### CITY OF INGLEWOOD SINGLE AUDIT REPORTS FOR THE YEAR ENDED SEPTEMBER 30, 2007 WITH REPORTS OF INDEPENDENT AUDITOR



### CITY OF INGLEWOOD SINGLE AUDIT REPORTS FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2007

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### REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Honorable Mayor and Members of the City Council City of Inglewood, California

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Inglewood, California (City) as of and for the fiscal year ended September 30, 2007, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 26, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the





entity's internal control. We consider deficiencies FS-07-01, FS-07-02, FS-07-03, FS-07-04, FS-07-05, FS-07-06 and FS-07-07 described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that deficiencies FS-07-01, FS-07-02 and FS-07-03 described above are material weaknesses.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that is required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the City in a separate letter dated June 26, 2009.

The City's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Mayor, City Council, City management, federal awarding agencies, state awarding agencies, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Los Angeles, California

Simpon & Simpon

June 26, 2009



### REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Honorable Mayor and Members of the City Council City of Inglewood, California

### Compliance

We have audited the compliance of the City of Inglewood, California (City) with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2007. The City's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, except for the noncompliance listed as Finding Reference Number 07.03, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2007.





### Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on major federal programs in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance.

Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

Our consideration of the internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies and a deficiency that we consider to be a material weakness.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 07.01 through 07.04 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs, we consider item 07.03 to be a material weakness.

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City's response and, accordingly, we express no opinion on it.



### Schedule of Expenditures of Federal Awards

We have audited the financial statements of governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City as of and for the year ended September 30, 2007, and have issued our report thereon dated June 26, 2009. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole. The supplementary information listed on page 34 has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on it.

This report is intended solely for the information and use of the City Council, the City's management, federal and state awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Limpson E. Limpson

Los Angeles, California

June 26, 2009

# CITY OF INGLEWOOD Schedule of Expenditures of Federal Awards For the Fiscal Year Ended September 30, 2007

FEDERAL GRANTOR/PASS THROUGH GRANTOR PROGRAM TITLE DEPARTMENT OF AGRICILITIRE	CFDA NUMBER	GRANT NUMBER	GRANT/PASS THROUGH NUMBER	FEDERAL EXPENDITURES	AMOUNT TO SUBRECIPENTS
DIRECT PROGRAM USDA TITLE IIICI - NUTRITION SERVICES USDA TITLE IIICI - NUTRITION SERVICES USDA TITLE IIIC2 - NUTRITION SERVICES USDA TITLE IIIC2 - NUTRITION SERVICES	10.550 10.550 10.550 10.550		40291 40291 40291 40291	\$ 22,007 7,782 28,104 9,884	
TOTAL FOR DEPARTMENT OF AGRICULTURE				\$ 67,777	
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT  DIRECT PROGRAMS  NEW CONSTRUCTION PROGRAM  VOUCHER PROGRAM	14.182	NC-009, NC-0023, NC-007, NC-002 CA082VO		\$ 3,216,036 8,513,464	
SUBTOTAL SECTION 8 PROGRAMS				\$ 11,729,500	
ECONOMIC DEVELOPMENT INTIATIVE-GROW INGLEWOOD LOAN 14.251	14.251	B-92-ED-06-0520		\$ 313,750	
SUBTOTAL EDI PROGRAMS				\$ 313,750	
COMMUNITY DEVELOPMENT BLOCK GRANT EMERGENCY SHELTER GRANT HOME INVESTMENT PARTNERSHIP PROGRAM	14.218 14.231 14.239	B03MC060520 S03MC060520 M03MC060516		\$ 3,275,386 98,628 525,295	\$ 98,628 266,837
TOTAL DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT				\$ 15,942,559	\$ 365,465
DEPARTMENT OF JUSTICE  DIRECT PROGRAMS  ASSET FORFEITURE AND SEIZURE JUSTICE ASSISTANCE GRANT  COMMUNITY ORIENTED POLICING TECHNOLOGY GRANTS	16.999 16.738 16.710	NONE 2005DJBX1071 KWX0025, 2004CKWX0045, 2005CKWX0062	VX0062	\$ 250,161 34,230 196,423	
TOTAL DEPARTMENT OF JUSTICE				\$ 480,814	
DEPARTMENT OF TRANSPORTATION  DIRECT PROGRAM  FEDERAL AVIATION ADMINISTRATION	20.106	060139-30, 060139-31, 060139-33		\$ 25,887,281	
TOTAL DEPARTMENT OF TRANSPORTATION				\$ 25,887,281	

# CITY OF INGLEWOOD Schedule of Expenditures of Federal Awards For the Fiscal Year Ended September 30, 2007

FEDERAL GRANTOR/PASS THROUGH GRANTOR PROGRAM TITLE	CFDA NUMBER	GRANT NUMBER	GRANT/PASS THROUGH NUMBER	FEDERAL EXPENDITURES	AMOUNT TO SUBRECIPENTS
DEPARTMENT OF HEALTH AND HUMAN SERVICES PASSED THROUGH STATE OF CALIFORNIA - DEPARTMENT OF AGING					
TITLE III PART B - SPECIAL PROGRAMS FOR THE AGING	93.044		40128	\$ 93,216	
TITLE III PART B - SPECIAL PROGRAMS FOR THE AGING			40128	37,972	
TITLE III PART B - SPECIAL PROGRAMS FOR SUPPORTIVE SERVICE	93.044		40291	3,421	
TITLE III PART B - SPECIAL PROGRAMS FOR SUPPORTIVE SERVICI	93.044		40291	1,058	
TITLE III PART E - NATIONAL FAMILY CAREGIVER SUPPORT	93.052		40128	8,707	
TITLE III PART E - NATIONAL FAMILY CAREGIVER SUPPORT	93.052		40128	1,445	
TITLE III CI - CONGREGATE NUTRITION	93.045		40291	119,021	
TITLE III C1 - CONGREGATE NUTRITION	93.045		40291	50,125	
TITLE III C2 - HOME DELIVERED MEALS	93.045		40291	157,117	
TITLE III C2 - HOME DELIVERED MEALS	93.045		40291	60,859	
TOTAL DEPARTMENT OF HEALTH AND HUMAN SERVICES				\$ 532,941	
DEPARTMENT OF HOMELAND SECURITY					
PASSED THROUGH THE CITY OF LOS ANGELES					
URBAN AREAS SECURITY INITIATIVE	800.76			\$ 107,029	
PASSED THROUGH STATE OF CALIFORNIA - OFFICE OF EMERGENCY SERVICES	VICES				
STATE HOMELAND SECURITY PROGRAM (SHSP)	97.074			368,392	
TOTAL DEPARTMENT OF HOMELAND SECURITY				\$ 475,421	
GRAND TOTAL FOR ALL FEDERAL AWARDS PROGRAMS				\$ 43,386,793	\$ 365,465

### CITY OF INGLEWOOD NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Fiscal Year Ended September 30, 2007

### 1. General

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal awards programs of City of Inglewood, California. The City's reporting entity is defined in Note 1 to the City's basic financial statements. All federal financial awards received directly from federal agencies as well as federal awards passed through other government agencies are included on the schedule.

### 2. Basis of Accounting

The accompanying Schedule of Expenditures of Federal Awards is presented using the modified accrual basis of accounting, which is described in Note 1 to the City's basic financial statements. Program expenditures are recognized when incurred and are claimed subject to the approved budget limitations by cost category.

### 3. Relationship to Federal Financial Reports

Expenditures of federal awards are included in the City's basic financial statements as expenditures of either the general, special revenue or capital projects fund.

For the Fiscal Year Ended September 30, 2007

### **Section I – Summary of Auditor's Results**

Financial Statements Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
• Material weakness(es) identified?	Yes
• Significant deficiency(ies) identified that are not	
considered to be material weakness(es)?	Yes
Noncompliance material to financial statements noted?	No
Federal Awards	
Internal control over major programs:	
• Material weakness(es) identified?	Yes
• Significant deficiency(ies) identified that are not	
considered to be material weakness(es)?	Yes

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

<u>CFDA</u>	Program Title	Type of Opinion
<u>No.</u>		-
20.106	Federal Aviation Administration	Unqualified
14.231	Emergency Shelter Grant	Qualified
14.182	Section 8 New Construction Program	Unqualified
14.239	Home Investment Partnership Program	Unqualified
		•

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?

Yes

### **CITY OF INGLEWOOD** SCHEDULE OF FINDINGS AND QUESTIONED COSTS For the Fiscal Year Ended September 30, 2007

### Identification of major programs:

		Federal Awards
<u>CFDA</u>	Program Title	Expended
<u>No.</u>		
20.106	Federal Aviation Administration	\$ 25,887,281
14.231	Emergency Shelter Program	98,628
14.182	Section 8 New Construction Program	3,216,036
14.239	Home Investment Partnership Program	 525,295
		\$ 29,727,240
Dollar thr	eshold used to distinguish between type A and type B	
program	S:	\$ 1,301,604
Auditee q	ualified as low-risk auditee?	No

For the Fiscal Year Ended September 30, 2007

### **Section II – Financial Statement Findings**

### FS-07-01 Loans Receivable -Material Weakness

### Criteria

In accordance with Title 24 of the Code of Federal Regulations, Part 570, the City is responsible for compliance with the general CDBG standards for record keeping, such as:

- a) maintaining records sufficient to demonstrate a full description of each activity assisted with CDBG funds, and
- b) documenting compliance with program rules regarding any change of use of real property acquired with CDBG assistance.
- c) Financial reporting. Accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant.
- d) Accounting records. Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.
- e) *Internal control.* Effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other **assets**. Grantees and subgrantees must adequately safeguard all such property and must assure that it is used solely for authorized purposes.

In accordance with Section 33334.3 of the Health and Safety Code (b), any interest earned by the Low and Moderate Income Housing Fund and any repayments or other income to the agency for loans, advances, or grants, of any kind from the Low and Moderate Income Housing Fund, shall accrue to, and be deposited in the fund, and may only be used in the manner prescribed for the Low and Moderate Income Housing Fund.

### **Condition**

The "First Time Homebuyer Mortgage Assistance Loan Program" and the "Home Rehabilitation Loan Program" had a balance of approximately \$7 million of non-interest bearing loans to qualified participants as of September 30, 2007 Of the total loans, \$2.7 million were funded by HUD from HOME/CDBG grants to the City and the remaining \$4.2 million were funded by the Inglewood Redevelopment Agency (RDA) from the 20% property tax set-aside in the Low and Moderate Income Housing Fund. Repayment of the loans is required if the title of the assisted property changes during the term of the loan.

For the Fiscal Year Ended September 30, 2007

The City contracted with a local not-for-profit organization(Organization) to manage these loan programs. In October, 2007, the City was informed by the Organization that they had received \$1.27 million of loan repayments prior to September 30, 2007, which had not been remitted to the City. The Organization remitted the first payment along with the correspondence and indicated they were unable to remit the entire amount due the City and would pay the balance in installments. The funds were paid back to the City in three installment payments between October 5, 2007 to November 17, 2008. Therefore, the City was not aware that the borrowers had repaid the loans and the amount was still reflected as a receivable on the City's books and records as of September 30, 2007. Until receipt of correspondence from the Organization, the City was unaware that title had changed on 16 loans. Upon inquiry of program management, we were informed that between 1980 and 1994, and 2001 to present, the City was named as the beneficiary and trustee on all loans. However, between 1994 to 2001, for the Organization to be considered an official, administering agency, the Organization had to be beneficiary on the loan documents. One of the key internal control indicators that the loans have been paid off, is the change in title when escrow closes.

### **Effect**

The City's lack of programmatic internal controls and accounting internal controls related to the accuracy and monitoring of the loans receivable was not effective to prevent errors and detect potential fraud or abuse of City funds and grant funds. The unaudited loans receivable balance at September 30, 2007 was incorrectly stated, a receivable from the contracted Organization for funds collected and not remitted to the City was not recorded and program income was not recorded. However, upon receipt of correspondence from the contracted Organization, the receivable balances were adjusted based upon the information provided by INHS and program income was recorded.

### Recommendation

We understand that the City has terminated its contract with the contracted Organization, and has engaged the services of an external public accounting CPA firm to review the entire loan portfolio maintained by the contracted organization on behalf of the City to determine what loans have been made, what loans have been repaid and to demand payment of any additional monies owed to the City. We recommend that the results of the independent audit be communicated to HUD upon completion.

We recommend that the City develop and implement a tracking system to properly monitor the accuracy of the outstanding loan portfolio and payments of the loan balances for both the First time Homebuyers and the Rehabilitation loan programs to prevent a loss in revenue to the City. The City should ensure that all outstanding loans be titled to the City as beneficiary and trustee. We also recommend that the City and the RDA properly monitor its contracts with all outside contracted entities to prevent possible defalcation, abuse or fraud in the accounting for these loans and to perform all of their fiduciary duties under the terms of the grant agreements, OMB requirements and City internal control policies and procedures.

For the Fiscal Year Ended September 30, 2007

### Views of Responsible Officials and Planned Corrective Action

The City agrees with the condition and finding of the auditors. The City has taken the following corrective action:

- 1. Performed title searches on the loans based on our records to determine whether title has changed without the City being notified.
- 2. Reviewed the title on all outstanding loans based on our records to ensure that City is the beneficiary and will be notified if title changes occur in the future.
- 3. Reviewed loans and compared owner data to the owner as listed on parcel records provided quarterly by the County of Los Angeles. Any discrepancies have been noted for follow up.
- 4. Engaged a separate firm to review the files for the First Time Home Buyer and Housing Rehabilitation Deferred Loan Programs. Any deficiencies noted in this review will be investigated. HUD will be notified of any reportable conditions once the review is completed.
- 5. The City is currently in the process of reviewing its procedures and the communication between the CDBG Division, the Redevelopment Agency and the Finance Department. Once the current process is evaluated, the City will implement new practices that improve internal controls and ensure that loans issued are properly reconciled and recorded on the City's accounting records.

### FS-07-02 Audit Adjustments – Material Weakness

### Criteria

Pursuant to the Statement on Auditing Standards (SAS) 112, one control deficiency that should be regarded as at least a significant deficiency, and a strong indicator of a material weakness in internal control, is identification by the auditor of a material misstatement in the financial statements that was not initially identified by the entity's internal controls even if management subsequently corrects the misstatement.

### **Condition**

During the course of the audit, we identified four material audit adjustments to the City's Governmental Fund financial statements and one material adjustment to the Government wide financial statements. The City made the adjustments which resulted from the need to recognize revenues and expenditures for fiscal year 2006-07 in the Fund financial statements, and properly record a GASB 34 adjustment to the Government wide financial statements.

For the Fiscal Year Ended September 30, 2007

### Recommendation

We recommend that the City's Finance Director review the internal controls over financial reporting to improve the detection of misstatements in the financial statements. The controls should include a thorough review of the financial statements prior to the statements being audited.

### Views of Responsible Officials and Planned Corrective Action

The City agrees with the condition and finding of the auditors. The City expects fewer audit adjustments in the future due to the following corrective action:

- 1. The City is currently recruiting for the positions of Assistant Finance Director and Internal Auditor. These positions have been difficult to fill. As a result, the City's ability to detect misstatements has been diminished. Once filled, these positions would provide the City greater ability to improve financial reporting and detect recording errors on a timely basis.
- 2. While the recruitment process is ongoing, the City has engaged temporary staff to assist the Finance Director in performing a thorough review of financial information, compiling financial reports and ensuring that errors are detected prior to annual audits.

### FS-07-03 Computer Operations Policies and Procedures – Material Weakness

### Criteria

Documented computer operational procedures aid with ensuring management's criteria for operating information systems is effectively communicated and adhered to in a consistent manner. Also, documented procedures help ensure information systems are operated in compliance with an organization's policy.

### Condition

The City does not have documented procedures for computer operations to include the following:

- Data backup and recovery
- Problem management
- System monitoring and error handling
- Network monitoring

### **Effect**

The lack of documented procedures may contribute to the malfunctioning of mission critical accounting application systems that adversely impact City operations.

For the Fiscal Year Ended September 30, 2007

### Recommendation

We recommend that IT management fully document their procedures for computer operation functions.

### Views of Responsible Officials and Planned Corrective Action

The City concurs with the findings of the auditors. Technology-centric policies and procedures are essential components to successful operation. With respect to data backup and recovery, the City's Information Technology and Communications (ITC) Department is currently revising its documentation, which should be completed by July 16, 2009. The City's ITC Department will begin documenting its procedures for problem management, system monitoring, error handling and network monitoring as soon as possible.

### FS-07-04 Eden Security Administration - Significant Deficiencies

### Criteria

Security reports for financial systems should be generated and reviewed by management periodically to ensure access to sensitive accounting transactions and system privileges is appropriate. Such a process is essential to restricting user access on a "need to know" basis and ensuring proper segregation of duties is enforced by the system. Also, the Security Administration function should be separate from the system's user departments to ensure user access approval (as well as transaction processing) and custody of assets (e.g., data) is properly segregated.

### **Condition**

During the course of our audit, we noted the following relative to EDEN security administration:

- There is no documented periodic review of EDEN user access to ensure inappropriate system access is identified and removed in a timely manner.
- The Finance Director has systems administration access for the EDEN system. As a result, this person with the ability to administer user security and process accounting transactions.

### **Effect**

The lack of user access review/certification and adequate segregation of security administration capabilities could result in unauthorized system access and the processing of accounting transactions.

For the Fiscal Year Ended September 30, 2007

### Recommendation

We recommend that the City management generate and periodically (i.e., semi-annually) review user access for Eden system administration and transaction access. We also recommend that the systems administration function be separated from the Financial Director position and organized/placed within the Information Technology department.

### Views of Responsible Officials and Planned Corrective Action

The City concurs with the findings of the auditors in that reviews of Eden user access should be separated from the Finance Director and performed by authorized network administrators and executive management within our ITC Department. This would provide the necessary checks and balances, as well as a level of security control at the transaction-level. ITC currently has this ability to perform these functions and will work with the City Administration to create a set of policies and procedures for periodically generating and reviewing these reports independent of the Finance Department and Finance Director.

### FS-07-05 Information Security Policies and Procedures – Significant Deficiency

### Criteria

Documented information security policies and procedures govern the administration of security for an organization's mission critical systems (e.g., accounting systems). Such procedures establish management's standards for user account provisioning, data/transaction user access and information protection requirements.

### **Condition**

Although the City is in the process of developing an information security policies and procedures manual, it is not yet completed. Such documentation ensures that appropriate security controls are in place to prevent unauthorized access to sensitive financial data and transactions. The security policy should include procedures for user account setup and termination provisions, password requirements, lockout controls, configuration standards, and user access review.

### **Effect**

The lack of documented security administration procedures could result in the granting of inappropriate access to system users and inadvertent or intentional unauthorized changes to financial reporting data.

### Recommendation

We recommend that information security policies and procedures be documented.

For the Fiscal Year Ended September 30, 2007

### Views of Responsible Officials and Planned Corrective Action

The City's ITC Department is in the process of documenting security protocols and procedures as they relate to network access. The City will ensure that its ITC and Finance Departments coordinate and implement a clear and concise set of Eden-related security policies.

### FS-07-06 - Password Security - Significant Deficiency

### Criteria

Stringent security over password management is vital to ensuring system access is effectively controlled. Password controls include the aging of passwords to force their periodic change and password complexity to prevent the guessing of passwords by a system intruder.

### Condition

The City does not enforce password complexity for network passwords and passwords are not aged to required periodic forced password changing.

### **Effect**

The combination of these conditions creates a risk of a system intruder easily guessing a user's password to gain unauthorized access to sensitive data or system resources.

### Recommendation

We recommend that the City implement a domain wide strong password policy with the following requirements:

- Password history of 10 passwords
- Maximum password age of 60 days; Minimum password age of 30 days
- Passwords meet the following complexity requirements:
  - Not contain significant portions of the user's account name or full name
  - Be at least six to eight characters in length
  - Contain characters from three of the following four categories:
    - a. English uppercase characters (A through Z)
    - b. English lowercase characters (a through z)
    - c. Base 10 digits (0 through 9)
    - d. Non-alphabetic characters (for example, !, \$, #, %)

### Views of Responsible Officials and Planned Corrective Action

The City concurs with the findings of the Auditor in this regard and will work to implement this policy at the user level as soon as possible. In addition, the City's ITC Department is looking into purchasing password key toggles for high-security ITC personnel.

For the Fiscal Year Ended September 30, 2007

### FS -07-07 Ineffective Oversight of the City's Financial Reporting by Those Charged with Governance – Significant Deficiency

### Criteria

Pursuant to Statement on Auditing Standards (SAS) 112, a control deficiency that should be regarded as at least a significant deficiency and a strong indicator of a material weakness in internal control, is ineffective oversight of the organization's financial reporting and internal control by those charged with governance.

### **Condition**

The annual audited financial reports of the City for Fiscal Years ending September 30, 2005, 2006 and 2007 have been issued twelve to nineteen months after year-end. The Single Audit reports required by OMB A-133 for Federal Grants have been issued twelve to thirteen months after the required due date of nine months after year-end. The late submission of the financial statements resulted from lack effective oversight by the City's management.

### **Effect**

The delay in providing financial reports in a timely manner has impacted the City in the following ways:

- a) Funding by some federal, state and county grantors has been held up/or suspended due to non compliance with financial reporting;
- b) The City is not in compliance with its bond covenants due to non compliance with their submission of financial reports;
- c) Stale financial reports affect the ability of those responsible for financial oversight to effectively govern.

### Recommendation

We recommend that those charged with governance implement internal reporting policies and procedures to ensure that accurate and timely financial information and related preparation of financial statements are submitted timely to various stakeholders. Accounting and financial information is the language of business and must be properly assessed and comprehended in order to allow for management to guide and direct an entity into the future.

### Views of Responsible Officials and Planned Corrective Action

The City Administrator will recommend the immediate implementation of the following:

1. Creation of an Audit Committee of the City Council. This committee will be responsible for reviewing the City's Comprehensive Annual Financial Report (CAFR) and results of audits with the City Administrator, Finance Director and Auditors.

For the Fiscal Year Ended September 30, 2007

- 2. The City Administration, the Mayor and City Council are actively involved in recruiting for the positions of Assistant City Administrator Chief Financial Officer, Assistant Finance Director and Internal Auditor. These positions have been difficult to fill. As a result, the City's ability to prepare financial information on a timely basis has been diminished. Once filled, these positions would provide the City greater ability to improve accuracy and timeliness of financial statements and strengthen internal controls.
- 3. While the recruitment process is ongoing, the City has engaged temporary staff to assist the Finance Director in improving timeliness of financial reports and ensuring that financial information is accurate.
- 4. An Administrative Policy will be developed requiring the Finance Department to complete the Annual CAFR in time to meet the requirements of Federal, State and local funding Agencies.
- 5. An Administrative Policy will be developed to ensure the Finance Department manages the City's financial system in a manner to ensure accurate and timely submittal of financial statements and reports to the City Council, City Administrator and relevant funding agencies.

For the Fiscal Year Ended September 30, 2007

### Section III - Federal Award Findings and Questioned Costs

**Program Identification** 

Finding Reference Number: 07.01

**Program Title:** Federal Aviation Administration – Noise

Mitigation

**CFDA number**: 20.106

**Contract Number:** 3-06-0139-31, 3-06-0139-37

Federal Department/Pass-Through Entities: Department of Transportation

**Compliance Requirement:** Special Provision

### Criteria

a. In addition to the general requirements above, Federal laws and regulations prescribe that certain provisions be included in federally funded contracts, as specified below. For purposes of this paragraph, the term, "contract", includes subcontracts. For specific wording of contract clauses and solicitation provisions, please see the FAA Airports website at http://www.faa.gov/arp/financial/procurement/. All Contracts.

- (3) State Energy Conservation Plans. The contracts shall recognize mandatory standards and policies relating to energy efficiency that are contained in the State energy conservation plan issued in compliance with the Energy Policy and Conservation Act (42 U.S.C. 6201). Sponsors should be advised to include their State's plans in contracts issued as a result of AIP grants.
- d. All Contracts over \$100,000. Contracts in amounts in excess of \$100,000 shall contain a provision which requires compliance with all applicable standards, orders, or requirements issued under Section 306 of the Clean Air Act (42 USC 7602, et seq.)), Section 508 of the Clean Water Act (33 USC 1368), Executive Order 11738, Environmental Protection Agency regulations (40 CFR Part 15), and Title 49 CFR, Part 20.

### Condition

In our review of the City's contract with AWI Builders Inc, S&L Specialty Contracting, JK Sanlan Company, Inc, Sam Boo Construction Co, and Tron Construction Inc. for the Noise Mitigation projects in the amount of \$1,334,911, \$1,753,500, \$1,504,178, \$3,217,000, and \$1,264,500, respectively, we noted the contracts did not include the provisions for (1) recognizing mandatory standards and policies relating to energy efficiency that are contained in the State Energy Conversation Plan, (2) compliance with all applicable standards, orders, or

For the Fiscal Year Ended September 30, 2007

requirements issued under executive Order 11738, and (3) compliance with all applicable standards, orders, or requirements issued under Title 49 CFR. Part 20.

### **Questioned Costs**

N/A

### Recommendation

We recommend that the City implement policies and procedures to ensure that the required conditions and provisions for federal contracts be included in the construction contracts funded by FAA.

### Views of Responsible Officials and Planned Corrective Action

It should be noted that the contracts discussed above included Specifications by reference which incorporated the federal provisions. The city has since revised the contract content and order, reflecting state and federal DBE provisions. The contracts themselves now incorporate the federal provisions which have been moved from the Specifications section.

Secondarily, title 24 compliance is subject to the city's building and safety review and permits. The plans for each project receive this review. The Residential Sound Insulation Program through the contractor obtains building permits.

Finding Reference Number: 07.02

**Program Title:** Federal Aviation Administration – Noise

Mitigation

**CFDA number**: 20.106

**Contract Number:** 3-06-0139-31, 3-06-0139-37

Federal Department/Pass-Through Entities: Department of Transportation

Compliance Requirement: Davis-Bacon Act

### Criteria

When required by the Davis-Bacon Act, the Department of Labor's (DOL) government wide implementation of the Davis-Bacon Act, or by Federal program legislation, all laborers and mechanics employed by contractors or subcontractors to work on construction contracts in excess of \$2,000 financed by Federal assistance funds must be paid wages not less than those established for the locality of the project (prevailing wage rates) by the DOL (40 USC 276a to 276a-7).

For the Fiscal Year Ended September 30, 2007

### Condition

In our procedures performed over the privilege wages, we noted that 4 out of 107 sampled wages of the City's contractor's employees were less than the prevailing wage rate based on General Decision Number CA20030028 effective 8/11/06 for which the contract bid opening date was 8/25/06 and was executed on 11/28/06.

### **Questioned Costs**

N/A

### Cause and Effect

There does not appear to be sufficient monitoring control to ensure that the city's contractors employees are paid in accordance with the prevailing wage requirement.

### Recommendation

We recommend that the City strengthen their policies and procedures to ensure that its contractors' employees are paid in accordance with the privilege wage rate.

### Views of Responsible Officials and Planned Corrective Action

The City's Residential Sound Insulation department has acknowledged the finding and will endeavor to ensure records are maintained in keeping with the prevailing wage statutes and a regimen to document payments made to or on the behalf of the contracted employees subject to the Davis Bacon and related labor acts.

Finding Reference Number: 07.03

Program Title: Emergency Shelter Grant

**CFDA number**: 14.231

Contract Number: B03MC60520

Federal Department/Pass-Through Entities: Department of Housing and Urban

Development

Compliance Requirement: Subrecipient Monitoring

### Criteria

Each grantee must match the funding provided by HUD under its ESG Program with an equal amount from sources other than those provided under the ESG Program. These funds must be provided after the date of the grant award. A grantee may comply with this requirement by

For the Fiscal Year Ended September 30, 2007

providing the supplemental funds itself, or through supplemental funds or voluntary efforts provided by any State recipient or non-profit recipient (subrecipient) (24 CFR section 576.51).

OMB Circular A-110 23 Cost sharing and matching:

- (a) All contributions, including cash and third party in-kind, shall be accepted as part of the recipient's cost sharing or matching when such contributions meet all of the following criteria.
  - (1) Are verifiable from the recipient's records.
  - (2) Are not included as contributions for any other federally-assisted project or program.
  - (3) Are necessary and reasonable for proper and efficient accomplishment of project or program objectives.
  - (4) Are allowable under the applicable cost principles.
  - (5) Are not paid by the Federal Government under another award, except where authorized by Federal statute to be used for cost sharing or matching.
  - (6) Are provided for in the approved budget when required by the Federal awarding agency.
  - (7) Conform to other provisions of this Circular, as applicable.

### **Condition**

The City contracted with People Assisting the Homeless (PATH) and Saint Margaret's Center (Center) to administrate and to provide emergency shelter and related services to eligible homeless individuals funded by the U.S. Department of Housing and Urban Development (HUD) under the Emergency Shelter Grants Program (ESG). The City's required match funding under the ESG program was provided by PATH and the Center. However, based on our review of the City's monitoring checklist/tool, we noted that the checklist/tool did not include procedures to determine and ensure if the matching was in compliance with the applicable OMB Circulars such as OMB Circulars A-110 and A-122. In addition, the City did not provide any documentation to support their performance review of the matching. Therefore, we were unable to conclude if the City's matching complied with the HUD grant contract.

### **Questioned Costs**

None

### Cause and Effect

There does not appear to be sufficient monitoring controls over monitoring system to monitor the matching funds provided by the sub-recipients.

### Recommendation

The City should implement a system to monitor the matching funds provided by the sub-recipients.

For the Fiscal Year Ended September 30, 2007

### Views of Responsible Officials and Planned Corrective Action

The City requires that all sub-recipient agencies submit an independent single audit to the City for review annually. Staff reviews the audits to determine the sources and amounts of matching funds. Additionally, a desk review is conducted during the annually on-site monitoring for sub-recipient agencies.

### The Auditor's Comment

To be in compliance with all federal requirements of OMB Circular A-110 23 Cost sharing and matching, the City must maintain sufficient documentation supporting its review of the appropriateness of the subrecipient's matching funds.

Finding Reference Number: 07.04

Program Title: Emergency Shelter Grant

**CFDA number**: 14.231

Contract Number: B03MC60520

Federal Department/Pass-Through Entities: Department of Housing and Urban

Development

Compliance Requirement: Reporting

**Program Title:** Federal Aviation Administration – Noise

Mitigation

**CFDA number**: 20.106

**Contract Number:** 3-06-0139-31, 3-06-0139-37

Federal Department/Pass-Through Entities: Department of Transportation

Compliance Requirement: Reporting

Program Title: HOME Investment Partnerships Program

CFDA number: 14.239

Contract Number: M-06-MC-06 0516

For the Fiscal Year Ended September 30, 2007

**Compliance Requirement:** Reporting

**Program Title:** Section 8 New Construction Program

**CFDA number**: 14.182

Contract Number: NC-009, NC-0023, NC-007, NC-002

Federal Department/Pass-Through Entities: U.S. Department of Housing and Urban

Development

Compliance Requirement: Reporting

Criteria

OMB Circular A-133 Subpart C-§ \_\_\_\_.320 states *Report submission:* 

"(a) General. The audit shall be completed and the data collection form described in paragraph; (b) of this section and reporting package described in paragraph (c) of this section shall be submitted within the earlier of 30 days after receipt of the auditor's report(s), or nine months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for audit".

### **Condition**

Due to the delays in the completion of the City's financial audit for the fiscal year ended September 30, 2007, the Single Audit was also not completed within the reporting deadline as required by the OMB Circular A-133. Therefore, the Single Audit Reporting Package which includes the financial statements and Schedule of Expenditures of Federal Awards, Summary Schedule of Prior Audit Findings; auditor's reports and corrective action plans were not completed and submitted to the Federal Audit Clearinghouse.

### **Questioned Costs**

None

### Cause and Effect

The City has been experiencing staffing shortages at the highest levels in the Finance Department, including the position of Accounting Manager and Assistant Finance Director. Difficulties in filling these positions have resulted in delays in completing our Single Audits. The City has been in the process of resolving these staffing issues.

For the Fiscal Year Ended September 30, 2007

### Recommendation

We recommended that the City complete their annual audits timely and submit their on-line data collection form and Single Audit Report to the Federal Clearinghouse within the earlier of 30 days after receipt of the Single Audit Report or nine months after the end of the its fiscal year end.

### Views of Responsible Officials and Planned Corrective Action

The City is making the following efforts to ensure timely submissions of the Single Audit:

- Creation of an Audit Committee of the City Council. This committee will be responsible for monitoring the status of audits and reviewing the results with the City Administrator, Finance Director and Auditors.
- Recruitment for the positions of Assistant City Administrator Chief Financial Officer, Assistant Finance Director and Internal Auditor. These positions have been vacant and difficult to fill. As a result, the City's ability to submit audits on a timely basis has been diminished. Once filled, these positions would provide the City greater ability to improve timeliness of submission of reports.
- While the recruitment process is ongoing, the City has engaged temporary staff to assist the Finance Director in improving timeliness of Single Audit Reports.

For the Fiscal Year Ended September 30, 2007

### 06.01 - Non-compliance with CFR Tile 29, part 5, section 5.5 (a) and (b), Davis-Bacon Act

**Program Title:** Emergency Shelter Program

**CFDA Number:** <u>14.231</u>

Contract Number: S03MC60520

Federal Department/Pass-Through Entities: Department of Housing and Urban Development

### **Condition**

The City contracted with Coleman Construction (Contractor) to perform work on the Sidewalk and Pedestrian Ramp Improvement project in the amount of \$592,672. According to CFR 29A, any construction contract in excess of \$2,000 is subjected to compliance with the Davis-Bacon Act. However, based on the review of the contract, we noted that the contract did not include the clauses for (1) minimum wages, (2) withholding, (3) payroll and basic records, and (4) Contract Work Hours and Safety Standards Act as stated in CFR 29A § 5.5 (a) and (b).

### **Questioned Costs**

N/A

### Recommendation

The City should implement policies and procedures to comply with the requirements of the Davis Bacon Act.

### **Status**

Implemented. The City requires that the Public Works Department include required provisions of the Davis-Bacon Prevailing Wage Act and applicable regulations in all bid specifications for contracted work on CDBG-funded public works projects. The City incorporates the requirements for Davis-Bacon regulations in the internal MOU with each department, and the requirements are incorporated by the Finance Department Purchasing Division in bid specifications, and included in contracts prepared by the Office of the City Attorney.

For the Fiscal Year Ended September 30, 2007

### 06.02 - Lack of follow-up by the City on the sub-recipient monitoring report

Program Title: Emergency Shelter Program

**CFDA Number: 14.231** 

Contract Number: S03MC60520

Federal Department/Pass-Through Entities: Department of Housing and Urban Development

### Condition

Based on the review of the City's internal monitoring report of its sub-recipient (PATH) for the fiscal year 2005-06, we noted that the monitoring report disclosed an unallowable activity finding which might also have resulted in potential disallowed costs. However, we were not provided with any documentation for the resolution of the finding.

The monitoring report states: "four out of seven files were ineligible for this fiscal period because services were rendered during the previous funding cycle."

### **Questioned Costs**

To be determined if any

### Recommendation

We recommend that the City should perform follow-up reviews of the findings and recommendations resulting from its sub-recipient monitoring review and document the resolution.

### Status

Implemented. It was determined that the total expenditures for "Essential Services" under the Emergency Shelter Grant exceeded the allowable 30% maximum budgeted for this activity. The City deducted \$712.14 from the Program Year 2008-2009 ESG funding to allow for the overage disbursed during FY 2006-2007, which was noted by the HUD-Los Angeles Area Office staff during an on-site monitoring review in September 2008. HUD approved the City's response and closed the finding. The City currently verifies all ESG budgeted allocations and expenditures upon receipt of all invoices to avoid over-disbursement of ESG funds.

For the Fiscal Year Ended September 30, 2007

### 06.03 - Lack of follow-up by the City on the sub-recipient monitoring report

Program Title: Emergency Shelter Program

**CFDA Number:** <u>14.231</u>

Contract Number: S03MC60520

Federal Department/Pass-Through Entities: Department of Housing and Urban Development

### **Condition**

Based on the review of the City's internal monitoring report of its sub-recipient (PATH) for the fiscal year 2005-06, we noted that the monitoring report disclosed an unallowable activity finding which might also have resulted in potential disallowed costs. However, we were not provided with any documentation for the resolution of the finding.

The monitoring report states: "four out of seven files were ineligible for this fiscal period because services were rendered during the previous funding cycle."

### **Questioned Costs**

To be determined if any

### Recommendation

We recommend that the City should perform follow-up reviews of the findings and recommendations resulting from its sub-recipient monitoring review and document the resolution.

### Status

Not implemented. See current year finding #07.03.

For the Fiscal Year Ended September 30, 2007

### 06.04 - Single Audit Report not submitted timely

### Condition

Due to the delays in the completion of the City's financial audit for the fiscal year ended September 30, 2006, the Single Audit was also not completed within the reporting deadline as required by the OMB Circular A-133. Therefore, the Single Audit Reporting Package which includes the Financial Statements and Schedule of Expenditures of Federal Awards, Summary Schedule of Prior Audit Findings; auditor's reports and corrective action plans were not completed and submitted to the Federal Audit Clearinghouse.

### **Questioned Costs**

None

### Recommendation

We recommended that the City complete their annual audits timely and submit the data collection form and Single Audit Report to the Federal Clearinghouse within the earlier of 30 days after receipt of the Single Audit Report or nine months after the end of the its fiscal year end.

### Views of Responsible Officials and Planned Corrective Action

The City has experienced significant staffing shortages at the highest levels in the Finance Department, including the position of Accounting Manager and Assistant Finance Director. Difficulties in filling these positions have resulted in delays in completing our Single Audits. The City has been in the process of resolving these staffing issues. The position of Accounting Manager has been filled. The position of Assistant Finance Director should be filled within a few weeks. We expect that this additional help at the higher levels will allow us to complete our FY 07 by August 15, 2008. We expect that the City will be able to resume submitting audits on a timely basis in the future.

### **Status**

Not implemented. See current year finding #07.04.

## CITY OF INGLEWOOD Schedule of Expenditures LA County Grants 40291 /40128 For the Fiscal Year Ended June 30, 2007

Older Americans Act (Department of Agriculture):  NSIP/USDA Title IIIC1  NSIP/USDA Title IIIC2  Subtotal - Older Americans Act (Department of Agriculture)  Integrated Care Management Services (State of California):  Adult Protective Services  Linkages-California State General Funds  Linkages-Parking Fees Funds  Subtotal - Integrated Care Management Services (State of California)  Department of Health and Human Services:  Title IIIC1 Congregate Nutrition  Title IIIC2 Home Delivered Meals  Title IIIC2 Services and Senior Centers  Grants for Supportive Services or Aging -  Grants for Supportive Services for Aging  Grants for Supportive Services for Aging  Title III Part E - National Family Caregiver Support Program	CFDA NUMBER 10.550 10.5	APS-40128 APS-40128 AB2800-40128 AB764-40128 40291 40291 40291 40128	2006-2007 2006-2007 2006-2007 2006-2007 2006-2007 2006-2007 2006-2007 2006-2007 2006-2007	AWARD CONTRACTED  \$ 29,802 37,502 67,304 67,304 13,644 13,644 13,644 56,716 56,716 64,032 209,265 4,500 115,037	\$ 29,802 \$ 37,502 67,304 15,034 13,644 13,644 15,035 115,035 115,035 115,035 115,035 115,035 115,035	29,802 37,502 67,304 15,030 28,042 13,644 56,716 56,716 4,500 4,500 115,057 10,363
Subtotal - Department of Health and Human Services			,	493,217	4	493,217
Total - LA County Contracts 40291 and 40128			"	\$ 617,237	\$	617,237

# FEDERAL FUNDS - RECONCILIATION TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Older Americans Act (Department of Agriculture) Fiscal Year Ended 6/30/07 Less. July Through September 2006 Expenditures Add: July through September 2007 Expenditures (40291)	€	67,304 (17,193) 17,666	
Older Americans Act (Department of Agriculture) Fiscal Year Ended 9/30/07	69	777,73	
Department of Health and Human Services Fiscal Year Ended 6/30/07 Less: July Through September 2006 Expenditures Add: July through September 2007 Expenditures (40291/40128)	٠	493,217 (111,735) 151,459	
Department of Health and Human Services Fiscal Year Ended 9/30/07	69	532,941	