CITY OF INGLEWOOD
Inglewood, California

Single Audit Report on
Federal Awards

For the Fiscal Year ended September 30, 2010
CITY OF INGLEWOOD

Single Audit Report on Federal Awards

Year ended September 30, 2010

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Honorable Mayor and City Council
City of Inglewood
Inglewood, California

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

We have audited the financial statements of the governmental activities, business-type activities, and each major fund and the aggregate remaining fund information of the City of Inglewood, California, (the City) as of and for the year ended September 30, 2010, which collectively comprise the City’s basic financial statements and have issued our report thereon dated May 17, 2011. Our report was modified to add an explanatory paragraph to emphasize that substantial doubt exists about the City’s ability to continue as a going concern. 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 the internal control over financial reporting was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs as items 2010-01 through 2010-23, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs, as items 2010-01 through 2010-23 to be 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 testing disclosed seven instances of noncompliance that are required to be reported under Government Auditing Standards and are described in the accompanying Schedule of Findings and Questioned Costs as findings 2010-02, 2010-04, 2010-07, 2010-08, 2010-14, 2010-21 and 2010-23.

The City’s written response to the material weaknesses identified in our audit have not been subjected to the audit procedures applied in the audit of financial statements and, accordingly, we express no opinion on them.

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

Irvine, California
June 14, 2011
Honorable Mayor and City Council
City of Inglewood
Inglewood, California

REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM, INTERNAL CONTROL OVER COMPLIANCE AND ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS IN ACCORDANCE WITH OMB CIRCULAR A-133

Independent Auditor’s Report

Compliance

We have audited the compliance of the City of Inglewood, California, (the City) with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have a direct and material effect on each of the City’s major federal programs for the year ended September 30, 2010. 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. 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, the City complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2010. However, the results of our auditing procedures disclosed six instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2010-24 through 2010-29.

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 a major federal program in order to determine our auditing procedures for the purpose of expressing our
opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City’s internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs, as items 2010-01 through 2010-23 to be material weaknesses.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Federal Awards

We have audited the basic financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the City as of and for the year ended September 30, 2010, which collectively comprise the City’s basic financial statements, and have issued our report thereon dated May 17, 2011. 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 and supplementary Schedule of Expenditures of Los Angeles County Grants are presented for purposes of additional analysis in accordance with the requirements of OMB Circular A-133 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 City’s written response to the material weaknesses identified in our audit have not been subjected to the audit procedures applied in the audit of financial statements and, accordingly, we express no opinion on them.

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

Irvine, California
June 14, 2011, except for the Schedule of Expenditures of Federal Awards, as to which the date is May 17, 2011
CITY OF INGLEWOOD
Schedule of Expenditures of Federal Awards
For the Fiscal Year ended September 30, 2010

<table>
<thead>
<tr>
<th>Federal Grantor/Pass-Through Grantor</th>
<th>Program Title</th>
<th>Federal Assistance Number</th>
<th>Program Identification Number</th>
<th>Program Expenditures</th>
<th>Amounts Provided to Subrecipients</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. Department of Agriculture</td>
<td>Nutrition Services</td>
<td>93.053</td>
<td>n/a</td>
<td>$67,578</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>Nutrition Services - ARRA</td>
<td>93.053</td>
<td>n/a</td>
<td>13,733</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>Subtotal</td>
<td></td>
<td></td>
<td>81,311</td>
<td>-</td>
</tr>
<tr>
<td>U.S. Department of Housing and Urban Development</td>
<td>Direct Assistance:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Section 8 Housing Choice Vouchers</td>
<td>14.871</td>
<td>CA098V0</td>
<td>$8,345,693</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>Community Development Block Grants/Entitlement Grants</td>
<td>14.218</td>
<td>B03MC05920</td>
<td>1,989,878</td>
<td>57,390</td>
</tr>
<tr>
<td></td>
<td>Community Development Block Grants/Entitlement Grants - ARRA</td>
<td>14.253</td>
<td>B03MC05920</td>
<td>21,677</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>Emergency Shelter Grants Program</td>
<td>14.231</td>
<td>S03MC06520</td>
<td>87,841</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>Home Investment Partnerships Program</td>
<td>14.229</td>
<td>M03MC06516</td>
<td>663,332</td>
<td>437,538</td>
</tr>
<tr>
<td></td>
<td>Homelessness Prevention and Rapid Re-Housing - ARRA</td>
<td>14.237</td>
<td>S09-MY-06-0520</td>
<td>381,743</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>Economic Development Initiative - Senior Center</td>
<td>14.246</td>
<td>SP-CA-001</td>
<td>24,442</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>Subtotal</td>
<td></td>
<td></td>
<td>11,514,606</td>
<td>494,838</td>
</tr>
<tr>
<td>U.S. Department of Justice</td>
<td>Direct Assistance:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Asset Forfeiture and Seizure</td>
<td>16.000</td>
<td>n/a</td>
<td>108,973</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>Cold Cases Grant</td>
<td>16.560</td>
<td>n/a</td>
<td>166,908</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>Community Oriented Policing Technology Grants</td>
<td>16.710</td>
<td>2008CKWX0511</td>
<td>73,950</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>Justice Assistance Grant</td>
<td>16.738</td>
<td>2008JDBX0366, 2007JDBX0392, 2008JDBX0394</td>
<td>45,489</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>Justice Assistance Grant - ARRA</td>
<td>16.738</td>
<td>n/a</td>
<td>27,982</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>Subtotal</td>
<td></td>
<td></td>
<td>423,302</td>
<td>-</td>
</tr>
<tr>
<td>U.S. Department of Transportation</td>
<td>Direct Assistance:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Airport Improvement Program</td>
<td>20.106</td>
<td>3-06-0129-30, 3-06-0131-33, 3-06-0139-38</td>
<td>9,891,586</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>Highway Planning and Construction - ARRA - Manchester</td>
<td>20.205</td>
<td>07-5164R</td>
<td>2,422,040</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>Highway Planning and Construction - ARRA - La Cienega</td>
<td>20.205</td>
<td>07-5164R</td>
<td>10,933</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>Subtotal</td>
<td></td>
<td></td>
<td>12,224,539</td>
<td>-</td>
</tr>
<tr>
<td>U.S. Department of Health and Human Services</td>
<td>Pass-through from the County of Los Angeles:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Special Programs for the Aging Title III</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Part B Grants for Supportive Services and Senior Centers</td>
<td>93.044</td>
<td>n/a</td>
<td>573,592</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>Home Delivered Meals, Congregate Nutrition, Title III</td>
<td>93.045</td>
<td>n/a</td>
<td>160,872</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>Home Delivered Meals, Congregate Nutrition, Title III - ARRA</td>
<td>93.053</td>
<td>n/a</td>
<td>151,980</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>Subtotal</td>
<td></td>
<td></td>
<td>826,444</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>Total federal expenditures</td>
<td></td>
<td></td>
<td>$25,170,202</td>
<td>494,838</td>
</tr>
</tbody>
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n/a - not available

See accompanying notes to the schedule of expenditures of federal awards
CITY OF INGLEWOOD
Schedule of Expenditures
Los Angeles County Grants
40014/40128
For the Fiscal Year Ended September 30, 2010

<table>
<thead>
<tr>
<th>Federal Grantor/Pass-Through Grantor Program Title</th>
<th>Federal Domestic Assistance Number</th>
<th>Contract</th>
<th>Period</th>
<th>Award Contracted</th>
<th>Amount Expended</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Older Americans Act:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>NSIP/USDA Title IIIC1</td>
<td>93.053</td>
<td>40291</td>
<td>2009-2010</td>
<td>$24,308</td>
<td>$24,308</td>
</tr>
<tr>
<td>NSIP/USDA Title IIIC2</td>
<td>93.053</td>
<td>40291</td>
<td>2009-2010</td>
<td>$41,755</td>
<td>$41,755</td>
</tr>
<tr>
<td>Subtotal - Older Americans Act (Nutritional Services Incentive Program)</td>
<td></td>
<td></td>
<td></td>
<td>$66,063</td>
<td>$66,063</td>
</tr>
</tbody>
</table>

| **Integrated Care Management Services (State of California):** | | | | | |
| Linkages-California State General Funds             | 40128                             | 2009-2010| $7,015       | $7,015          |
| Linkages-Parking Fees Funds                         | 40128                             | 2009-2010| $13,759      | $13,759         |
| Subtotal - Integrated Care Management Services (State of California) | | | | $20,774 | $20,774 |

| **Department of Health and Human Services:**        | | | | | |
| Title IIIC1 Congregate Nutrition                    | 93.045                            | 40291    | 2009-2010    | $213,016        | $213,016        |
| Title IIIC2 Home Delivered Meals                    | 93.045                            | 40291    | 2009-2010    | $356,800        | $356,800        |
| Title III Part B - Special Programs for the Aging - | | | | | |
| Grants for Supportive Services and Senior Centers   | 93.044                            | 40291    | 2009-2010    | $4,500          | $4,500          |
| Grants for Supportive Services for Aging            | 93.044                            | 40218    | 2009-2010    | $70,014         | $70,014         |
| Subtotal - Department of Health and Human Services  | | | | $644,330 | $644,330 |

Total - LA County Contracts 40291 and 40128

| Federal Funds - Reconciliation to Schedule of Expenditures of Federal Awards | | | | | |
| Older Americans Act (Department of Agriculture) Fiscal Year Ended 6/30/09 | | | | $66,063 |
| Less: July through September 2009 Expenditures | | | | $(18,057) |
| Add: July through September 2010 Expenditures (40291) | | | | $19,977 |
| Older Americans Act (Nutritional Services Incentive Program) Fiscal Year Ended 9/30/10 | | | | $67,983 |

Department of Health and Human Services Fiscal Year Ended 6/30/09

| | | | | | |
| Less: July Through September 2009 Expenditures | | | | $644,330 |
| Add: July through September 2010 Expenditures (40291/40128) | | | | $163,211 |
| Department of Health and Human Services Fiscal Year Ended 9/30/10 | | | | $656,101 |

See accompanying notes to the schedule of expenditures of federal awards
CITY OF INGLEWOOD

Notes to the Schedule of Expenditures of Federal Awards

For the Fiscal Year ended September 30, 2010

(1) Summary of Significant Accounting Policies Applicable to the Schedule of Federal Awards

(a) Scope of Presentation

The accompanying schedule presents only the expenditures incurred by the City of Inglewood that are reimbursable by agencies providing federal assistance. For the purposes of this schedule, federal financial assistance includes both federal financial assistance received directly from a federal agency, as well as federal funds received indirectly from a non-federal agency or other organization. Only the portion of program expenditures reimbursable with such federal funds is reported in the accompanying schedule. Program expenditures in excess of the maximum federal reimbursement authorized or the portion of the program expenditures that were funded with state, local or other non-federal funds are excluded from the accompanying schedule.

(b) Basis of Accounting

The expenditures included in the accompanying schedule were reported on the modified accrual basis of accounting. Under the modified accrual basis of accounting, expenditures are recognized when the agency becomes obligated for payment as a result of the receipt of the related goods and services. Expenditures reported include any property or equipment acquisitions incurred under the federal program.

(c) Subrecipient Expenditures

Payments to subrecipients totaled $57,300 for the Community Development Block Grant and $437,538 for the Home Investment Partnerships Program for the fiscal year ended September 30, 2010.
CITY OF INGLEWOOD

Schedule of Findings and Questioned Costs

(Continued)

(A) Summary of Auditors' Results

1. An unqualified report was issued by the auditors on the financial statements of the auditee. Our report was modified to add an explanatory paragraph to emphasize that substantial doubt exists about the City’s ability to continue as a going concern.

2. The audit disclosed twenty-three material weaknesses in internal control over financial reporting. These are reported in findings 2010-01 through 2010-23.

3. The audit disclosed seven matters of noncompliance which are material to the financial statements of the auditee. These are reported in findings 2010-02, 2010-04, 2010-07, 2010-08, 2010-14, 2010-21 and 2010-23.

4. There were six significant deficiencies in internal control over compliance of the major programs of the auditee.

5. An unqualified opinion was issued by the auditors on compliance for major programs.

6. The audit disclosed six findings required to be reported under paragraph .510(a) of OMB Circular A-133. These are reported in findings 2010-24 through 2010-29.


8. The dollar threshold used to distinguish Type A and Type B programs was $753,174.

9. The auditee did not qualify as a low risk auditee, as defined by OMB Circular A-133, paragraph .530, for the year ended September 30, 2010 for the purpose of determining major programs.

(B) Findings Related to the Financial Statements which are Required to be Reported in Accordance with GAGAS

(2010-01) Need for Enhanced Controls over Citywide Cash and Investment Reconciliation

We noted that the monthly bank reconciliations of the City’s cash and investment accounts have not been completed in a timely manner. The September 30, 2010 bank reconciliation was completed by the City in March 2011. During the audit significant adjustments were detected by City staff that were required in order to properly reconcile the City’s cash balances.
CITY OF INGLEWOOD

Schedule of Findings and Questioned Costs

(Continued)

(B) Findings Related to the Financial Statements which are Required to be Reported in Accordance with GAGAS

(2010-01) Need for Enhanced Controls over Citywide Cash and Investment Reconciliation

(Continued)

In addition to the reconciliation issues noted above, we also identified a liability account used by the City to track stale and outdated checks. These amounts should be included as outstanding checks in the monthly reconciliation until the point that the City has gone through the proper escheating procedures rather than as a liability of the General fund. Furthermore, the City should take the necessary steps to clean up these stale and outdated checks and review these items on a more regular basis.

Accurate and timely completion of monthly bank reconciliations are important internal controls that help the City identify any potential fraudulent activity and accurately state the financial position of the City’s funds.

Recommendation

We recommend that monthly bank reconciliations be completed in a timely manner to ensure that all activity has been properly reconciled to the accounting records. Furthermore, the City should take the necessary steps to process and monitor uncleared items on a regular basis.

Management’s Response Regarding Corrective Action Taken or Planned

The City recognizes the need to have bank reconciliations properly completed in a timely manner. In order to simplify the bank reconciliation process itself, the ledger account is being broken down by separate bank accounts which should enable the reconciliation process and procedures to be more clear and simplified. In addition, staff is reviewing how other Eden system modules are posting to the cash accounts, and we have identified some minor modifications to the setup which should also make reconciling the account more transparent and simple. Staff anticipates these minor modifications will be completed within the next month, and once all of these modifications have been implemented, the bank reconciliations will be completed in a timely manner in order to help the City identify any potential fraudulent activity and to accurately state the financial position of the City’s funds at all times.
(Continued)

(B) Findings Related to the Financial Statements which are Required to be Reported in Accordance with GAGAS

(2010-02) Need for Improved Accounting and Monitoring over First Time Home Buyer and Rehabilitation Loans

The “First Time Homebuyer Mortgage Assistance Loan Program” and the “Home Rehabilitation Loan Program” had a balance of approximately $6.0 million of non-interest bearing loans to qualified participants as of September 30, 2010. Of the total loans, $2.2 million were funded by HUD from HOME/CDBG grants to the City and the remaining $3.8 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. The City has not issued any new loans for either of these programs since 2007.

As a result of our testing of these programs we identified two loan repayments from the HOME program during the fiscal year ended September 30, 2010, which had not been properly recorded as loans. This resulted in adjustments to the general ledger.

The City began a process of analyzing the status and collectability of these loans, and based on this process, the City has established an allowance for certain loans where the City no longer expects repayment.

Recommendation

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.

Management’s Response Regarding Corrective Action Taken or Planned

Staff is gathering a complete list of all loans outstanding for the rehab program and is also developing the steps necessary to monitor and track all activity on each outstanding loan to ensure they are in compliance with each loan agreement. This project will help us verify the existence of each outstanding loan by following up with each property owner, and monitoring compliance on a regular basis.
CITY OF INGLEWOOD

Schedule of Findings and Questioned Costs

(Continued)

(B) Findings Related to the Financial Statements which are Required to be Reported in Accordance with GAGAS

(2010-03) Adjustments Detected Through the Audit Process

An important element of control over financial reporting is for management to identify adjustments necessary for financial statements to be fairly stated. Whenever possible, adjustments should be reflected in the accounting records prior to the start of the audit. When this is not possible, management should identify and communicate to the auditors the potential areas of adjustment that may need to be addressed during the audit process. This is an important element of internal control to reduce the risk of material misstatement.

There were, however, material adjustments that were identified during the audit for the year ended September 30, 2010. These material adjustments detected by the audit process included the following: an adjustment to record grant receivable accruals, an adjustment to record fourth quarter tax revenue accruals, an adjustment to agree beginning fund balance in three governmental funds to the prior year audited financial statements, an adjustment to record expenditures in fiscal year 2010 that were paid in fiscal year 2011, an adjustment to increase the City’s claims liability as of September 30, 2010 for a case settlement, an adjustment to record land held for sale that was acquired in 2010, an adjustment to remove overhead and internal service fund charges from restricted funds that could not be supported by a methodology, an adjustment to remove the employee pay advance receivable and record as a liability the amount the City owes to current and former employees, an adjustment to deferred revenue balances, an adjustment to record two new long term receivables, adjustments to reconcile cash and investments, an adjustment to record retentions payable for a City construction project, an adjustment to reallocate interest income between the City’s funds, an adjustment to correct interfund transfers between City funds to agree to actual expenditures incurred during the fiscal year, an adjustment to transfer expenditures from the gas tax fund for a project funded by traffic congestion and relief funding, an adjustment to write off an uncollectible receivable balance, an adjustment to remove completed construction projects out of construction in progress, an adjustment to correct formula errors in the fixed asset schedules, and an adjustment to record prepaid expenses.

Recommendation

Auditing Standards indicate that material adjustments identified through the audit process are an indication of weaknesses in an entity’s internal control structure. Efforts should be made to enhance the City’s year end closing procedures to include areas that resulted in audit adjustments in 2010.

Management’s Response Regarding Corrective Action Taken or Planned

The City recognizes that the general ledger accounts need to be reviewed and/or analyzed and audit preparation needs to be performed at the end of each fiscal year prior to the arrival of the auditors upon the commencement of the final audit. The Finance Department has developed a check list that is being followed each month to insure that all postings are being recorded timely.
CITY OF INGLEWOOD

Schedule of Findings and Questioned Costs

(Continued)

(B) Findings Related to the Financial Statements which are Required to be Reported in
Accordance with GAGAS

(2010-03) Adjustments Detected Through the Audit Process. (continued)

In addition, this check list is being expanded to include timely postings from other
system modules in order to help assure all transactions are being recorded timely. It is
also anticipated that certain accounts will be assigned to individual staff accountants
to reconcile and monitor on a regular basis in order to avoid incorrect postings and to
allow for corrections in a timely manner. These schedules will help ensure that
account balances are reconciled to the general ledger on a regular basis.

(2010-04) Need for Improved Controls over Taxes and Grant Receivable Accruals

During our audit we found unrecorded receivables totaling $4.5 million. These
unrecorded receivables were comprised of gas taxes receivable and receivables
relating to HUD, FAA and Department of Transportation grant programs. Adjustments were made to properly record the City’s outstanding grant receivables
and accrue 4th quarter gas tax revenue as of September 30, 2010.

The City receives grant funding from various agencies on a cost reimbursement basis.
Under the terms of the grant funding agreements, the City incurs costs in advances
and then requests reimbursement from granting agencies. Delays in communications
and reconciliations between Finance and other City departments have caused grant
eligible reimbursements to go unreported for extended periods of time.

Recommendation

We recommend that reimbursements be submitted to granting agencies on at least a
quarterly basis in order to maximize the investment income of the City, reduce the
cash flow impacts of delayed reimbursements, and to ensure that such
reimbursements are fully collectible and prepared properly.

We also recommend that the City develop controls to properly track outstanding
receivables and to follow-up with stale receivables in a timely manner. Known
uncollectible receivables should also be completely written off from the City’s
general ledger.

Management’s Response Regarding Corrective Action Taken or Planned

The City recognizes the need to improve our grants management methodology. We
are in the process of compiling a master grants schedule to assist the City to track and
monitor all grants. The master schedule will allow finance to follow up on timely
reporting of expenditures and reimbursable expenses. This process will help ensure
the city submits reimbursement requests on a regular and timely manner, and helps
the City maximize available funding from other external funding sources.
(Continued)

(B) Findings Related to the Financial Statements which are Required to be Reported in Accordance with GAGAS

(2010-05) Need to Develop Written Policies and Procedures for Information Technology

General controls are the policies and procedures that apply to all or a large segment of an entity’s information systems and help ensure their proper operation. Examples of primary objectives for general controls are to safeguard data, protect business process application programs, and ensure continued computer operations in case of unexpected interruptions. The effectiveness of general controls is a significant factor in determining the effectiveness of business process application controls. Without effective general controls, business process application controls can generally be rendered ineffective by circumvention or modification. For example, automated edits designed to preclude users from entering unreasonably large dollar amounts in a payment processing system can be an effective application control. However, this control cannot be relied on if the general controls permit unauthorized program modifications that might allow some payments to be exempted from the edits or unauthorized changes to be made to data files after the edit is performed. The entity should be aware of these risks and should develop appropriate policies and procedures to respond to any IT system issues that might occur.

During our review of IT general controls we noted the City does not have formal policies and procedures for most general control areas. Examples of policies and procedures the City should formalize include:

1. Information Security
2. Change and Problem Management
3. System and Network Monitoring
4. Data Backup and Recovery
5. Records Management and Data Retention
6. Disaster Recovery and Business Continuity Planning

We understand the City is currently documenting policies for Disaster Recovery Preparedness and Records Management / Data Retention.

Recommendation

We recommend the City develop written policies and procedures for information technology general controls.

Management’s Response Regarding Corrective Action Taken or Planned

The City has addressed this finding and has developed written policies and procedures for information technology controls and has already put them in place. All issues raised in this finding have been addressed, including implementing procedures based upon best practices to include data backup and recovery, problem management, system monitoring and error handling, network monitoring, information security, software development methodology, records management, data retention, disaster recovery and business continuity planning. This resolution has been reviewed with our independent auditors and we believe is considered to be resolved.
CITY OF INGLEWOOD

Schedule of Findings and Questioned Costs

(Continued)

(B) Findings Related to the Financial Statements which are Required to be Reported in Accordance with GAGAS

(2010-06) Need to Establish a Formal Ethics Policy and Anti-Fraud Policy

We noted that the City already has in place a number of practices to communicate its expectation of ethical behavior to all employees through verbal communications, trainings and by setting proper tone at the top. However, we noted that the City does not have a formalized ethics policy. A well structured ethics policy establishes organizational standards for ethics, morals and an overall “regard for the rules” philosophical approach within the City. Specifically, matters such as honesty, integrity, compliance with laws and regulations, adherence to corporate policy and upholding the City’s high values and reputation are addressed. A strong ethics policy is the foundation upon which the City builds its culture, which should then permeate all levels of personnel and guide all business dealings and transactions. This can be most effective in establishing a highly ethical and antifraud culture within any business organization.

We also noted that the City’s practices do not include a clearly communicated process for employees to report suspected fraud or other unethical conduct. A written anti-fraud policy can be an effective method of communicating and reinforcing an antifraud culture within a City. A fraud policy communicates the City’s position and policy on matters to all employees such as the following:

- Risks that the City faces from fraud, abuse and other forms of misconduct;
- Definitions of ethical misconduct, including failure to follow City policies and procedures, misrepresentation of financial data, and theft, misuse, or misappropriation of City assets;
- Employee’s responsibility to report witnessed ethical misconduct (including an established reporting mechanism, such as reporting to an independent party such as Human Resources, a member of the Board of Directors, a designated member of the City’s management, hotline service, etc.);
- Organizational responsibility to investigate; and
- Disciplinary action for violations

Best practice suggests that an ethics policy and anti-fraud policy and their annual reaffirmation by employees will greatly strengthen internal controls to prevent the occurrence of fraud and abuse. The policies should be acknowledged and signed by each employee upon hire and on an annual basis as evidence of their affirmation that they understand the policy and have complied with its provisions.
CITY OF INGLEWOOD

Schedule of Findings and Questioned Costs

(Continued)

(B) Findings Related to the Financial Statements which are Required to be Reported in Accordance with GAGAS

(2010-06) Need to Establish a Formal Ethics Policy and Anti-Fraud Policy. (continued)

Recommendation

We recommend that the City establish and implement an ethics policy and anti-fraud policy. Once developed, the policies should be acknowledged and signed by each employee at time of hire and on an annual basis thereafter as evidence of their affirmation that they understand the policy and will have complied with its provisions. We also suggest that the City implement an effective reporting mechanism for fraud and other unethical conduct. Internal reporting channels, such as managers’ open-door policy, hotlines for anonymous tips or a clearly defined reporting protocol (what to report, who to report to, etc.), have been found to be effective.

Management’s Response Regarding Corrective Action Taken or Planned

The City recognizes the importance of establishing formal Ethics and Fraud Policies and we have made some progress in accomplishing this task. In an attempt to improve awareness for the necessity of formal policies, the City hosted an Ethics training class on April 21, 2010 for Executive staff and all Elected Officials. The delay in the draft and adoption of these policies has suffered due to the absence of seven key Executive level positions, tow of which are key to this process; the permanent appointment of a City Manager and a Human Resources Director. Unfortunately, this has delayed any action pending concerning these issues. It is the City’s intent to start filing these vacancies and begin to address all these pending matters. Currently, the Human Resources Department has an interim Director who will be addressing this matter with the permanent Director once filled. We anticipate addressing these policies in the near future.

(2010-07) Need for Update of Cost Allocation Plan

The City uses both a direct and indirect cost allocation plan to allocate overhead expenditures to different departments. In the past the City has updated this plan each year during the budget process to ensure that the overhead charges reflect current activity. During the 2010 fiscal year, the City was unable to provide a current allocation plan or methodology to support the indirect charges being charged to different City funds. Adjustments were recorded to eliminate these charges to restricted funds where proper support was not obtained.

The Information Technology & Communications fund is currently being used to account for internal services provided by the City’s and external services the City performs for electronic ticket processing for other local Agencies. These are two distinct operations and should be recorded for separately in the City’s general ledger.

Recommendation

We recommend that the City update its cost allocation plan on an annual basis to ensure that expenses being charged to different departments are an accurate reflection of current activity.
CITY OF INGLEWOOD

Schedule of Findings and Questioned Costs

(Continued)

(B) Findings Related to the Financial Statements which are Required to be Reported in Accordance with GAGAS

(2010-07) Need for Update of Cost Allocation Plan, (continued)

Management’s Response Regarding Corrective Action Taken or Planned

The City recognizes the need to have a current cost allocation plan, which will ensure expenditures are properly charged and that accurately reflect current activity. The City recently engaged a firm to perform a comprehensive analytical review of the administrative processes to prepare a new and updated cost allocation plan. The firm is actively working with the City and it is projected that the plan will be completed and implemented before the end of the 2011 fiscal year.

(2010-08) Need for Inventory of City Vehicles

Based on our review of controls in place to monitor City vehicles it was noted that the City owns approximately 500 vehicles currently in service. It was also noted that it had been several years since a full inventory of these vehicles had been taken and compared to the City’s capital asset listing.

Recommendation

We recommend that the City maintain an inventory listing of all equipment purchased, specifically equipment reimbursed by Federal funds. In addition, we recommend that an inventory of the equipment be performed a minimum of once every two years.

Management’s Response Regarding Corrective Action Taken or Planned

The City recognizes the need to maintain a comprehensive capital asset inventory listing. The City’s fleet maintenance division utilizes robust specialty software to inventory and maintain records on approximately 500 vehicles. The fleet management software system includes tools for assets, fuel, and parts management as well as a work order process for vehicle maintenance. The City’s financial software, Eden, includes a module that provides management of the agencies assets, such as vehicles, buildings, and equipment, from acquisition through disposal. The Finance division plans to better integrate the information maintained on the vehicles in the fleet system with the Eden fixed asset module for FY2010/11. In addition, we plan to modify the existing setup in Eden to improve the year-end audit reporting for capital assets. Once of the attributes currently not fully utilized in Eden is the identification of the funding sources. We plan to update this information for all assets currently in the Eden database and include for future acquisitions. The enhancements planned for the fixed asset module should result in a more efficient accounting and reporting of the Agencies capital assets.
CITY OF INGLEWOOD

Schedule of Findings and Questioned Costs

(Continued)

(B) Findings Related to the Financial Statements which are Required to be Reported in Accordance with GAGAS

(2010-09) Need for Formal Documentation and Approval of Long-term Interfund Borrowing

As cash requirements (overdrafts) of the City are met through interfund borrowing from unrestricted funds, those interfund borrowings (if not expected to be paid within one year) should be formally approved by management and City Council as long-term interfund advances. The General Fund advanced cash to the Housing Fund in the amount of $5,049,068 as of September 30, 2010.

Recommendation

We recommend that the City formally approve and document interfund long-term advances between the borrowing funds and funds from which the advance was made, and the City implement and document monitoring controls to ensure that interfund borrowing does not affect restricted funds.

Management’s Response Regarding Corrective Action Taken or Planned

The City recognizes the need to document any long term inter-fund advances and will be developing a policy to address this.

(2010-10) Efforts Needed to Control Expenditures and Increase Revenues

The General Fund is typically the focal point in analyzing the financial health of the City because the General Fund is expected to able to cover both its costs and to act as a financial backstop for other funds in the event of an insufficiency with respect to the other funds. During the fiscal year ended September 30, 2010, the City had a decrease in general fund balance of $18,314,990. While the ending general fund balance was $16,879,802, unreserved general fund balance was a deficiency of $16,819,641. Further, the Housing Special Revenue Fund had a deficit of $4,265,517. The General Fund is largely responsible for the foregoing deficits and will be required to cover them with future charges to the General Fund.

City management needs to make significant efforts to ensure that budgets generated for the 2010/2011 fiscal year are based on attainable expectations. Budgets should be established to control the level of General Fund expenditures to conform to its anticipated revenues and to provide for an increase in General Fund reserves. Throughout the fiscal year, as expectations of revenue levels change, adjustments need to be made with respect to expenditures for the remainder of the year. The City should also make efforts to identify additional reoccurring revenue sources to support City operations.

Recommendation

We recommend that City management make the necessary efforts to control expenditures to ensure that expenditures do not exceed revenues for fiscal year 2010/2011. Procedures may need to be implemented to compare actual to budgeted estimates on a monthly basis. Management could then make the necessary decisions to react to anticipated revenue shortfalls or expenditure overages.
(Continued)

(B) Findings Related to the Financial Statements which are Required to be Reported in Accordance with GAGAS

(2010-10) Efforts Needed to Control Expenditures and Increase Revenues, (continued)

Management’s Response Regarding Corrective Action Taken or Planned

On September 28, 2010, the Mayor and City Council adopted the FY2010-2011 consolidated Annual Operating Budget with a message that provided a Framework for recovery to identify core services and to formulate a workforce reduction plan. New or enhanced revenues would be vigorously explored, as would private-public partnerships, to look for increased revenues to avoid drawing on General Fund reserves. The framework for recovery included deeper cuts to maintenance and operations expense and contract services, notably the closure of one of the City’s four fire stations. The plan also included the elimination of special district and Redevelopment General Fund subsidies, updating the City’s cost allocation plan, auditing existing revenue streams, and ensuring that developer fees and other fees for services captured actual costs borne by the General Fund.

On May 3, 2011, the Mayor and Council members took action and approved a budget amendment to reduce expenditures and increase revenue in the future related to the General Fund as follows:

A Workforce Reduction Plan (WRP) was approved on October 12, 2010 that included the elimination of vacant positions, layoffs, and an offer of an early retirement incentive. To date, 67 fulltime and 10 fulltime-equivalent positions have been eliminated. This includes a total of 51 fulltime positions in the General Fund. This represents a savings of $5M total for the City and $4.1M for the General Fund in the current year and $4.5M for FY2011-2012.

The City successfully negotiated and implemented two-year labor agreements containing savings resulting largely from non-paid furloughs, with an estimated $2.2M in savings for the current year, and $3.2M in FY 2011-2012 when the furloughs are in place for the full twelve months. This amount includes a 10% voluntary donation given back to the City from the Mayor, Council Members, City Clerk and City Treasurer as well.

Costs charged to the General Fund for personnel providing services to the Redevelopment Agency, were transferred to the Agency via a cooperative agreement approved by Council and the Agency (12/10/2010). These costs will now be paid for with tax increment as is provided for under law, total $900K for the current year and are expected to save $1.2M in FY2011-2012.

In addition to Personnel savings, the City’s deficit reduction strategy also included the closure of a fire station in North Inglewood for a 36 month period that will produce $1.8M in savings this fiscal year, followed by $2.5M in savings during each of the next two years.

City staff called upon vendors who do business in Inglewood to collectively reduce their contracts by 10% where possible. To date, many vendors have complied with this request.
CITY OF INGLEWOOD

Schedule of Findings and Questioned Costs

(Continued)

(B) Findings Related to the Financial Statements which are Required to be Reported in Accordance with GAGAS

(2010-10) Efforts Needed to Control Expenditures and Increase Revenues, (continued)

Three months into the current fiscal year, the City Manager met with Departments to discuss current operations and additional ways of cutting expenditures. A thorough review of spending history yielded additional savings in overtime of $374K and maintenance and operations of over $1.2M. Council provided direction to eliminate General Fund subsidies of the City’s four assessment districts. These subsidies are expected to result in partial savings of $700K in the current fiscal year and $1.1M in FY2011-2012. Another component of the Deficit Reduction Plan includes maximizing existing revenues and exploring new revenue opportunities. On November 16, 2010, the Mayor and Council approved an ordinance requiring the registration, inspection and maintenance of vacant property in distress. This new ordinance is expected to add $100K in the current year and $400K in subsequent years.

An employee benefits audit designed to ensure proper premiums are being paid for eligible employees and covered benefits is underway. This recovery-based commission fee model is expected to provide modest to moderate annual operating savings. Likewise, Council approved a comprehensive fee study to enable the City of calculate and recover the actual costs for providing user-specific services to residents, businesses, developers, and others using City services. Council also approved staff’s request to raise parking meter rates and parking violation fines that are expected to increase revenues by $500K this fiscal year and upwards of $760K annually thereafter. City Council also approved Ordinance No. 10-06 that establishes Super Graphic Wall Sign standards, which is expected to increase General Fund revenues annually by $1M.

Overall, the Council-approved Deficit Reduction Plan which sought to erase an anticipated $17.6M General Fund operating deficit will successfully save $13.8M in recurring expenditures this year. When supplemented by $2M in one-time revenues, the $15.8M projected operating deficit should effectively be erased. Recurring General Fund operating savings during FY2011-2012 should total $16.5M, and new and enhanced General Fund revenues enacted this year are expected to climb to $1.17M. These expenditure savings coupled with revenue increases could bring us into structural balance in FY2011-2012 if expenses outside our control such as benefit costs and State actions have little adverse impact.

In conclusion, the City has made notable progress in addressing the City’s financial condition. A Deficit Reduction Plan approved by the Mayor and Council has largely been successful in curbing expenditures and enhancing revenues. The FY2010-2011 mid-year budget amendment reflects measures taken to reduce the workforce, trim labor agreement costs, cut operating expenses, and boost revenues. The result is a projected FY2010-2011 General Fund budget that is balanced with the aid of a modest one-time revenue source, and a FY2011-2012 General Fund budget that may well be structurally balanced. However, notwithstanding this notable progress, the City must continue to achieve personnel-related savings, pursue long-term wage and benefit reforms, find new and diverse sources of revenue, vigorously explore public-private partnerships, and put in place, plans to finance deferred costs and unfunded liabilities.
CITY OF INGLEWOOD

Schedule of Findings and Questioned Costs

(Continued)

(B) Findings Related to the Financial Statements which are Required to be Reported in Accordance with GAGAS

(2010-11) Need for Review of Employee Pay Advances

During the fiscal year ended September 30, 2010 audit an adjustment was made to remove the outstanding employee pay advance receivable balance of $731,842 and record as a liability $805,981, which represents the amount of money already withheld from employees’ in prior years. This adjustment was done as a result from communication with Management concerning the potential liability that the City may have to former employees.

Recommendation

We recommend that City take the necessary procedures to determine if repayment of amounts already withheld as part of the employee pay advance program is necessary.

Management’s Response Regarding Corrective Action Taken or Planned

The City has already setup a reserve on the books and is anticipating a thorough and complete follow up in order to have a final resolution and settle this issue in the current fiscal year.

(2010-12) Need for Improved Controls over Journal Entries

During our testwork performed over journal entries we found that there were several reoccurring entries being posted to the Eden system each month, in which the Finance staff was unable to provide adequate documentation to support the amounts being posted. We also found several journal entries that were created as a result of correcting an error that had been previously posted to the City’s general ledger.

Recommendation

We recommend that adjustments posted to the general ledger be reviewed by a knowledgeable individual. We also recommend that the City review all reoccurring adjustments that are currently being posted and determine the necessity of each reoccurring adjustments. Furthermore, we recommend that documentation be retained to support all reoccurring adjustments.

Management’s Response Regarding Corrective Action Taken or Planned

The management of the City’s Finance Department recognizes the importance of implementing year end procedures that will address such deficiencies as this one. The Purchasing Manager, Accounting Manager and Accounts Payable Supervisor will be working in conjunction to resolve this finding. In the past, departments have been given up to three months after the fiscal year end to process invoices that pertained to that fiscal year. That time period was reduced to two months this year and only the Accounting Manager or Purchasing Manager (for open purchase orders) will have the authority to approve the year end invoices. This will insure that the expenses are recorded in the correct fiscal year.
CITY OF INGLEWOOD

Schedule of Findings and Questioned Costs

(Continued)

(B) Findings Related to the Financial Statements which are Required to be Reported in Accordance with GAGAS

(2010-13) Need for Improved Controls over Year End Accounts Payable Accruals

During our testwork performed over year end accruals, we noted eleven (11) disbursements totaling over $2,700,000 that related to services performed during fiscal year 2010, but had been recorded in fiscal year 2011. An audit adjustment was posted to record these disbursements in the proper year.

Recommendation

We recommend that the Finance Department develop procedures to ensure that disbursements made close to the end of the fiscal year be closely reviewed, to ensure that all activity is recorded in the proper fiscal year.

Management’s Response Regarding Corrective Action Taken or Planned

The management of the City’s Finance Department recognizes the importance of implementing year end procedures that will address such deficiencies as this one. The Purchasing Manager, Accounting Manager and Accounts Payable Supervisor will be working in conjunction to resolve this finding. In the past, departments have been given up to three months after the fiscal year end to process invoices that pertained to that fiscal year. That time period was reduced to two months this year and only the Accounting Manager or Purchasing Manager (for open purchase orders) will have the authority to approve the year end invoices. This will insure that the expenses are recorded in the correct fiscal year.

(2010-14) Need for Segregation of Restricted Grant Funding in the Same Fund

During the audit we noted a specific fund that is being used to account for multiple restricted revenue sources. Best practices dictate that restricted revenues from different funding sources or programs be recorded in separate funds or at a minimum department level detail to allow for proper monitoring and tracking of expenditures associated with the restricted nature of the funds or programs.

Recommendation

We recommend that the City review the different sources of restricted revenue and expenditures being recorded in this fund and create new funds to record different activities as considered necessary.

Management’s Response Regarding Corrective Action Taken or Planned

The City recognizes the importance of properly tracking different sources of restricted revenue and their related expenditures and agree with this recommendation. Staff planning and execution of this task will occur before the close of the FY 2010/11.
CITY OF INGLEWOOD

Schedule of Findings and Questioned Costs

(Continued)

(B) Findings Related to the Financial Statements which are Required to be Reported in Accordance with GAGAS

(2010-15) Need for Increased Controls over Budgetary Measures

During our audit we found that there were several individual accounts where the City had recorded a revenue/expenditure where there had been no budgeted amounts. It was also noted that there were accounts with a budgeted amount recorded but no actual revenue/expenditures. In addition, the City does not currently budget for all of its annual debt service payments, which resulted in $14 million of unbudgeted expenditures in fiscal year 2010.

Recommendation

We recommend that the City’s budget be prepared on the same detailed level as revenue and expenditures are accounted for in the general ledger, to ensure that the City can perform accurate reviews of budget to actual amounts incurred.

Management’s Response Regarding Corrective Action Taken or Planned

Staff will look further into the budget control process and procedures and work to include the same level of details in the budget for revenues and expenditures to ensure the City can perform more accurate reviews of budget to actual variances and analysis.

(2010-16) Need for City to Adhere to Internal Policies when Accruing Vacation Liabilities

During testwork performed over the City’s accrual of employee compensated absences, we obtained a copy of each of the MOU’s that the City was operating under during fiscal year ended September 30, 2010. Upon further review of these documents it was noted that in one portion the MOU stated that an employee was only able to accrue a maximum of one-hundred and sixty (160) hours of vacation time, whereas another section of the same MOU states that an employee can trade in eight hundred (800) hours of accrued vacation time for post employment benefits.

Recommendation

We recommend the City account for these liabilities within the City’s existing policy or amend the policy to agree with historical practice.

Management’s Response Regarding Corrective Action Taken or Planned

The City is aware of this issue and will be addressing the matter with the Six (6) Bargaining groups during the next negotiation sessions, when the MOU’s come up for renewal. This will occur at the end of FY2012. This has been an ongoing practice for several years as it was a negotiated benefit with all the bargaining groups, however, the language in the MOU’s were not properly updated. Finally, the City is accounting for the accrued Sick and Vacation hours in separate balance sheet accounts. A resolution should be forth coming, once the new MOU’s are drafted and approved by the bargaining groups.
CITY OF INGLEWOOD

Schedule of Findings and Questioned Costs

(Continued)

(B) Findings Related to the Financial Statements which are Required to be Reported in Accordance with GAGAS

(2010-17) Need for Improvement in Employee Personnel File Records

During our review of employee personnel files we noted that certain files have not been maintained and did not agree with current pay rates. Based on discussion with City personnel we found that Personnel Action Forms (PAF) are not currently being prepared for step-up pay increases that are approved within the MOU’s.

In order to determine that current pay rates are accurate, we performed tests to recalculate the step-up rates for sampled employees and found that the current pay rates of tested employees were consistent with the MOU’s. However, PAFs to support these step-up increases were not being maintained in the personnel files.

Recommendation

We recommend that all employee personnel changes be properly documented in personnel files in a timely manner.

Management’s Response Regarding Corrective Action Taken or Planned

Finance confirmed with the Human Resources Department that Personnel Action Status Forms are created every time an employee receives an automatic annual pay increase. It was also confirmed that these forms have been completed, however, they may not have been in the employee’s personnel file at the time the employee record was being tested/verified by the auditors. In the past, and as early as last year, the auditor performing the testing in the HR department, asked the HR Specialist if he could help locate the missing files. The HR Specialist would provide the missing document as had not yet been filed. This did not occur this time, which is why the auditor was not able to verify the changes to employee records. The City is aware of maintaining employee files up to date and is working very diligently to do so, however, employee lay offs, workforce reductions and weekly furloughs in the past few months has delayed the completion of some of the day to day duties.

(2010-18) Need for Review of Subsidiary Ledgers in Eden Accounting Software

During our testwork performed over utility billing accounts receivable and deposits payable we found that the accounting system’s subsidiary ledgers were not being maintained to support the amounts reported in the general ledger. By maintaining subsidiary ledgers documentation could be increased to indicate the payee, and the date due, to allow for enhanced controls over outstanding receivables and payables.

Recommendation

We recommend that the City reconcile the amounts recorded in subsidiary ledgers to the amounts recorded in the general ledger to ensure that the amounts are in agreement.
CITY OF INGLEWOOD

Schedule of Findings and Questioned Costs

(Continued)

(B) Findings Related to the Financial Statements which are Required to be Reported in Accordance with GAGAS


Management’s Response Regarding Corrective Action Taken or Planned

The City acknowledges the issues relating to the Utility Billing subsidiary ledger and the general ledger. The issues stem from the conversion of the previous non-integrated software system to the Eden Utility Billing module. At that time, staff inadvertently failed to adjust the general ledger balances to reflect the conversion balances. The Eden UB module directly interfaces with the general ledger and is in-sync at all times. After staff adjusts the beginning conversion balances on the general ledger, this issue will not reoccur in the future.

Staff plans to review all subsidiary modules during the current fiscal year. In addition, staff plans to create procedures for the reconciliation of the subsidiary modules at month-end and year-end close.

(2010-19) Need for Improved Controls over Following City Purchasing Policy

During our testwork performed over the City’s compliance with its purchasing policy we found one (1) instance where the City was operating under an expired contract and one (1) instance where the vendor was performing services that were outside the scope of work in the approved contract and no amendment to the contract had been prepared.

Recommendation

We recommend that the City develop controls to ensure that for all purchases the City comply with their purchasing policy.

Management’s Response Regarding Corrective Action Taken or Planned

The City is aware of the importance of following the approved purchasing policy. The instance noted where the City had been operating under an expired contract, that operation has been terminated. The other instance noted was an “emergency situation” where the services performed caused the vendor contract to exceed the original contract amount as the vendor was asked to step in to perform services (janitorial) for facilities not originally assigned to them, after another vendor assigned to those facilities went out of business, and failed to show up. The work performed by the current vendor was for a short period of time to enable the City to prepare and send out the contract for bid. The excess billing over the contract amount was processed for payment after review by the City Council in closed session.
(Continued)

(B) Findings Related to the Financial Statements which are Required to be Reported in Accordance with GAGAS

(2010-20) Need to Maximize Investment Return on Bond Proceeds

During our testwork performed over the City’s bond proceeds we found that as of September 30, 2010, the City had invested $97,583,220 of bond proceeds in a depository account with U.S. Bank that earned $25,091 of total interest income during fiscal year 2010.

The City should ensure the trustee of these funds is properly investing the monies to not only protect the funds from market volatility, but also generate an appropriate rate of return.

Recommendation

We recommend that the investment options available for unspent bond proceeds be reviewed on a regular basis to ensure that the City is maximizing the amount of investment income earned.

Management’s Response Regarding Corrective Action Taken or Planned

The investment referenced in the first paragraph above was under a Depository Agreement with US Bank where the bank was acting as a depository rather than under a trustee arrangement as mentioned in the second paragraph above. The bank was investing the funds in accordance with paragraph 3 of the Depository Agreement dated December 14, 2007. Additionally, the funds are being invested in accordance with the definition of “Authorized Investments” under the related bond documents.

On an ongoing basis the City reviews its Investment Policy for the primary government and its component units. In accordance therewith; safety of principal is the top priority which was especially important during the recent period of great financial concern. The second priority is liquidity and having the funds available to meet disbursement requirements. In our investment policies yield is considered only after the basic requirements of safety and liquidity have been met. On a forward going basis yield will be considered after the first two priorities previously mentioned have been met and the various investment alternatives as included in the definition of “Authorized Investments” under the bond documents will be considered for the investment of the related bond proceeds mentioned in the item above.

(2010-21) Debt Compliance Reporting Findings

During our testwork performed over the City’s compliance with debt reporting requirements for outstanding bond issuances for the fiscal year ended September 30, 2010, we found that the City was not in compliance with several continuing disclosure reporting requirements for fiscal years 2007, 2008 and 2009.
CITY OF INGLEWOOD

Schedule of Findings and Questioned Costs

(Continued)

(B) Findings Related to the Financial Statements which are Required to be Reported in Accordance with GAGAS

(2010-21) Debt Compliance Reporting Findings, (continued)

As of March 2, 2011, the City had taken the necessary steps to ensure that all continuing disclosure requirements had been updated with the Electronic Municipal Market Access (EMMA) website.

Recommendation

We recommend that the City monitor debt compliance reporting requirement deadlines and ensure that all required continuing disclosure requirements are filed on time.

Management’s Response Regarding Corrective Action Taken or Planned

As of March 2, 2011 all continuing disclosure requirements for all outstanding bonds have been updated. Staff is aware of these deadlines and will ensure these deadlines are met in order to stay in compliance with all of the debt requirements of each outstanding issuance.

(2010-22) Need for Improved Capital Asset Records

During our testwork over the City’s capital asset records for the year ended September 30, 2010, the following discrepancies were noted:

- Construction in progress for multiple projects was not recorded by the City in the capital asset spreadsheet. This amount reflects capital projects that were in progress and not yet completed as of September 30, 2010.

- Additions to the City’s infrastructure were not recorded by the City in the capital asset spreadsheet. This amount represents capital projects that had been completed during fiscal year ended September 30, 2010, but had not been recorded by the City.

- The City’s schedule to track accumulated depreciation contained several errors within the formulas that included over depreciating City assets.

- The City was unable to provide a detailed listing by location for all items recorded as land.

Recommendation

We recommend that the Finance Department enhance controls over capital asset recordkeeping and review all capital outlay expenditures each year to determine if any of the projects should be capitalized.
CITY OF INGLEWOOD

Schedule of Findings and Questioned Costs

(Continued)

(B) Findings Related to the Financial Statements which are Required to be Reported in Accordance with GAGAS

(2010-22) Need for Improved Capital Asset Records, (continued)

Management’s Response Regarding Corrective Action Taken or Planned

The City acknowledges the need for better maintenance and reporting of capital assets. Due to staff turnover and budget constraints, the timely maintenance of the fixed asset module has suffered. The Finance division plans to integrate information maintained in the fleet management system to enhance the information currently residing in the fixed asset module. In addition, we plan to modify the existing setup for Eden to improve the year end audit reporting for capital assets. We recently re-assigned staff to improve the accuracy and timely maintenance of the Eden module, which should result in achieving our overall reporting goals.

(2010-23) Need for Formalized Review of Utility Rate Allowances for Section 8 Vouchers Program

During our testwork performed over the City’s utility rate allowances for the Section 8 Vouchers Program we found that there were significant changes in the rate allowances between 2009 and 2010. Methodology and documentation was provided for the 2010 rate allowances, however such documentation was not available for 2009.

Recommendation

We recommend that the City document their calculations annually for utility rate allowances and retain this documentation to support the amounts. For any changes in utility rate allowances over 10% from the prior year, we recommend that the City seek approval from the Department and Housing and Urban Development.

Management’s Response Regarding Corrective Action Taken or Planned

The City recognizes the need to have good controls and procedures in place and to maintain proper documentation to verify and support financial calculations. We will continue to work to improve our procedures and controls, and to maintain proper documentation to support any changes to the Housing utility allowances submitted to HUD to help ensure the information provided is accurate and properly documented and in accordance with HUD regulations.
CITY OF INGLEWOOD

Schedule of Findings and Questioned Costs

(Continued)

(C) Findings and Questioned Costs for Federal Awards as Defined in Paragraph .510(a) of OMB Circular A-133

(2010-24) Highway Planning and Construction – Timely Request of Reimbursement

Federal Agency: Department of Transportation  
CFDA No.: 20.205  
Federal Program Income: Highway Planning and Construction  
Federal Award Program No.: 07-5164R  
Federal Award Year: 2009  
Control Category: Reporting  
Questioned Costs: $0

During the fiscal year ended September 30, 2010 the City incurred reimbursable expenditures in the amount of $2,432,973 for the Manchester Boulevard project. As of February 2011 the City had only submitted reimbursement claims to Caltrans in the amount of $178,004. Prompt reimbursement requests help ensure billing for all applicable costs, the proper recording of grants receivable/revenue and maximized investment earnings on the reimbursement.

Recommendation

We recommend that reimbursements be submitted to granting agencies on at least a quarterly basis in order to achieve the results discussed above.

Management’s Response Regarding Corrective Action Taken or Planned

The Finance Department has initiated regular meetings with the Public Works department in an effort to improve communications and working collaboration between the two departments in order to account for expenditures and submit the required reports in a timely manner. Staff is also working to prepare procedures and compile grant documents to ensure that all departments involved are aware of the grant specific administrative guidelines that need to be followed for each specific grant. This should result in the submission of timely reporting of expenditure reports and quicker reimbursements received by the City.


Federal Agency: Department of Housing and Urban Development  
CFDA No.: 14.257  
Federal Program Income: Homelessness Prevention and Rapid Re-Housing Program (HPRP)  
Federal Award Program No.: S09-MY-06-0520  
Federal Award Year: 2009  
Control Category: Reporting  
Questioned Costs: $0
CITY OF INGLEWOOD

Schedule of Findings and Questioned Costs

(Continued)

(C) Findings and Questioned Costs for Federal Awards as Defined in Paragraph .510(a) of OMB Circular A-133


The Homelessness Prevention and Rapid Re-Housing grant was created as part of the American Reinvestment and Recovery Act (ARRA) and therefore has additional reporting requirements. This grant requires reports to be filed by the City on a quarterly basis to the FederalReporting.gov website. These reports are due ten (10) days after the end of each quarter.

During our testwork performed of the HPRP grant it was noted that for three (3) out of four (4) quarters in fiscal year 2010, these reports were not submitted to FederalReporting.gov on time.

Recommendation

We recommend that the City review the current internal control process for grant compliance with the responsible departments and develop procedures to ensure that all federal reporting requirements are complied with.

Management’s Response Regarding Corrective Action Taken or Planned

The Finance Department has initiated regular meetings with the respective department in an effort to improve communications and working collaboration between the two departments in order to account for expenditures and submit the required reports in a timely manner. Staff is also working to prepare procedures and compile grant documents to ensure that all departments involved are aware of the grant specific administrative guidelines that need to be followed for each specific grant. This should result in the submission of timely reporting of expenditure reports and quicker reimbursements received by the City.

(2010-26) Home Investment Partnership Program – Program Income Loan Repayments

Federal Agency: Department of Housing and Urban Development
CFDA No.: 14.239
Federal Program Income: Home Investment Partnership Programs
Federal Award Program No.: M-09-MC-06-0516
Federal Award Year: 2009
Control Category: Program Income
Questioned Costs: $0

During the fiscal year ended September 30, 2010, the City recorded program income totaling $144,600 for the HOME program. This program income was received for three (3) individual loan repayments from the First Time Home Buyer Loan Program. Upon further testwork of these repayments, it was noted that two (2) out of three (3) repayments had not been recorded as a receivable on the City’s records.
CITY OF INGLEWOOD

Schedule of Findings and Questioned Costs

(Continued)

(C) Findings and Questioned Costs for Federal Awards as Defined in Paragraph .510(a) of OMB Circular A-133

(2010-26) Home Investment Partnership Program – Program Income Loan Repayments, (continued)

Recommendation

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 the First Time Homebuyers loan program 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 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.

Management’s Response Regarding Corrective Action Taken or Planned

Staff is gathering a complete list of all loans outstanding for this program and is also developing the steps necessary to monitor and track all activity on each outstanding loan to ensure they are in compliance with each loan agreement. This project will help us verify the existence of each outstanding loan by following up with each property owner, and monitoring compliance on a regular basis.

(2010-27) Section 8 Vouchers Program – Administration of Tenant Files

Federal Agency: Department of Housing and Urban Development
CFDA No.: 14.871
Federal Program Income: Section 8 Housing Choice Vouchers
Federal Award Program No.: CA082VO
Federal Award Year: 2010
Control Category: Eligibility
Questioned Costs: $0

We reviewed sixty (60) of the Section 8 Vouchers Program tenant files to test compliance with various HUD regulation. During our testing we noted two (2) instances where the City was unable to provide reasonable assurance that the third party income verification declared by the tenants was correctly calculated. We also noted one (1) instance where the City did not have controls in place to provide reasonable assurance that changes made in prior years were being updated annually to ensure that the information was accurate and calculations were appropriately documented.

Recommendation

We recommend that the City improve their controls over maintenance of the Housing Voucher Program files to ensure compliance with applicable HUD regulations.
CITY OF INGLEWOOD

Schedule of Findings and Questioned Costs

(Continued)

(C) Findings and Questioned Costs for Federal Awards as Defined in Paragraph .510(a) of OMB Circular A-133

(2010-27) Section 8 Vouchers Program – Tenant Files Exceptions, (continued)

Management’s Response Regarding Corrective Action Taken or Planned

The City recognizes the need to have good controls and procedures in place and to maintain proper documentation to verify and support financial calculations. We will continue to work to improve our controls over the maintenance of the Housing Voucher Program files to help ensure the information provided is accurate and properly documented in accordance with HUD regulations.

(2010-28) Community Development Block Grant - Reporting

Federal Agency: Department of Housing and Urban Development
CFDA No.: 14.218
Federal Program Income: Community Development Block Grant
Federal Award Program No.: B-09-MC-06-0520
Federal Award Year: 2010
Control Category: Reporting
Questioned Costs: $0

During our testwork performed over the City’s compliance with reporting requirements related to the Community Development Block Grant (CDBG), we found that for the fiscal year ended September 30, 2010, the City had not been submitting the form SF-425 report. This report is required to be submitted by the City to the Department of Housing and Urban Development.

Recommendation

We recommend that the City improve their controls to ensure that all grant reporting requirements are complied with.

Management’s Response Regarding Corrective Action Taken or Planned

The City recognizes the need to have good controls and procedures in place. We will continue to work to improve our controls over the procedures to help ensure that all reporting requirements are submitted timely and are accurate and we are in compliance and in accordance with HUD regulations.
CITY OF INGLEWOOD

Schedule of Findings and Questioned Costs

(Continued)

(C) Findings and Questioned Costs for Federal Awards as Defined in Paragraph .510(a) of OMB Circular A-133

(2010-29) Community Development Block Grant - R - Reporting

Federal Agency: Department of Housing and Urban Development
CFDA No.: 14.253
Federal Program Income: Community Development Block Grant-R
Federal Award Program No.: B-09-MC-06-0520
Federal Award Year: 2010
Control Category: Reporting
Questioned Costs: $0

The CDBG-R grant was created as part of the American Reinvestment and Recovery Act (ARRA) and therefore has additional reporting requirements. This grant requires reports to be filed by the City on a quarterly basis to the FederalReporting.gov website. These reports are due ten (10) days after the end of each quarter.

During our testwork performed of the CDBG-R grant it was noted two (2) instances in fiscal year 2010 where these reports were not submitted to FederalReporting.gov on time.

Recommendation

We recommend that the City review the current internal control process for grant compliance with the responsible departments and develop procedures to ensure that all federal reporting requirements are complied with.

Management’s Response Regarding Corrective Action Taken or Planned

The City recognizes the need to have good controls and procedures in place. We will continue to work to improve our controls over the procedures to help ensure that all reporting requirements are submitted timely and are accurate and we are in compliance and in accordance with HUD regulations.
CITY OF INGLEWOOD

Summary Schedule of Prior Audit Findings

(Continued)

The following is the status of prior audit findings for the year ended September 30, 2009:

(2009-01) Need for Enhanced Controls Over Citywide Cash and Investment Reconciliation

Matter was not resolved and therefore was repeated as a current year finding. See accompanying Schedule of Findings and Questioned Costs as item 2010-01.

(2009-02) Need for Improved Accounting and Monitoring over First Time Home Buyer and Rehabilitation Loans

Matter was not resolved and therefore was repeated as a current year finding. See accompanying Schedule of Findings and Questioned Costs as item 2010-02.

(2009-03) Adjustments Detected Through the Audit Process

Matter was not resolved and therefore was repeated as a current year finding. See accompanying Schedule of Findings and Questioned Costs as item 2010-03.

(2009-04) Need for Improved Controls over Monitoring of Grants and Grant Reimbursements

Matter was not resolved and therefore was repeated as a current year finding. See accompanying Schedule of Findings and Questioned Costs as item 2010-04.

(2009-05) Need to Develop Written Policies and Procedures for Information Technology

Matter was not resolved and therefore was repeated as a current year finding. See accompanying Schedule of Findings and Questioned Costs as item 2010-05.

(2009-06) Need for Enhanced Security Controls over Information Technology Systems

Resolved

(2009-07) Need for Enhanced Physical Security Controls in the Information Technology Environment

Resolved

(2009-08) Need for Improvements in Utility Billing Cash Receipts

Resolved

(2009-09) Need for Independent Review of Check Register

Resolved

(2009-10) Need for Improved Accounting over Land Held for Resale

Resolved