expenditures for hotel stays totaled \$39,421, or 13.65% of total credit card expenses (\$288,878). We also noted that, in many instances, the purpose for some of the expenses was not clear or properly documented. For example:

- On January 30, 2013, the former City Manager charged \$642.21 for a stay at the Parc 55 Wyndham, San Francisco, CA. Included in the charge is a \$206.29 fee for no-show.
- On October 16, 2013, the former City Manager charged \$840.64 twice for a two-night weekend stay at the Westin, Seattle, WA.
- On June 3, 2015, a city council member charged the city-issued credit card \$378 for a hotel stay at the Aria Hotel, Las Vegas, NV.

As noted in the examples cited above, there was no description, justification, or any type of documentation as to the purpose and necessity of these trips.

In addition, while the city had no limit on hotel charges, the amounts incurred seem excessive.

In each of above instances, as well as other instances concerning lodging expenses, there was no indication that city officials or other city employees inquired or considered staying at hotels that offered government rates. Some of the hotels identified above offer government rates even on weekends.

Meals

The city did not have an established policy relating to meals and incidental expenses related to out-of-pocket reimbursements. Expenditures for meals totaled \$3,529. These charges were for various restaurants. Some of these charges were for the City Manager's dinners, staff meetings, and business lunches at various restaurants. However, not all of these charges had an explanation or reason for the charges. For example:

- The city credit card was charged \$103 at Domino's Pizza on February 20, 2014.
- The former City Manager charged meal expenses of \$91 on October 14, 2013, and \$48 on February 13, 2015.
- The city credit card was charged \$1,179 on April 4, 2016, and \$228 on June 14, 2016, for an employee appreciation lunch.

The charges were incurred between 2014 and 2016. However, the city could not provide a valid reason or documentation to support these charges, which shows a lack of fiscal control, accountability, and integrity. Also, while the city has no specific limit on meals, the amounts incurred seem excessive.

Cellphones, Laptops and Accessories

Expenditures for iPhones, iPads, laptops and accessories totaled \$37,906 or 13.12%, of total credit card expenditures, and did not have any support or description for the purpose. For example:

- On October 15, 2014, a city council member spent \$2,592.77 for a MacBook Pro, Apple TV, and accessories,
- On October 16, 2014, a city council member spent \$3,611.56 for a MacBook Pro, iPhone 6, and accessories
- On October 16, 2014, a city council member spent \$3,417.18 for a MacBook Pro, Apple TV, iPhone, and accessories
- On March 20, 2015, a city council member spent \$987.75 for an Apple iPad Mini and accessories.

This equipment was directly purchased by the city council members. The city does not maintain an inventory listing of this equipment.

Small-dollar purchases in excess of \$2,500

Several small-dollar purchases in excess of \$2,500 were purchased using the city-issued credit cards. The city's purchasing procedures state that a purchase order is required for small purchases in excess of \$2,500. Contrary to the requirement of the purchasing manual, purchase orders were not used for credit card purchases. For example:

- On October 3, 2013, code enforcement equipment totaling \$2,839.60 was purchased without evidence of departmental approval.
- On October 3, 2013, the former City Manager's city-issued credit card was charged \$3,045 for Jamz (VIBE), a cheerleading competition organization. No documents were provided to support these charges.
- On October 16, 2014, purchases for cellphones and laptops were combined when they should have been processed through purchase orders.

Miscellaneous Expenditures

Miscellaneous expenditures totaled \$50,007 or 17.31% of total credit card expenditures, and were not supported with receipts and/or detail. For example:

- On May 13, 2014, the City Manager paid for airfare in the amount of \$969 for a legal consultant.
- On March 26, 2015, hotel and airfare expenses totaling to \$3,677 were charged to the former City Manager's city-issued credit card for the principal of Arroyo.
- On November 6, 2013, a bar tab in the amount of \$92 was charged to the former City Manager's city-issued credit card. Likewise, on July 23, 2015, a former city council member charged a \$50 bar tab on his city-issued credit card.

Late Payment Charges

For the period of July 1, 2012, through September 30, 2016, we noted that late payment charges were charged to several city-issued credit cards. A late payment fee is charged whenever a payment is received after the due date. Although late payment fees are immaterial within the amount we reviewed, this will cause a concern if no monitoring is implemented to ensure that invoices are paid in a timely manner.

Recommendation

The city should implement appropriate control measures to ensure proper review and approval of all charges relating to meals, lodging, and incidental expenses including city-issued credit card charges. These measures should include:

- A comprehensive travel policy that establishes clear guidance for travel, including the purpose of the trip and documentation requirements, and sets limits on lodging rates, meals, and other travel expenses;

- A policy governing circumstances for which business meals are authorized, including documentation requirements, and limits on the maximum amount allowable for business meals;
- An expedited payment process to avoid late charges; and
- A reevaluation of the issuance of credit cards to the city council members.

The city should also review the questionable charges noted above and determine whether the city officials and employees should be required to refund the city for all or part of them. In addition, the city should 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 formulated procedures and policies for the use of Purchasing Cards and is reviewing and revising its travel policy consistent with this recommendation. The City has established various monetary limits and approval processes for Purchase Cards. There are limits on what the purchase cards can be used for. Receipts are required for all transactions charged to purchase cards. The City Manager must approve the issuance of purchase cards to individuals. Receipts for each month are required to be submitted on a monthly basis and then are reviewed by the department head, Finance Department and City Manager.

The city adopted a comprehensive travel policy in response to AB1234 in 2006 and it set limits on travel rates, lodging and other expenses and amended such policy in 2008 and 2010. The City will review such policy to determine whether additional control measures are necessary and to see if it can provide clearer guidance for travel and other use of public resources.

Additionally, the City is reevaluating the issuance of credit cards to City Councilmembers. It should also be noted that the recently adopted Accounts Payable and Purchasing Card policy and procedures ensures that payment processes will be timely to avoid late charges.

Lastly, pursuant to your recommendation the City is in the process of reviewing travel and meal expenses to determine whether any refunds should be sought.

SCO's Comment

The city stated that it is implementing our recommendations. We further recommend that the city monitor its implementation process.

**FINDING 6—
The city’s Administrative
Policies and Procedures
manuals were incomplete
and outdated**

During our review and inquiry with several city employees and management, 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 city Personnel Rules setting forth the policies and procedures related to the city’s employment practices were last revised on November 10, 1983.
- The informal Finance Procedures, last updated on June 2006, was incomplete. The accounting policies did not include a number of important procedures relating to:
 - Revenue/receivables
 - Computer system backup procedures
 - Financial reporting
 - Fiscal policy statements
 - Petty cash fund

In addition, although most employees had information on the procedures and processes for their particular assignments, these procedures and processes are outdated. Also, there is no comprehensive documentation of the overall procedures and processes of the accounting system. Therefore, most staff members do not have a complete understanding of the accounting system except 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. An essential element of internal control is monitoring, which includes verification by management that policies and procedures are updated to adequately address new challenges identified by ongoing risk assessments.

Recommendation

The city should continue to review and update its Administrative Policies and Procedures manuals to ensure consistency with current processes and organizational structure; and it should perform periodic and ongoing reviews to ensure proper documentation, accuracy, and completeness in its financial transactions and records. Changes in policies and procedures that occur between these periodic reviews should be updated and documented promptly. Documentation provides guidance for implementing controls, serves as a basis for training new personnel in implementing such controls, and provides evidence that the controls are operating effectively.

The updated Administrative Policies and Procedures manuals should be readily available to all responsible employees. They 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 Purchasing Manual ("Manual") adopted in March 2016 documents the procedures and associated roles and responsibilities for purchasing/contracting with consultants/contractors/vendors for the provision of goods and services to the City of South El Monte ("City") and its residents. These guidelines aim to increase the accuracy and efficiency of implementing and monitoring the purchasing and contracting processes.

The Manual has been distributed to all departments to guide them in their purchases and contracting. The South El Monte Municipal Code ("SEMMC") sets the City Manager or his or her designee with the authority and responsibility for purchasing. The City Manager has designated the Director of Finance as the "Purchasing Officer" and has designated the City Clerk as the "Contract Administrator."

If grant funding will be used, it is the Project Manager's responsibility to insure that all applicable requirements of that funding are included in any contract/ agreement/ amendment/ change order. Additionally, it is the responsibility of the Project Manager to insure compliance with all applicable requirements of that funding, including securing approval of grant prior to incurring any expenditure, approval of eligible expenditures, reporting requirements, etc.

The Manual outlines the responsibilities of the purchasing officer and office, the Finance department, and the operating departments. It also limits the frequency that a consultant can be paid by the City (no more than once per month unless it represents a final payment on a project); no advance payments to consultants and the mark-up percentage for out-of-pocket expenses is not to exceed 15 percent.

The City continues to review its policies and procedures and in November 2016 the City Council adopted (Resolution No. 16-87) finance policies; which include cash receipt procedures, purchasing card policy and procedures, training procedures to facilitate efficient department performance, petty cash procedures, grant management procedures, year-end closing procedures, and bank reconciliation procedures. These policies are being reviewed on a regular basis for possible further improvements. The recently adopted Training Procedures to Facilitate Efficient Finance Department Performance calls for the Finance Director, along with designated staff to attend local and statewide Finance Officer Meetings and conventions to keep up with latest developments. Furthermore, the Finance Director, Accounting Manager and Accountant are to be members of the California Society of Municipal Finance Officers.

At this time the City is reviewing its Personnel Rules and has budgeted funds in the proposed FY 17/18 budget to update them.

SCO's Comment

The city stated that it is implementing our recommendation. We further recommend that the city monitor its implementation process.

**FINDING 7—
Bank reconciliations
were not performed,
reviewed, or approved in
a timely manner**

In our review of the city's bank reconciliation process and procedures for the period of July 1, 2013, through June 30, 2016, we noted that the majority of bank reconciliations were not reviewed and finalized within 30 days after the close of the month. Bank reconciliations for 24 of the 36 months during this period were not completed timely. There was a lapse of 181 and 141 days without completing, reviewing, and approving the reconciliation for the months of June and July 2015, respectively.

In addition, there were instances in which review approval was not completed in a timely manner. For example, the bank reconciliation for May 31, 2016, was completed on July 27, 2016; however, the review was not completed until August 11, 2016.

Lack of timely bank reconciliations will result in improper insufficient controls over the city's cash accounts, and staff may not detect errors or irregularities in a timely manner.

Timely bank reconciliations provide the necessary control mechanism to help protect cash by uncovering errors and irregularities. It also assists in the regular monitoring of the city's cash flows and assures accuracy and timeliness of expenses and deposits.

Recommendation

The city should establish and implement procedures to ensure the timely preparation of bank reconciliations, and ensure that bank reconciliations are completed, reviewed, and approved in a timely manner. The bank reconciliations should be signed and dated by the preparer and the reviewer.

City's Response

The City has adopted a bank reconciliation policy that establishes a clear requirement that the various bank accounts and investment accounts are to be reconciled to the City's general ledger on a monthly basis. This Policy includes written procedures that have been prepared to assist in the reconciliation process; this process requires signatures by the preparer and reviewer.

SCO's Comment

The city stated that it is implementing our recommendation. We further recommend that the city monitor its implementation process.

**FINDING 8—
Lack of permanent staff
performing critical
functions**

During our review, we noted that several key positions of the city's upper management were filled by interim or contracted employees. For example, the City Manager position was temporarily filled by an Interim City Manager. Likewise, the Finance Director was staffed with a contracted employee. Other positions that are filled by contracted staff are Personnel Analyst, Human Resources, Budget Officer, and accounts payable.

The city's current practice of staffing these critical positions with interim and temporary staff is an internal control concern, as the city could lose operational stability and efficiency in providing the needed services to its citizens. In addition, the city may face legal issues when rehiring the same temporary employee many times to avoid paying benefits or other compensation to a full-time permanent employee.

Furthermore, the lack of permanent staff may impact the city's daily operation, as more time will be spent on training temporary staff and work efficiency will be less effective due to frequent changes in work assignments. For example, a delay in paying bills that are due will cause additional and unnecessary cost to the city. Likewise, delays in processing payroll will delay payments of salary to employees and processing of tax liability. These delays will cause additional costs in late payment penalties.

Recommendation

The city should implement a remedial action plan to address the importance of filling the upper-management positions with permanent staff, most importantly the City Manager's position.

City's Response

During the period that the SCO was auditing the City's finances there were many contractors performing various duties within the City. Both the City Manager of 12 years and Finance Director of 3 years had their employment ended during the first half of August 2016. For the City Manager's position, the City contracted with the Assistant City Manager to serve as an interim until the normal hiring process could be completed. This process included the hiring of the executive recruitment firm Avery & Associates. It is anticipated that the City Council will hire a City Manager in June 2017.

The City has also been actively recruiting for the positions of Finance Director and Public Works Director; first round of interviews have been completed for the position of Finance Director and a second round of interviews have been completed for the position of Public Works Director. It is anticipated that a Public Works Director will be hired in June 2017 and Finance Director during the summer of 2017.

SCO's Comment

The city stated that it is implementing our recommendation. We further recommend that the city monitor its implementation process.

**FINDING 9—
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, we noted that incompatible functions were being performed by a single individual. These functions include payroll, cash receipts, and accounts payable.

Payroll

We noted that incompatible functions are assigned to, and being performed by, the payroll clerk. These functions include establishing a new employee account, changing an employee salary rate, and changing other critical personal information. These functions should be performed by human resources personnel. Good internal controls require that these duties be segregated to avoid potential conflicts of interest and/or irregularities.

Cash receipts

Cash receipt functions were not properly segregated. The revenue officer accepts and counts cash, prepares deposit slips, and performs end-of-day reconciliation. In addition, the same person accesses and enters cash receipt transactions into the computerized accounting system. The functions of accepting, recording, and reviewing cash transactions should not be initiated by one person.

Accounts Payable

The city has a decentralized system whereby the operating departments assume responsibility for many of the fiscal management functions related to the department. There were several instances in which only one person performed the review of invoices, approved payment, and mailed payment checks. These payment process functions should not be performed by one person.

Recommendation

The city should assess its current processes and implement policies and procedures to segregate incompatible functions.

City's Response

Through the adoption of detailed finance policies and procedures in the last year; the segregation of duties within the Finance Department has been addressed. Cash receipts duties are segregated so no one person can control these receipts. Accounts payable procedures have been established so that individuals responsible for approving payments cannot receive the related payment document and the preparation of documents is now the final process as another individual is responsible for disbursing the completed documents. For payroll, information is gathered electronically and approved by the various department heads. New employees are entered into the payroll system by the Human Resources department. These are just some of the segregation of duties that City has adopted.

SCO’s Comment

The city stated that it is implementing our recommendation. We further recommend that the city monitor its implementation process.

**FINDING 10—
Inability to produce
financial statements on a
timely basis**

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

The following table lists past due reports as of April 21, 2017.

<u>Report Name</u>	<u>Due Date</u>	<u>Number of Months Past Due</u>
FY 2014-15 Comprehensive Annual Financial Report	December 31, 2015	15 months
FY 2015-16 Comprehensive Annual Financial Report	December 31, 2016	3 months

The lack of timely annual financial reports is troubling because these reports provide critical information that can be used by the city council and city management to identify upcoming issues and take timely action to address them.

Recommendation

The city should assign a higher priority and direct more resources to complete its audited financial statements no later than six months after fiscal year-end.

City’s Response

Due to unexpected circumstances, including the recommendation for a Special Audit, the City’s FY 14/ 15 and 15/16 Comprehensive Annual Financial Reports have not been completed; the FY 14/15 report is anticipated to be completed by June 30, 2017 and the FY 15/16 is anticipated to be completed by September 30, 2017. Furthermore, the City's recently adopted Year-End Closing policy will prevent such occurrence again.

SCO’s Comment

The city stated that it is taking corrective action. We further recommend that the city monitor its policy implementation process.

Observation

**OBSERVATION—
The city did not
reevaluate contracts for
advocacy and lobbying
services**

The city contracted with several consulting firms for advocacy and lobbying services to urge the Metropolitan Transit Agency to select Alternative 1 as a route for the second phase of the Metro Gold Line Eastside Extension. As of September 30, 2016, the city has paid these consultants a total amount of \$1,461,362, as follows:

<u>Consultant</u>	<u>Amount Paid</u>
Michael Roos and Company	\$ 870,000
Pacific Atlantic Partners	492,000
Arroyo Strategy Group	<u>99,362</u>
Total	<u>\$ 1,461,362</u>

During our review of the minutes of the city council meetings for the period of March 24, 2009, through November 8, 2016, we could not find any discussion or inquiry as to the status, timeline of completion, and/or work accomplishment of these contracted consultants. Additionally, there is no evidence that the city council and/or city management ever re-evaluated these contracts as to the necessity and benefits to the city.

Recommendation

The city should review and evaluate all contract terms, especially the description and scope of services to be provided. The invoices should include a full description of services and should be reviewed and approved prior to payment.

City's Response

The City Council intends to reevaluate the need for advocacy and lobbying services in June 2017 during budget discussions.

The City's recently adopted Finance Policies and Procedures will also address this recommendation.

SCO's Comment

The city stated that it is implementing our recommendations. We further recommend that the city monitor its implementation process.

Appendix— Evaluation of Elements of Internal Control¹

Management Oversight and Control (Control Environment)		YES	NO	COMMENTS
Control Environment				
A1. Integrity and Ethical Values				
a.	Are code of conduct and other policies regarding acceptable business practice, conflicts of interest, or expected standards to ethical and moral behavior established and communicated to all city management and employees?		X	Except for the Purchasing Manual, dated March 8, 2016, that briefly mentioned ethical standards and conflicts of interest, there were no updated policies and procedures that deal with organizational integrity and ethical values. The city’s Personnel Rules that establish the policies and procedures for the administration of the city’s personnel system was last updated on November 10, 1983.
b.	Is the reasonable management attitude of "Tone at the Top" established and communicated to city management and staff?		X	On July 28, 2016, the mayor pled guilty to bribery charges after admitting that he accepted at least \$45,000 in bribes from a contractor over a span of seven years (2005-2012). According to several reports, an unnamed public official might also be involved. The City Manager and Finance Director subsequently resigned their respective positions.
c.	Is everyday interaction with vendors, clients, auditors and other parties based on honesty and fairness?		X	Questionable contracting practices and questionable payments of accounts payable were identified in several reviews completed by other auditors.
d.	Is appropriate remedial action taken in response to non-compliance?		X	On September 8, 2015, the city’s external auditor noted that issues identified in the 2013-14 financial report have not been fully addressed and corrected by the city’s management. Furthermore, in a letter dated February 20, 2015, an auditor from the Department of Justice designated the city as a “high-risk grantee” due to the city’s failure to properly document its financial practices for FY 2012-13.
e.	Is management appropriately addressing intervention or overriding established controls?		X	See A1.d

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)

A2.	Commitment to Competence			
	a. Is management identifying and defining the tasks required to accomplish particular jobs and fill - various positions?		X	<p>The city experienced significant changes in its upper management midway through 2016. For example;</p> <ul style="list-style-type: none"> • The mayor resigned on August 9, 2016. • The City Manager resigned on August 23, 2016. The interim City Manager has been filling this position while the city is in the process of hiring a new City Manager. • The Finance Director resigned on July 28, 2016. A consultant interim Finance Director was temporarily hired for the position. • The Interim City Manager also performs the duties of the Human Resources Officer. • The Accounts Payable clerk position was assumed by a contracted employee for over four months. • A Personnel Analyst was temporarily hired to perform personnel recordkeeping functions.
	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	For the period of July 1, 2013, through June 30, 2015 (review period), there was no evidence that training was provided to staff. There was a harassment training conducted with city staff on October 19, 2016.
A3.	Audit Committee			
	a. Does the city have an audit committee that is appropriate for the size and nature of the entity?		X	The city does not have an audit committee.
	b. Are members of the audit committee independent from the city management?		X	See A3.a

Appendix—(continued)

	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	Critical positions are being filled by interim and contracted employees. There was no established risk management position. There were no risk evaluations completed due to lack of an experienced Risk Management Manager.
	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	Several key positions were filled with temporary and rotated staffs that may lack experience and proper training for the positions. Accordingly, the level of understanding at staff level regarding internal control is minimal.

Appendix—(continued)

	c. Is personnel turnover in key functions at an acceptable level?		X	See A2.a
	d. Does management have a positive and supportive attitude towards internal control and audit functions?		X	See A1.d. Subsequent to our review period (FY 2013-14 and FY 2014-15), on March 8, 2016, the city adopted and revised its Purchasing Ordinance in order to provide control and financial oversight over purchases. However, more effort is needed to improve control and oversight of other areas of the financial operation cycle. The city’s Finance Procedures and Personnel Rules should be updated.
	e. Are valuable assets and information safeguarded from unauthorized access or use?		X	The city does not have an inventory list of iPhones, iPads, and laptops.
	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	Other auditors found that contracts were not properly monitored or presented to the city council for proper approval. There were several instances in which payments were made above and beyond the contract amount.
A5. Organizational Structure				
	a. Is the city’s organizational structure appropriate for its size and the nature of its operation?	X		
	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	Key management positions are temporarily filled by interim and contracted employees. The city is in the process of implementing a solution to address filling the temporary positions.

Appendix—(continued)

	e. Does the city employ an appropriate number of employees, particularly in managerial positions?		X	See A2.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	Some key positions were filled in by interim and temporary employees.
	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 among some employees performing critical functions. In addition, there was no adequate back-up for some of these employees.
	c. Is delegation of authority appropriate in relation to the assignment of responsibility?		X	Some key management positions are being filled by interim and temporary employees.
A7.	Human Resources Policies and Practices			
	a. Are policies and procedures established for hiring, training, and promoting employees and management?		X	The Personnel Rules for hiring, training, and promoting employees has not been updated since November 10, 1983.
	b. Are background checks conducted on candidates for employment?	X		
	c. Are employees provided the proper amount of supervision?	X		
Risk Assessment				
B1.	Establishment of Entity-wide Objectives			
	a. Are there entity-wide objectives that were established by management?	X		

Appendix—(continued)

	b. Are city-wide objectives clearly communicated to all employees, and does management obtain feedback signifying that communication has been effective?		X	The city’s website contains most of the information relating to city-wide objectives. However, there was no evidence to suggest that management was able to implement its rules due to the outdated and incomplete policies and procedures.
	c. Is there a relationship and consistency between the department’s operational strategies and the city-wide objectives?		X	The existence of deficiencies in contracting and payment processes in the city’s financial operation is contrary to city-wide objectives.
	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 A4.a
B2. Risk Identification				
	a. Is management appropriately and comprehensively identifying risk using various methodologies?		X	The city does not have a dedicated Risk Management Manager. The city management do not identify risk. Instead, it relies on the risk review and evaluation of its insurance provider, the Joint Power Insurance Agency (JPIA).
	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
	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

Appendix—(continued)

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			
C1. Policies and Procedures (General Applications)			
a. Do appropriate procedures, techniques, and mechanisms exist with respect to each city department’s activities?		X	The city does not have a comprehensive Finance Procedures manual and its Personnel Rules was last updated on November 10, 1983.
b. Are the control activities identified as necessary in place and being applied?		X	The purchasing manual was adopted on March 8, 2016, to improve control procedures and to ensure financial oversight over purchases. Adoption of the manual will improve purchasing and payment processes related to contracts. Control activities in the other areas of the city’s financial operations cycle need improvement.
c. Are control activities regularly evaluated to ensure that they are still appropriate and working as intended?		X	For the period of July 1, 2013, through June 30, 2015, there was no evidence that evaluations of control activities were performed.
C2. Common Categories of Control Activities			
a. Are top level reviews made of actual performance relative to budgets, forecasts, and prior periods?		X	Payments were made in excess of the contract amount and related budget limits. There was no evidence that managers at the departmental level evaluated and reviewed performance relative to budgets, forecasts, and prior periods.

Appendix—(continued)

	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	There were issues noted relating to contracting and accounts payable (Findings 3 and 4). There was no segregation of duties in place for payroll, cash receipts, and accounts payable (see Finding 8).
	d. Are controlled items periodically counted and compared to amounts shown on control records?		X	There were no records showing that counts and comparison of controlled items were conducted. The city does not maintain an inventory listing of iPhones, iPads, and laptops.
	e. For performance indicators, does management compare different sets of data and investigate differences?		X	There were no documents showing that management reviewed and compared different sets of data relating to control activities.
	f. Are duties properly segregated among different people to reduce the risk or error or inappropriate actions?		X	See Finding 8
	g. Are administrative and operation policies in writing, current, and do they set clear procedures for compliance?		X	See Finding 6
Information and Communication				
D1.	Information			
	a. Are mechanisms in place to obtain relevant information on legislative or regulatory developments and program, budget, or economic changes?		X	The city’s Comprehensive Annual Financial Report for FY 2014-15 were not completed in a timely manner, and the policies and procedures for personnel and financial operations were outdated and incomplete. The financial reports are an excellent source of financial information, and the policies and procedures ensure effective communication among management and staff.
	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)

	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 D1.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	Policies and procedures relating to personnel and financial operations were incomplete and outdated. Complete and updated policies and procedures will promote effective communication between management and staff.
	b. Does management ensure that effective external communication occurs regarding issues with serious impact on programs, projects and other activities?		X	See D2.a
	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	See D2.a
Monitoring				
E1. On-going Monitoring				
	a. Does management have a strategy to ensure that ongoing monitoring is effective and will trigger separate evaluations?		X	There was no monitoring of information relating to accounting and administrative controls; accordingly, there were no reports or output to evaluate. The city did not properly monitor contracting procedures and payment processes.

Appendix—(continued)

	b. Do city personnel, in the process of performing their regular duties, obtain information about whether internal control is functioning properly?		X	Employees we interviewed stated that they were not aware of internal controls in relation to their regular duties.
	c. Are communications from external parties corroborated with internally generated data and able to indicate problems with internal control?	X		
	d. Is there appropriate organizational structure and supervision to help provide oversight of internal control functions?		X	Oversight of internal control functions was not a priority of upper management until September 8, 2015, when the external auditor informed the city council that it will not be able to issue the financial report for FY 2014-15 due to the significant audit issues which were not corrected by the city management. There was a lack of segregation of duties relative to cash receipts, payroll, and accounts payable.
	e. Are data recorded by information and financial systems periodically compared with physical assets and discrepancies are investigated?		X	The city does not maintain an inventory listing of iPhones, iPads, and laptops.
	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	Recommendations for improvement were provided in the Comprehensive Annual Financial Reports for FY 2012-13 and FY 2013-14. However, issues noted in these reports were still audit issues in FY 2015-16.
	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 was conducted between employees and management relating to internal control.
	h. Are employees’ regularly asked to state explicitly whether they comply with the city’s code of conduct?		X	The city staff performing finance and accounting functions are aware that they have to comply with the city’s Code of Conduct but have had no communication from management regarding compliance. The city’s Personnel Rules were last updated on November 10, 1983.
E2.	Separate Evaluation			
	a. Are the scope and frequency of separate internal control evaluations appropriate for the city?		X	The methodologies for internal control were inadequate. There were serious audit issues noted in contracting, payment processing, and credit card usage (see Findings 3, 4, and 5).

Appendix—(continued)

	b. Are the methodologies for evaluating the city’s internal control logical and appropriate?		X	See E2.a
	c. If the evaluations are conducted by the City Auditor’s Office, does the office have sufficient resources, ability, and independence?			Not applicable. The city does not have a city auditor’s office.
	d. Are deficiencies found during separate evaluations promptly resolved?		X	There were audit issues noted in the Comprehensive Annual Financial Reports for FY 2012-13 and FY 2013-14 that were still outstanding in FY 2015-16.
E3.	Reporting Deficiencies			
	a. Are there means of obtaining reports of deficiencies from both internal and external sources?	X		Audit reports are available from the city’s website, from the State Controller’s Office, and/or from the audit firm who performed the audit/review.
	b. Is there ongoing monitoring of internal controls?		X	The city management has not adopted formal finance procedures which could improve monitoring and implementation of internal controls.
	c. Are deficiencies reported to the person directly responsible and to a person at least one level higher?		X	An internal control deficiency was noted for the cash receipts process in the financial report for FY 2012-13. However, the cashier was not aware of this internal control deficiency.
	d. Are the identified transactions or events investigated to determine causes and correct problems?		X	On March 8, 2016, the city adopted a comprehensive Purchasing Manual designed to improved control procedures and ensure financial oversight over purchases. However, several issues such as contract monitoring, accounts payable, and lack of supporting documents for invoices remain an issue as of September 30, 2016.

Schedule— Summary of Billing Invoices – Arroyo Strategy Group Fiscal Years 2013-14, 2014-15 and 2015-16

Description	SR 60	Planning	CalHome Grant	Misc.	Active Transportation Planning Grant	ICSC Packet & State of the City	Highway Safety Improv. Prgm #7	Prop 84 Grant Stormwater Application	CA D of PR- Land and Water Conservation Fund	Mobile Home Survey	CA HCD- Housing Related Park Grant	2015 Active Trans. Planning - SR2S	Affordable Housing & Sustainable Communities Grant	2015 Call for Projects (MTA)	Others	Total
Budget Unit	#45-660-6610	#01-140-1430	#49-490-4910	#01-100-1020	#01-100-1020	#01-100-1020	#01-100-1020	#01-100-1020	#01-100-1020	#01-100-1020	#01-100-1020	#01-100-1020	#01-100-1020	#01-100-1020	#01-100-1020	
FY 2013-14	\$ 19,905	\$ 42,275	\$ 42,033	\$ 60,515	\$ 91,750	\$ 11,100	\$ 6,000	\$ 19,000	\$ 26,000	\$ 15,000	\$ 12,000	\$ -	\$ -	\$ -	\$ 40,975	\$ 386,553
FY 2014-15	74,342	50,035	41,476	77,230	48,750	10,250	33,750	-	-	-	-	33,750	35,000	35,000	21,250	460,833
FY 2015-16	5,115	60,623	50,185	72,240	-	-	-	-	-	-	-	-	-	-	3,994	192,157
Total	<u>\$ 99,362</u>	<u>\$ 152,933</u>	<u>\$ 133,694</u>	<u>\$ 209,985</u>	<u>\$ 140,500</u>	<u>\$ 21,350</u>	<u>\$ 39,750</u>	<u>\$ 19,000</u>	<u>\$ 26,000</u>	<u>\$ 15,000</u>	<u>\$ 12,000</u>	<u>\$ 33,750</u>	<u>\$ 35,000</u>	<u>\$ 35,000</u>	<u>\$ 66,219</u>	<u>\$ 1,039,543</u>

**Attachment—
City of South El Monte's Response to
Draft Review Report**



CITY OF SOUTH EL MONTE

1415 N. SANTA ANITA AVENUE
SOUTH EL MONTE, CALIFORNIA 91733
(626) 579-540 * FAX (626) 579-2107



May 11, 2017

Efren Loste, Interim Chief
Local Government Audits Bureau,
State Controller's Office
Division Audits
Post Office Box 942850
Sacramento, CA. 94250-5874

Re: City of South El Monte's Response to the Administrative and
Internal Accounting Controls Review Report

Dear Efren Loste,

Please find the City of South El Monte's response to your Review Report.

If you have questions, please contact me at 626-579-6540.

Sincerely,


Jennifer E. Vasquez
Interim City Manager

Enclosures

Responses to State Controller's Review Report

The City of South El Monte has provided a coordinated response for each finding in the Report prepared by the State Controller's Office; which consist of a review of the City's administrative and internal accounting controls system. The review was conducted to assess the adequacy of the City's controls for safeguarding assets and ensuring proper use of public funds. Specifically, the assessments were based on the conditions that existed during the period of fiscal year (FY) 2013-14 and FY 2014-15.

In response to the recommendations of the City's auditors, including the report of a forensic accountant engaged by the City, the City Council and staff have implemented a purchasing manual and finance policies in March 2016 and November 2016. The purchasing manual provides the City of South El Monte a means of assuring continuity and uniformity in its purchasing practices, provides departments with guidelines to assist them so that they are operating purchasing practices within legal regulations, and defines the responsibilities of the Purchasing Office and operating departments. The finance policies were adopted to provide specific procedures for Finance Department personnel and other pertinent city personnel. These policies include the following: Accounts Payable Policy; Bank Reconciliation Procedures; Budget Accountability Policy; Cash Receipts; Debarment and Suspension Policy; Grant Management Procedures; Investment Policy; Local Business Preference Policy; Local Debt Policy; Petty Cash Procedures; Purchasing Manual; Purchasing Card Policy; Unclaimed Check Policy; and Year End Closing Procedures.

The City's intent is to fully address the recommendations in the State Controller's Report and resolve all outstanding concerns. Below are the City's responses to the findings in the State Controller's report.

Finding 1: The city failed to collect \$314,000 due from other city governments.

AGENCY RESPONSE: The City has adopted a Cash Receipts procedure to document the manner in which payments are received by the City and bank deposits are made. Included in this procedure is a segregation of the various duties of cash receipts. In addition, the Finance Department personnel have been designated to review the various City accounts receivable accounts on a monthly basis. Additionally, all payments to the City are to be receipted at the time the payment is received and a receipt deposit report, including all supporting documentation, will be prepared daily and reviewed by the Accounting Manager.

The City has also adopted a Budget Accountability policy which provides procedures for the Finance Director, Department Directors, and City Manager to meet at least every two months to review the status of departmental/division expenditures and revenues.

Furthermore, the City has received the payment from the City of El Monte and is exploring the City's options in respect to the City of Monterey Park.

Finding 2: *The city incorrectly billed and received payments from another city*

AGENCY RESPONSE: The City has adopted procedures that require all billings of unique items be approved by the Finance Department and City Manager to insure that the proper authorizations have been obtained from the related party. In addition, reviews are made monthly to insure that receivables are reviewed. The City's Budget Accountability policy also covers this concern; as there must be a review of departmental/division expenditures and revenues by the Finance Director, Department Directors and City Manager at least every two months.

The City of Industry joined the SR-60 coalition after the Coalition was formed and agreed to pay its proportionate share for services rendered on behalf of the Coalition.

Finding 3: *City officials failed to comply with purchasing procedures and may have violated the city's municipal code regarding contracts*

AGENCY RESPONSE: In December 2015 the City's Purchasing Ordinance was updated; it established the "currently adjusted maximum;" which is the maximum unit price of an individual item that the city manager may purchase without submitting to formal competitive bidding procedures. Furthermore, the Purchasing Manual adopted in March 2016 established formal procedures which requires supplies, equipment, non-professional services and professional/consultant services over the "currently adjusted maximum" be taken to the City Council for approval. There are also procedures set forth for the Purchasing Officer (Finance Director) that allow for further oversight of purchases for services and construction. The City's purchasing manual also requires that the City Attorney prepare all contracts over \$2,500. Lastly, the City Attorney has issued an updated professional services agreement template, and is working with staff on other contract templates.

The City has upgraded its current accounting software to assist with monitoring contracts and once it is implemented it will automatically track the progress of contracts, through purchase orders, to ensure the City is not paying vendors above and beyond the approved not-to-exceed amounts, or subsequent to the contract expiration dates. Additionally, the City Clerk's office has purchased software to track all contracts, including employment contracts, to monitor contract expiration dates.

It is anticipated that the tracking software will be implemented on July 1, 2017.

Finding 4: *The city failed to exercise oversight over the city's financial and operational activities*

AGENCY RESPONSE: The City's purchasing manual requires that the City Attorney prepare all contracts over \$2,500. Furthermore, the City Attorney has issued an updated professional services agreement template to the City to ensure that the issues described with the Arroyo contract are addressed.

Additionally, the City Council adopted finance policies in March 2016 that specifically address this finding. Under the Budget Accountability Policy, the Finance Department is required to

provide budget status reports for both staff and City Council on a specified schedule. Furthermore, the Accounts Payable Policy, also adopted March 2016, establishes a policy and procedures relative to the issuance of checks. It calls upon department directors to be responsible for the proper approval of payments and provides specific procedures as to how a payment is authorized and prepared.

Finding 5: The city failed to exercise adequate control over expenses charged to city-issued credit cards

AGENCY RESPONSE: The City has formulated procedures and policies for the use of Purchasing Cards and is reviewing and revising its travel policy consistent with this recommendation. The City has established various monetary limits and approval processes for Purchase Cards. There are limits on what the purchase cards can be used for. Receipts are required for all transactions charged to purchase cards. The City Manager must approve the issuance of purchase cards to individuals. Receipts for each month are required to be submitted on a monthly basis and then are reviewed by the department head, Finance Department and City Manager.

The city adopted a comprehensive travel policy in response to AB1234 in 2006 and it set limits on travel rates, lodging and other expenses and amended such policy in 2008 and 2010. The City will review such policy to determine whether additional control measures are necessary and to see if it can provide clearer guidance for travel and other use of public resources.

Additionally, the City is reevaluating the issuance of credit cards to City Councilmembers. It should also be noted that the recently adopted Accounts Payable and Purchasing Card policy and procedures ensures that payment processes will be timely to avoid late charges.

Lastly, pursuant to your recommendation the City is in the process of reviewing travel and meal expenses to determine whether any refunds should be sought.

Finding 6: The city's Administrative Policies and Procedures manuals were incomplete and outdated

AGENCY RESPONSE: The Purchasing Manual ("Manual") adopted in March 2016 documents the procedures and associated roles and responsibilities for purchasing/ contracting with consultants/ contractors/ vendors for the provision of goods and services to the City of South El Monte ("City") and its residents. These guidelines aim to increase the accuracy and efficiency of implementing and monitoring the purchasing and contracting processes.

The Manual has been distributed to all departments to guide them in their purchases and contracting. The South El Monte Municipal Code ("SEMMC") sets the City Manager or his or her designee with the authority and responsibility for purchasing. The City Manager has designated the Director of Finance as the "Purchasing Officer" and has designated the City Clerk as the "Contract Administrator."

If grant funding will be used, it is the Project Manager's responsibility to insure that all applicable requirements of that funding are included in any contract/ agreement/ amendment/ change order. Additionally, it is the responsibility of the Project Manager to insure compliance with all applicable requirements of that funding, including securing approval of grant prior to incurring any expenditure, approval of eligible expenditures, reporting requirements, etc.

The Manual outlines the responsibilities of the purchasing officer and office, the Finance department, and the operating departments. It also limits the frequency that a consultant can be paid by the City (no more than once per month unless it represents a final payment on a project); no advance payments to consultants and the mark-up percentage for out-of-pocket expenses is not too exceed 15 percent.

The City continues to review its policies and procedures and in November 2016 the City Council adopted (Resolution No. 16-87) finance policies; which include cash receipt procedures, purchasing card policy and procedures, training procedures to facilitate efficient department performance, petty cash procedures, grant management procedures, year-end closing procedures, and bank reconciliation procedures. These policies are being reviewed on a regular basis for possible further improvements. The recently adopted Training Procedures to Facilitate Efficient Finance Department Performance calls for the Finance Director, along with designated staff to attend local and statewide Finance Officer Meetings and conventions to keep up with latest developments. Furthermore, the Finance Director, Accounting Manager and Accountant are to be members of the California Society of Municipal Finance Officers.

At this time the City is reviewing its Personnel Rules and has budgeted funds in the proposed FY 17/18 budget to update them..

Finding 7: Bank reconciliations were not performed, reviewed, or approved in a timely manner.

AGENCY RESPONSE: The City has adopted a bank reconciliation policy that establishes a clear requirement that the various bank accounts and investment accounts are to be reconciled to the City's general ledger on a monthly basis. This Policy includes written procedures that have been prepared to assist in the reconciliation process; this process requires signatures by the preparer and reviewer.

Finding 8: Lack of permanent staff performing critical functions.

AGENCY RESPONSE: During the period that the SCO was auditing the City's finances there were many contractors performing various duties within the City. Both the City Manager of 12 years and Finance Director of 3 years had their employment ended during the first half of August 2016. For the City Manager's position, the City contracted with the Assistant City Manager to serve as an interim until the normal hiring process could be completed. This process included the hiring of the executive recruitment firm Avery & Associates. It is anticipated that the City Council will hire a City Manager in June 2017.

The City has also been actively recruiting for the positions of Finance Director and Public Works Director; first round of interviews have been completed for the position of Finance Director and a second round of interviews have been completed for the position of Public Works Director. It is anticipated that a Public Works Director will be hired in June 2017 and Finance Director during the summer of 2017.

Finding 9: *Lack of segregation of duties*

AGENCY RESPONSE: Through the adoption of detailed finance policies and procedures in the last year; the segregation of duties within the Finance Department has been addressed. Cash receipts duties are segregated so no one person can control these receipts. Accounts payable procedures have been established so that individuals responsible for approving payments cannot receive the related payment document and the preparation of documents is now the final process as another individual is responsible for disbursing the completed documents. For payroll, information is gathered electronically and approved by the various department heads. New employees are entered into the payroll system by the Human Resources department. These are just some of the segregation of duties that City has adopted.

Finding 10: *Inability to produce financial statements on timely basis.*

AGENCY RESPONSE: Due to unexpected circumstances, including the recommendation for a Special Audit, the City's FY 14/15 and 15/16 Comprehensive Annual Financial Reports have not been completed; the FY 14/15 report is anticipated to be completed by June 30, 2017 and the FY 15/16 is anticipated to be completed by September 30, 2017. Furthermore, the City's recently adopted Year-End Closing policy will prevent such occurrence again.

Observation: *The City did not reevaluate contracts for advocacy and lobbying services.*

The City Council intends to reevaluate the need for advocacy and lobbying services in June 2017 during budget discussions.

The City's recently adopted Finance Policies and Procedures will also address this recommendation.

Appendix—Evaluation of Elements of Internal Control.

In addition, the City is also considering the comments in the Appendix to aid the City as it addresses the identified internal control weaknesses.

**State Controller's Office
Division of Audits
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