INGLEWOOD HOUSING AUTHORITY

Basic Financial Statements and Supplementary Information

For the Fiscal Year Ended September 30, 2008
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The Honorable Mayor and
Members of the City Council
Inglewood Housing Authority, California

INDEPENDENT AUDITOR’S REPORT

We have audited the accompanying financial statements of the governmental activities and major fund of the Inglewood Housing Authority (Authority), a component unit of the City of Inglewood, California (City), as of and for the fiscal year ended September 30, 2008, which collectively comprise the Authority’s basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Authority’s management. Our responsibility is to express opinions on these financial statements based on our audit.

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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and major fund of the Authority as of September 30, 2008, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Authority has not presented management’s discussion and analysis which according to accounting principles generally accepted in the United States of America is necessary to supplement, although not required to be part of, the basic financial statements.

The information identified in the accompanying table of contents as required supplementary information is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.
The Honorable Mayor and  
Members of the City Council

In accordance with Government Auditing Standards, we have also issued our report dated December 28, 2009 on our consideration of the Authority’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Irvine, California  
December 28, 2009
### INGLEWOOD HOUSING AUTHORITY

#### Statement of Net Assets

**September 30, 2008**

<table>
<thead>
<tr>
<th>Governmental Activities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts receivable</td>
</tr>
<tr>
<td>Due from other governments (note 3)</td>
</tr>
<tr>
<td>Prepaid rents</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Liabilities and Net Assets (deficit)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Liabilities:</td>
</tr>
<tr>
<td>Accounts payable</td>
</tr>
<tr>
<td>Refundable deposits</td>
</tr>
<tr>
<td>Due to other governments</td>
</tr>
<tr>
<td>Due to City of Inglewood</td>
</tr>
<tr>
<td>Long-term liabilities (note 4):</td>
</tr>
<tr>
<td>Due within one year</td>
</tr>
<tr>
<td>Due in more than one year</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Net assets (deficit):</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unrestricted (deficit)</td>
</tr>
<tr>
<td><strong>Total net assets (deficit)</strong></td>
</tr>
</tbody>
</table>

See accompanying notes to the basic financial statements.
**INGLEWOOD HOUSING AUTHORITY**

Statement of Activities

Fiscal Year Ended September 30, 2008

<table>
<thead>
<tr>
<th>Program Revenues</th>
<th>Net (Expense)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expenses</td>
<td>Operating</td>
</tr>
<tr>
<td></td>
<td>Charges for</td>
</tr>
<tr>
<td></td>
<td>Services</td>
</tr>
</tbody>
</table>

**Governmental activities:**

| General government       | 9,748,422 | - | 8,233,866 | - | (1,514,556) |
| Interest expense         | 120,079   | - | -         | - | (120,079)   |

**Total governmental activities:**

| $ 9,868,501 | - | 8,233,866 | - | (1,634,635) |

**General revenues:**

| Other general revenues   | 600,828 |
| Total general revenues   | 600,828 |
| Change in net assets     | (1,033,807) |
| Net assets (deficit)     | (63,341) |

**Net assets (deficit) at end of year:**

| $ (1,097,148) |

See accompanying notes to the basic financial statements.
## INGLEWOOD HOUSING AUTHORITY

**Governmental Funds**

**Balance Sheet**

*September 30, 2008*

<table>
<thead>
<tr>
<th>General Fund</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets:</strong></td>
<td></td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>$22,382</td>
</tr>
<tr>
<td>Due from other governments (note 3)</td>
<td>492,553</td>
</tr>
<tr>
<td>Prepaid rents</td>
<td>537,593</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>$1,052,528</td>
</tr>
</tbody>
</table>

|   |   |
| Liabilities and Fund Balance (deficit) |   |
| **Liabilities:** |   |
| Accounts payable and accrued liabilities | $62,025 |
| Refundable deposits | 54,984 |
| Due to other governments | 80,296 |
| Due to City of Inglewood | 1,604,233 |
| **Total liabilities** | 1,801,538 |
| Fund balance (deficit), unreserved | (749,010) |
| **Total liabilities and fund balance (deficit)** | $1,052,528 |

See accompanying notes to the basic financial statements.
inglewood housing authority

Governmental Funds

Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets

September 30, 2008

Fund balances (deficit) of governmental funds $ (749,010)

Amounts reported for governmental activities in the statement of net assets are different because:

   Long term debt that has not been included in the governmental fund activity.
   Compensated absences $ (348,138)

   Net assets (deficit) of governmental activities $ (1,097,148)

See accompanying notes to the basic financial statements.
### INGLEWOOD HOUSING AUTHORITY

**Statement of Revenues, Expenditures and Changes in Fund Balances**

**Governmental Funds**

Fiscal Year Ended September 30, 2008

<table>
<thead>
<tr>
<th></th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenues:</strong></td>
<td></td>
</tr>
<tr>
<td>Intergovernmental</td>
<td>$ 8,233,866</td>
</tr>
<tr>
<td>Other</td>
<td>600,828</td>
</tr>
<tr>
<td><strong>Total revenues</strong></td>
<td><strong>8,834,694</strong></td>
</tr>
<tr>
<td><strong>Expenditures:</strong></td>
<td></td>
</tr>
<tr>
<td>Personnel services</td>
<td>1,319,137</td>
</tr>
<tr>
<td>Maintenance and operations</td>
<td>8,405,032</td>
</tr>
<tr>
<td>Interest expense</td>
<td>120,079</td>
</tr>
<tr>
<td><strong>Total expenditures</strong></td>
<td><strong>9,844,248</strong></td>
</tr>
<tr>
<td><strong>Excess (deficiency) of revenues over (under) expenditures</strong></td>
<td>$(1,009,554)</td>
</tr>
<tr>
<td><strong>Fund balance at beginning of year</strong></td>
<td><strong>260,544</strong></td>
</tr>
<tr>
<td><strong>Fund balance (deficit) at end of year</strong></td>
<td>$(749,010)</td>
</tr>
</tbody>
</table>

See accompanying notes to the basic financial statements.
Net changes in fund balances of governmental funds $ (1,009,554)

Amounts reported for governmental activities in the statement of activities is different because:

   To record as an expense the change in compensated absences in the statement of activities. (24,253)

Change in net assets of governmental activities $ (1,033,807)

See accompanying notes to the basic financial statements.
INGLEWOOD HOUSING AUTHORITY

Notes to the Basic Financial Statements

Fiscal year ended September 30, 2008

(1) Nature and Operations of the Authority

The Inglewood Housing Authority (Authority) is a separate governmental entity created in 1976 to foster the growth and development of affordable housing for low-income residents of the City of Inglewood (City). The Authority has the responsibility of managing federally subsidized rent programs within the City, including:

- The Housing Choice Voucher Program through which the Authority administers over 1,846 tenant-based vouchers.
- The Section 8 New Construction Program, which provides 500 units of subsidized housing for senior citizens and disabled persons:

The members of the City Council of the City also act as members of the Board of Directors of the Authority. Similarly, the officers of the City serve as officers of the Authority. Facilities, equipment and administrative, financial and legal services are provided to the Authority by the City, for which the City is reimbursed. The primary sources of revenue for the Authority are intergovernmental revenues.

Under Governmental Accounting Standards Board (GASB) Statement No. 14, the Authority is a component unit of the City and its financial activities have been blended with the financial activities of the City for purposes of financial reporting.

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

Government - wide Financial Statements

The statement of net assets and statement of activities display information about the Authority’s activities. These statements include the financial activities of the Authority. These statements present the Authority’s governmental activities, which normally are supported by intergovernmental revenues.

The statement of activities presents a comparison between program expenses and program revenues for each function of the Authority’s governmental activities. Program expenses include such direct expenses that are specifically associated with a program or function and therefore, are clearly identifiable to a particular function. Program revenues include 1) charges paid by the recipients of goods or services offered by the programs and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented instead as general revenues.
(2) Summary of Significant Accounting Policies, (Continued)

(a) Basis of Presentation, (Continued)

When an expense is incurred for a purpose for which both restricted and unrestricted net assets are available, management has discretion as to which resources apply. It is the Authority’s policy to use restricted resources before unrestricted resources.

Fund Financial Statements

The fund financial statements provide information about the Authority’s funds. The emphasis of fund financial statements is on the major governmental funds. The financial activities of the Authority are accounted for in a single special revenue fund.

(b) Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the Authority gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, special assessments, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenues from grants, entitlements and donations are recognized in the fiscal year in which all eligible requirements have been satisfied.

Governmental fund type financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues and other governmental fund type financial resources are recognized when they become susceptible to accrual — that is, when they become both measurable and available.

Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Property taxes are considered available and are accrued when received within sixty days after fiscal year-end.

Revenue received from expenditure driven (cost-reimbursement) grants, contracts and other nonexchange transactions, as defined by GASB Statement No. 33, Accounting and Financial Reporting for Nonexchange Transactions, are considered available and accrued if expected to be received within twelve months after fiscal year-end.
INGLEWOOD HOUSING AUTHORITY

Notes to the Basic Financial Statements

(Continued)

(2) Summary of Significant Accounting Policies. (Continued)

(c) Cash and investments

The Authority’s cash from operations is deposited in the City Treasury. The City pools its funds with other government agencies in the City and invests them as prescribed by the California Government Code. The Authority’s deposits in the City pool may be accessed at any time. The Authority is allocated interest income on monies deposited with the City based on its average monthly proportional share of the pooled cash and investments. All pooled investments are carried at fair market value.

(d) Net Assets/Fund Balances

The government-wide financial statements utilize a net assets presentation. Net assets are categorized as invested capital assets (net of related debt), restricted and unrestricted.

- Invested In Capital Assets, Net of Related Debt - This category groups all capital assets into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category.

- Restricted Net Assets - This category presents external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

- Unrestricted Net Assets - this category represents net assets of the Authority, not restricted for any project or other purpose.

(e) Reservations/Designations

In fund financial statements, reservations of fund balance represent amounts that are not appro priable or are legally segregated for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

(f) Budgetary Information

The Governing Board approves each year’s budget submitted by the Executive Director prior to the beginning of the new fiscal year. Supplemental appropriations, where required during the period are also approved by the Governing Board. Intradepartmental budget changes are approved by the Executive Director. In most cases, expenditures may not exceed appropriations at the fund level. At fiscal year-end all operating budget appropriations lapse. There were no significant changes to the budget during the fiscal year.
INGLEWOOD HOUSING AUTHORITY

Notes to the Basic Financial Statements

(Continued)

(2) Summary of Significant Accounting Policies, (Continued)

Formal budgetary information is employed as a management control device during the year for the Special Revenue Funds. The budgets for all Governmental Funds are adopted on a basis consistent with generally accepted accounting principles.

(g) Estimate

The preparation of basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

(3) Due From Other Governments

As of September 30, 2008, the balance of receivables was as follows:

Due from other governments $ 1,170,219

Less: Allowance for doubtful accounts (677,666)

Receivables, net of allowance for doubtful accounts $ 492,553

(4) Long-Term Liabilities

Long-term liability activity for the year ended September 30, 2008 was as follows:

<table>
<thead>
<tr>
<th></th>
<th>Balance at October 1, 2007</th>
<th>Additions</th>
<th>Deletions</th>
<th>Balance at September 30, 2008</th>
<th>Amounts due within one year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Compensated absences</td>
<td>$ 323,885</td>
<td>29,396</td>
<td>(5,143)</td>
<td>348,138</td>
<td>3,422</td>
</tr>
</tbody>
</table>

(5) Self-Insurance Program

In conjunction with the City, the Authority is self-insured for the first $1,000,000 of general liability claims and for the first $250,000 of workers compensation claims. Information pertaining to the amounts accrued for claims payable may be found in the City’s Comprehensive Annual Financial Report.
INGLEWOOD HOUSING AUTHORITY

Notes to the Basic Financial Statements

(Continued)

(6) Retirement Plan

The Authority, as part of the City, contributes to the California Public Employees Retirement System (PERS). PERS is an agent multiple-employer defined benefit plan that acts as a common investment and administrative agent for municipalities in California. The Authority pays the City’s share of pension costs and Employer Paid Member Contribution, which amounted to $124,120 and $69,909, respectively, for the fiscal year ended September 30, 2008. Contribution amounts are based upon rates established by PERS for the City’s general employees who have performed services for the Authority. No separate pension benefit obligation is calculated for the Authority; and accordingly, no obligation is presented herein. Further information regarding the City’s participation in PERS may be found in the City’s Comprehensive Annual Financial Report.

(7) Relationship with the City of Inglewood

The Authority does not have any employees and does not own or use facilities separated from the City. Facilities, equipment and administrative, financial and legal services are provided to the Authority by the City, for which the City is reimbursed.

(8) Prior Period Adjustments

During fiscal year 2007-2008, fund balance and net assets at October 1, 2007 were restated to record Housing Assistance Payments that related to the prior year and to record compensated absences.

The following schedules summarize the effects of the prior period adjustments to the Fund Financial Statements and the Government-wide Statements.

Fund Financial Statements:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fund balance at beginning of year, as previously reported</td>
<td>$ 786,900</td>
</tr>
<tr>
<td>Adjustment to record Housing Assistance Payments that related to prior years</td>
<td>(526,356)</td>
</tr>
<tr>
<td>Fund balance at beginning of year, as restated</td>
<td>$ 260,544</td>
</tr>
</tbody>
</table>
(8)  Prior Period Adjustments, (Continued)

The following schedule summarizes the effect of the prior period adjustment to the Government-wide Statements.

<table>
<thead>
<tr>
<th>Description</th>
<th>Governmental Activities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net assets at beginning of year, as previously reported</td>
<td>$ 786,900</td>
</tr>
<tr>
<td>Adjustment to record Housing Assistance Payments that related to prior years</td>
<td>(526,356)</td>
</tr>
<tr>
<td>Adjustment to record compensated absences</td>
<td>(323,885)</td>
</tr>
<tr>
<td>Net assets at beginning of year, as restated</td>
<td>$ (63,341)</td>
</tr>
</tbody>
</table>
SUPPLEMENTARY SCHEDULE
### INGLEWOOD HOUSING AUTHORITY

**Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual**

**Fiscal Year Ended September 30, 2008**

<table>
<thead>
<tr>
<th></th>
<th>Budget</th>
<th>Actual</th>
<th>Variance-Positive (Negative)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenues:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Intergovernmental</td>
<td>$ 12,199,000</td>
<td>8,233,866</td>
<td>(3,965,134)</td>
</tr>
<tr>
<td>Other</td>
<td>700,000</td>
<td>600,828</td>
<td>(99,172)</td>
</tr>
<tr>
<td><strong>Total revenues</strong></td>
<td>12,899,000</td>
<td>8,834,694</td>
<td>(4,064,306)</td>
</tr>
<tr>
<td><strong>Expenditures:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Current:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Personnel services</td>
<td>1,703,502</td>
<td>1,319,137</td>
<td>384,365</td>
</tr>
<tr>
<td>Maintenance and operations</td>
<td>11,752,726</td>
<td>8,405,032</td>
<td>3,347,694</td>
</tr>
<tr>
<td>Interest expense</td>
<td>-</td>
<td>120,079</td>
<td>(120,079)</td>
</tr>
<tr>
<td><strong>Total expenditures</strong></td>
<td>13,456,228</td>
<td>9,844,248</td>
<td>3,611,980</td>
</tr>
<tr>
<td>Excess (deficiency) of revenues over (under) expenditures</td>
<td>(557,228)</td>
<td>(1,009,554)</td>
<td>(452,326)</td>
</tr>
<tr>
<td><strong>Fund balance at beginning of year</strong></td>
<td>260,544</td>
<td>260,544</td>
<td>-</td>
</tr>
<tr>
<td><strong>Fund balance at end of year</strong></td>
<td>$ (296,684)</td>
<td>(749,010)</td>
<td>(452,326)</td>
</tr>
</tbody>
</table>
REPORT ON COMPLIANCE AND OTHER MATTERS AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

The Honorable Mayor and
Members of the City Council
Inglewood Housing Authority, California

We have audited the financial statements of the governmental activities and the governmental fund of the Inglewood Housing Authority (the Authority), a component unit of the City of Inglewood, California (City), as of and for the year ended September 30, 2008 and have issued our report thereon dated December 28, 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority’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 are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority’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 Authority’s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority’s internal control over financial reporting.

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 Authority’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 Authority’s financial statements that is more than inconsequential will not be prevented or detected by the Authority’s internal control. We consider items that have been described in the accompanying Schedule of Findings and Recommendations to be significant deficiencies in internal control.
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 Authority's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily disclose all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, of the significant deficiencies described above, we consider items 2008-01, 2008-02, and 2008-03, that have been described in the accompanying Schedule of Findings and Recommendations to be material weaknesses.

The City’s written response to the material weaknesses and significant deficiencies 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.

We noted other certain matters we reported to the management of the City of Inglewood in a separate letter dated December 28, 2009.

This report is intended solely for the information and use of the Mayor, City Council and management of the Authority and is not intended to be and should not be used by anyone other than these specified parties.

Irvine, California
December 28, 2009
INGLEWOOD HOUSING AUTHORITY

Schedule and Findings and Recommendations

Year ended September 30, 2008

(2008-01) 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, 2008 bank reconciliation was completed by the City in November 2009. We also noted that the September 30, 2008 bank reconciliation had significant discrepancies when comparing the cash balance per the general ledger to the reconciled bank balance. These discrepancies were the result of numerous adjustments that had not been properly reflected in the 2008 fiscal year and as a result, the City’s September 30, 2008 reconciliation and respective cash balances were adjusted to correct these issues.

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 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 importance of preparing bank reconciliations on a monthly basis to ensure proper accountability of funds and to accurately state the City’s financial position as well as help identify any potential fraudulent activity. The City also recognizes the need for proper monitoring of stale dated checks and will be taking the necessary steps to review the items in the liability account to ascertain the status of each payment and proceed with the escheating process when necessary.

(2008-02) Adjustments Detected Through the Audit Process

Paragraph 19 of Statement on Auditing Standards No. 112 requires that the auditor include in the report of significant control deficiencies any material adjustments detected by the audit process. For the year ended September 30, 2008, material adjustments detected by the audit process were as follows:
INGLEWOOD HOUSING AUTHORITY

Schedule and Findings and Recommendations

(Continued)

(2008-02) Adjustments Detected Through the Audit Process. (Continued)

- To adjust cash for amounts reported in the September 30, 2008 reconciliation, but not reflected in City’s general ledger. Total net amount of cash reduced in the general ledger was $1,428,134. $536,210 of this adjustment related to prior year transactions which resulted in a restatement of beginning fund balance.
- To adjust $2,575,710 of expenditures recorded in the general fund which was also recorded as expenditures in a debt service fund of the City and to agree operating transfers out to operating transfers in.
- To adjust land held for resale for $254,542 relating to the sale of a property which occurred in June 2008 that was not recorded in the general ledger.
- To reduce deferred revenue by $16,230,027 and recognize revenue in the current and prior fiscal years. $1,526,926 of this adjustment represented taxes receivable relating to delinquent property taxes offset by deferred revenue. The remaining $14,703,100 represented the accumulation of program income for prior years from various funds and programs. These amounts have been recorded to fund balance rather than deferred revenue.
- Capital assets were increased by a net amount of $83,264,625 to record property relinquished by the State to the City in a prior fiscal year. The amount represents the estimated fair value at the date of donation as calculated by City staff.
- Reclassified $710,000 of land held for resale to capital assets of the City as this property was being developed by the City as a Senior Center and housing project in prior fiscal years.
- To reduce fund balance in the Merged Redevelopment Capital Project Fund and the Low & Moderate Income Housing Fund in the amounts of $88,860 and $1,685,156, respectively, to account for expenditures that were unrecorded in the prior fiscal year.
- To reduce fund balance in the Merged Redevelopment Capital Project Fund and to reduce land held for resale relating to a land sale transacted in prior fiscal years in the amount of $1,204,920.

Recommendation:

We recommend that the City develop and implement procedures to assist Finance Department staff in the process of closing the accounting records at the end of each fiscal year to ensure all material accounting entries have been prepared prior to the auditors conducting the audit. These procedures could involve checklists of processes to be completed and accounts to be reviewed and/or analyzed.

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
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Schedule and Findings and Recommendations

(Continued)

(2008-02) Adjustments Detected Through the Audit Process. (Continued)

management of the Finance Department will create a checklist with strict adherence
to timelines of balance sheet accounts and other pertinent accounts to be reviewed
and/or analyzed by finance department staff with management of the Finance
Department reviewing such work performed to ensure that the accounts in the general
ledger are not materially misstated.

(2008-03) Need for Improved Controls over Monitoring of Grants and Grant Reimbursements

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 advance and
then requests reimbursement from granting agencies. During our testwork performed
over grant receivables we noted one particular grant where expenses were incurred
from 2007-2008 which the City considered to be fully reimbursable and was
recorded as a grant receivable. Upon further inquiry with the Finance Department, it
was noted that the status of this reimbursement was unknown. Therefore, an
allowance for uncollectible accounts for the entire amount of the grant receivable was
recorded as of September 30, 2008.

There is a lack of inter-department communications and reconciliation with the
grant receivable process which has 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 Administration Department is drafting a new Grant Management Policies and
Procedures section for the City of Inglewood Administrative Manual. The
development and implementation of this section will ensure proper management of all
grants including timely and accurate reporting. In addition, the Administration
Department has instructed the ITC Department to develop a web-based, grant
management tickler system. This system will track grant reporting deadlines and will
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Schedule and Findings and Recommendations

(Continued)

(2008-03) Need for Improved Controls over Monitoring of Grants and Grant Reimbursements.
(Continued)

notify staff when a deadline is approaching, giving adequate time to develop reports and submit for approval, with final submittal to the granting entity. The Grant Management Policies and Procedures section of the Administrative Manual will be completed by the end of December 2009. The web-based, grant management tickler system will be completed in the first quarter of calendar year 2010.

In addition to the Grant Management Policies and Procedures addressing grants monitoring, reimbursements, and timely reporting, the Finance Department will also be monitoring and reconciling the receivables at least annually and writing off any known uncollectible receivables.

(2008-04) 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 can not 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. Software Development Methodology
3. Change and Problem Management
4. System and Network Monitoring
5. Data Backup and Recovery
6. Records Management and Data Retention
7. Disaster Recovery and Business Continuity Planning
(2008-04) Need to Develop Written Policies and Procedures for Information Technology. (Continued)

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 ITC Department has launched an internal project to compile and formalize policies and procedures for computer operations 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 and data retention and disaster recovery and business continuity planning. This project has been assigned resources, and it is anticipated that a first draft of the policies and procedures manual will be completed on February 1, 2010.

(2008-05) Need for Enhanced Security Controls over Information Technology Systems

Access controls limit or detect inappropriate access to computer resources, thereby protecting them from unauthorized modification, loss, and disclosure. Logical access controls require users to authenticate themselves (through the use of secret passwords or other identifiers) and limit the files and other resources that authenticated users can access and the actions that they can execute. Without adequate access controls, unauthorized individuals, including outside intruders and former employees, can surreptitiously read and copy sensitive data and make undetected changes or deletions for malicious purposes or personal gain. In addition, authorized users can intentionally or unintentionally read, add, delete, modify, or execute changes that are outside their span of authority. Inadequate access controls diminish the reliability of computerized data and increase the risk of destruction or inappropriate disclosure of data.

During our review of security controls and password settings, we noted that certain procedures could be upgraded to be more inline with certain industry standards. For example, we noted the City does not employ password complexity requirements on the Windows Active Directory system. The Windows AD system is also used to provide users single sign-on to Eden, the Enterprise Resource Planning tool used by the City. The following are industry standard user account policies that, if implemented, should provide for increased security over system resources:
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Schedule and Findings and Recommendations

(Continued)

(2008-05) Need for Enhanced Security Controls over Information Technology Systems
(Continued)

- Individual users should be uniquely identified rather than having users within a group share the same ID or password; generic user IDs and passwords should not be used.
- Passwords should be required to be changed periodically, between 30 to 90 days.
- Passwords should be required to contain both alphanumeric and special characters.
- A minimum character length, at least 8 characters, should be required for passwords.
- Use of old passwords (for example, within 6 generations) should be prohibited.
- Unsuccessful attempts to login should be limited to between 3 and 5 attempts.

In addition, the City does not conduct periodic reviews of users’ access to the network and Eden to ensure user access is appropriate.

We understand the City IT & Communication Department is in the process of updating these controls. The City is planning to implement stronger password controls for the Windows Active Directory and Eden software in December 2009.

Recommendations

We recommend the City continue making efforts to enhance user access security controls to be in-line with industry best practices, as described above. In addition, we recommend the City implement a periodic (i.e., semi-annual) review of user access to system resources to ensure user access is appropriate.

Management’s Response Regarding Corrective Action Taken or Planned

The ITC Department has launched an internal project to compile and formalize policies and procedures based upon best practices as they relate to information security. This project has been assigned resources, and it is anticipated that a first draft of the policies and procedures manual will be completed on February 1, 2010.

The ITC Department is preparing to institute a new password policy. All passwords, including initial passwords, will be constructed and implemented according to the following rules:

- Users will be required to change their password at least every 90 days.
- The minimum age of a password will be 30 days.

- There will be a password history of 5 passwords to prevent the immediate reuse of a password. This means that a previously used password cannot be reused until it expires (e.g., falls off the password history list).
- Passwords will adhere to a minimum length of eight (8) characters.
- Passwords will be comprised of a combination of capital and lowercase alpha characters, as well as numeric and special (e.g., non-alphabetic) characters that comprise a strong password, which is defined as containing at least 3 of the following 4 components:
  A. English uppercase characters (A through Z)
  B. English lowercase characters (a through z)
  C. Numeric digits (0 through 9)
  D. Non-alphabetic characters such as !, $, #, %, and &.
- Passwords will not be anything that can easily tied back to the account owner such as: user name, social security number, nickname, relative’s names, birth date, etc.
- Passwords should not be dictionary words or acronyms.
- Security tokens (e.g., Smartcards) if applicable will be returned upon demand or upon termination of the relationship with the City of Inglewood.
- If the security of a password is in doubt, the password will be changed immediately.
- Administrators will not circumvent the Password Policy for the sake of ease of use.
- Before being left unattended, computing devices are to be logged off, or the password-protected screensaver is to be enabled.

The effective date for citywide implementation is Monday, December 14, 2009.
(2008-06) Need for Enhanced Physical Security Controls in the Information Technology Environment

Adequate physical security controls should be established that are commensurate with the risks of physical damage. Physical security controls restrict physical access to computer resources and protect them from intentional or unintentional loss or impairment. Physical controls also include environmental controls, such as smoke detectors, fire alarms, extinguishers, and uninterruptible power supplies.

During our review of physical security controls we noted the City does not require visitors to the computer room to sign-in.

Recommendations

We recommend the City require visitors to the computer room sign-in to create an audit trail of guests. The sign-in log should periodically be reviewed to ensure only appropriate personnel are accessing computer resources.

Management’s Response Regarding Corrective Action Taken or Planned

Entry to the City’s data center is currently restricted via the use of our citywide access control system (Hirsch), which the Facilities Division of Public Works currently manages. There is, however, no access log listing who has gained access. Upon review of the list of employees currently authorized to enter the City’s data center, ITC will be implementing tighter restrictions as to who is authorized to enter (including ITC staff with no reason to gain entry).

In addition, ITC network administrators will assume control of ITC-related access points through Hirsch in order to maintain the tightened level of control. This will be implemented by December 14, 2009.

Finally, access to ITC’s main area has Hirsch-based access available, but it is not currently in use during normal business hours. In order to enhance security, this will be activated so as to allow only City staff to gain access during normal business hours (e.g., an employee or authorized consultant will have to use his or her badge to gain access to ITC) along with a written access log.

(2008-07) Need for Independent Review of Check Register

During our review and testing of internal controls over cash disbursements, we noted that the Accounts Payable Supervisor has the ability to post invoices and prepare checks and is currently the only individual responsible for reviewing printed disbursements against the system generated check register. Having one employee with access and the ability to prepare checks in addition to having the responsibility of reviewing the check register for processing may allow that individual to process an inappropriate disbursement and it go undetected by the City.
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Schedule and Findings and Recommendations

(Continued)

(2008-07) Need for Independent Review of Check Register (Continued)

Best practices recommend that an individual independent of the cash disbursement process review the check register to ensure that each of the checks printed were properly approved, supported by appropriate documentation, and properly recorded in the City’s accounting system.

Recommendation

We recommend that an individual independent of the cash disbursement process review the checks against the check register generated from the City’s accounting system to ensure that there have been no unauthorized checks printed.

Management’s Response Regarding Corrective Action Taken or Planned

Currently, the Accounts Payable Supervisor posts the invoices and prepares the batch for creation of the checks. Although there are sufficient controls in place in regards to the segregation of duties between the employee responsible for creating the check batch and the employee physically placing the blank check stock in the printer, there should be further control over the Accounts Payable Supervisor’s ability to enter and post invoices prior to the creation of the check batch.

An additional control to be implemented will be for a Senior Accountant to obtain a copy of the Invoice Posting Listing prior to the Accounts Payable Supervisor creating the check batch for printing and have the Senior Accountant compare it to the Warrant Register after the printing of the checks. This will ensure that no other invoices will be entered or posted by the Accounts Payable Supervisor prior to the printing of the checks.

(2008-8) Investment Income Methodology

During our review over the City’s procedures for allocating investment income we noted that negative investment income is assigned to funds with deficit cash balances. Typically, a zero balance is assigned and the negative portions are allocated to the General Fund. Although, the City’s practice is technically incorrect, it seems that it has the most effect on the Section 8 Housing fund. As negative interest is applied it essentially is recorded as an expense which reduces the administrative portion of the City’s funding. In addition, the practice creates a negative revenue amounts which affects financial statement presentation.
(Continued)

(2008-8) Investment Income Methodology, (Continued)

Recommendation

We recommend that the City adjust its methodology for allocating investment income between funds and no longer assign negative income to those funds with a negative cash balance.

Management’s Response Regarding Corrective Action Taken or Planned

The City has been allocating interest income to all funds regardless of whether there is a positive or negative cash balance in the fund. For those funds with a negative fund balance, the fund was charged a negative interest income (expense). The City will be changing its methodology and allocating interest income to only funds with a positive cash balance.