

CITY OF INGLEWOOD, CALIFORNIA

SINGLE AUDIT REPORT

SEPTEMBER 30, 2016

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SINGLE AUDIT REPORT

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CITY OF INGLEWOOD

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INDEPENDENT AUDITORS' 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*

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

We have audited, in accordance with the 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, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Inglewood, California, (the City) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated August 4, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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 a 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 2016-001, 2016-002, 2016-003, and 2016-004 to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2016-005 to be a significant deficiency.



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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, which are described in the accompanying schedule of findings and questioned costs as item 2016-006.

City's Response to Findings and Corrective Action

The City's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Brea, California
August 4, 2017



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND
ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES
OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE

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

Report on Compliance for Each Major Federal Program

We have audited the City of Inglewood, California (the City)'s compliance with the types of compliance requirements described in the (OMB) Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) that could have a direct and material effect on each of the City's major federal programs for the year ended September 30, 2016. 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.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. 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 the audit requirements of (OMB) Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of 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, 2016.



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

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2016-007, 2016-008 and 2016-009. Our opinion on each major federal program is not modified with respect to this matter.

The City's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

Our consideration of 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 material weaknesses or significant deficiencies. And therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

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 deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2016-009 to be a material weakness.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2016-008 to be a significant deficiency.



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

The City's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on the Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Inglewood, California, as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated August 4, 2017, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Lance, Soll & Lughard, LLP

Brea, California
August 4, 2017

CITY OF INGLEWOOD

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016

Federal Grantor/Pass-Through Grantor Program Title	Federal Domestic Assistance Number	Program Identification Number	Program Expenditures	Amounts Provided to Subrecipients
U.S. Department of Housing and Urban Development				
Direct Assistance:				
Community Development Block Grants/Entitlement Grants *	14.218	B-15-MC-06-0520	\$ 3,174,016	\$ 53,163
Home Investment Partnerships Program *	14.239	M-15-MC-06-0516	3,604,221	-
Section 8 Housing Choice Vouchers *	14.871	CA082	9,996,535	-
Subtotal			16,774,772	53,163
U.S. Department of Justice				
Direct Assistance:				
Justice Assistance Grant	16.738	2015-DJ-BC-0950	14,842	-
Asset Forfeiture and Seizure *	16.922	CA0193300	696,344	-
Subtotal			711,186	-
U.S. Department of Transportation				
Direct Assistance:				
Airport Improvement Program	20.106	3-06-0139-081-2014, 3-06-0139-084-2015	2,646,628	-
Pass-through the California Department of Transportation				
Traffic Sign Replacement Project	20.205	HSIPL-5164(027)	48	-
Crenshaw Blvd & 84th Street	20.205	HSIPL-5164(025)	168	-
Inglewood Active Transportation and Safe Route to School Plan	20.205	ATPLNI-5164(029)	141,829	-
Pass-through Total			142,045	-
Subtotal			2,788,673	-
U.S. Department of Health and Human Services				
Aging Cluster:				
Pass-through the County of Los Angeles:				
Special Programs for the Aging Title III				
Part B Grants for Supportive Services and Senior Centers *	93.044	40291	3,875	-
Part B Grants for Supportive Services and Senior Centers *	93.044	SSP-1014-12	66,758	-
Special Programs for the Aging Title III				
Part C Nutrition Services *	93.045	AAA-ENP2-0809-011	608,872	-
Part C Nutrition Services *	93.045	AAA-ENP-1216-010	2,273	-
Nutrition Services Incentive Program *	93.053	AAA-ENP2-0809-011	72,671	-
Aging Cluster Total			754,449	-
Subtotal			754,449	-
Total Federal Expenditures			\$ 21,029,080	\$ 53,163

* Major Program

Note a: Refer to Note 1 to the schedule of expenditures of federal awards for a description of significant account policies used in preparing this schedule.

Note b: There was no federal awards expended in the form of noncash assistance and insurance in effect during the year.

CITY OF INGLEWOOD

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
LOS ANGELES COUNTY GRANTS
AAA-ENP2-0809-011/SSP-1014-12/
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016**

Federal Grantor/Pass-Through Grantor Program Title	Federal Domestic Assistance Number	Contract	Period	Award Contracted	Amount Expended
Department of Health and Human Services:					
Title III Part B - Special Programs for the Aging - Grants for Supportive Services and Senior Centers	93.044	40291	2015-2016	\$ 3,875	\$ 3,875
Grants for Supportive Services for Aging	93.044	SSP-1014-12	2015-2016	66,758	66,758
Title IIIC1 Congregate Nutrition	93.045	AAA-ENP2-0809-011	2015-2016	299,358	299,358
Title IIIC 2 Home Delivered Meals	93.045	AAA-ENP2-0809-011	2015-2016	309,514	309,514
Title IIIC 1 UUT (CY Press II)	93.045	AAA-ENP-1216-010	2015-2016	2,273	2,273
Subtotal - Department of Health and Human Services				<u>681,778</u>	<u>681,778</u>
Older Americans Act:					
NSIP/USDA Title IIIC1	93.053	AAA-ENP2-0809-011	2015-2016	34,554	34,554
NSIP/USDA Title IIIC2	93.053	AAA-ENP2-0809-011	2015-2016	38,117	38,117
Subtotal - Older Americans Act (Nutritional Services Incentive Program)				<u>72,671</u>	<u>72,671</u>
Total - LA County Contracts AAA-ENP2-0809-011 and SSP- 1014-12/40291				<u>\$ 754,449</u>	<u>\$ 754,449</u>

Federal Funds - Reconciliation to Schedule of Expenditures of Federal Awards

Older Americans Act (Department of Agriculture) Fiscal Year Ended 6/30/15	\$ 65,185
Less: July through September 2015 Expenditures	(18,223)
Add: July through September 2016 Expenditures (40291)	<u>16,965</u>
Older Americans Act (Nutritional Services Incentive Program) Fiscal Year Ended 9/30/16	<u>\$ 63,927</u>
Department of Health and Human Services Fiscal Year Ended 6/30/15	\$ 635,828
Less: July Through September 2015 Expenditures	(170,463)
Add: July through September 2016 Expenditures (40291/40128)	<u>167,637</u>
Department of Health and Human Services Fiscal Year Ended 9/30/16	<u>\$ 633,002</u>

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

Note 1: Summary of Significant Accounting Policies Applicable to the Schedule of Expenditures of Federal Awards

a. Scope of Presentation

The accompanying schedule presents only the expenditures incurred by the City of Inglewood, California, that are reimbursable under federal programs of federal financial assistance. For the purposes of this schedule, federal awards include both federal financial assistance received directly from a federal agency, as well as federal funds received indirectly by the City 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 incurred when the City becomes obligated for payment as a result of the receipt of the related goods and services. Expenditures reported included any property or equipment acquisitions incurred under the federal program.

c. Indirect Cost Rate

The City has not used the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

CITY OF INGLEWOOD, CALIFORNIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unmodified Opinion

Internal control over financial reporting:

- Significant deficiencies identified? yes no
- Material weaknesses identified? yes none reported

Noncompliance material to financial statements noted? yes no

Federal Awards

Internal control over major programs:

- Significant deficiencies identified? yes no
- Material weaknesses identified? yes none reported

Type of auditors' report issued on compliance for major programs: Unmodified Opinion

Any audit findings disclosed that are required to be reported in accordance with Title 2 U.S. Code of Federal Regulations Part 200? yes no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
14.218	Community Development Block Grant
14.239	HOME Investment Partnerships Program
14.871	Section 8 Housing Choice Vouchers
16.922	Equitable Sharing Program
93.044	Special Programs for the Aging – Title III, Part B Grants for Supportive Services and Senior Centers
93.045	Special Programs for the Aging – Title III, Part B Nutrition Services
93.053	Nutrition Services Incentive Program

Dollar threshold used to distinguish between type A and type B program \$750,000

Auditee qualified as low-risk auditee? yes no

CITY OF INGLEWOOD, CALIFORNIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016

SECTION II - FINANCIAL STATEMENT FINDINGS

FINDING 2016-001

Untimely Bank Reconciliation Preparation and Improper Reconciliation Method: Bank reconciliations in some instances were outstanding for several months before they were reconciled to the appropriate general ledger control accounts. Not reconciling the accounts on a monthly basis means that errors or other problems might not be recognized and resolved on a timely basis. During our testwork, it was also noted the City booked adjustments to cash accounts and other various general ledger accounts in a method that was not in line with generally accepted accounting principles (GAAP). A reversal of this entry and proper reconciliation was necessary and resulted in a net restatement to the general fund's fund balance and the government-wide net position of (\$394,720).

Recommendation:

We recommend that all bank accounts be reconciled each month prior to preparation of the monthly financial statements.

Management Response and Corrective Action Plan: The City continues to complete monthly bank reconciliations timely, and has also implemented a secondary monitoring control process that consists of another staff member who concurrently completes the bank reconciliations separate and independent from the senior staff who completes them monthly as a check and balance control. The secondary monitoring control process was not fully implemented at the time of this report, however it is expected to be fully implemented by the end of the current fiscal year.

FINDING 2016-002

Call for Projects Fund – Century Blvd Project Over Budget/Accounting: During our testwork it was noted the City had costs related to the Century Blvd project that were over budget in the Call for Projects Fund. It was noted that the City had overcharged this fund and under charged the use of the Successor Agency bond proceeds for the project in the amount of \$2,157,070. In addition, the City did not record the amount owed back to the Call for Projects Fund as a receivable from the Successor Agency (\$2,157,070 and the reimbursable portion from Metro (\$1,420,812) at the end of the fiscal year which resulted in expenses and liabilities being understated in the Successor Agency at fiscal yearend, and an overstatement in the Call for Projects Fund.

Recommendation: It appears grant activity from City departments is decentralized and vital information necessary for the proper recording of grant activity is failing to be presented to the finance department. We recommend the monitoring of all grant activity to be monitored by a single or small group of individual(s) who are knowledgeable of grants and their requirements. As well, we also recommend any grant expenditures and reimbursement requests be presented to the finance department for proper accounting and to assist in decentralizing the management of grants.

Management Response and Corrective Action Plan: The City acknowledges the finding, and the reimbursement from the Successor Agency bond proceeds was completed and the Call for Projects fund was corrected.

CITY OF INGLEWOOD, CALIFORNIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016

FINDING 2016-003

Material Audit Adjustments and Restatement

Debt Service Adjustment: A material adjustment was required in the amount of \$698,168 to correct activity between the Successor Agency and the Low Mod fund in regards to debt service expenses.

Recommendation: We recommend the City establish a more thorough review procedure for activities that occur less frequently compared to typical daily activities to ensure proper recording is established.

Management Response and Corrective Action Plan: All debt outstanding related to the former Redevelopment Agency has been transferred to the Successor Agency and should no longer flow through any other funds.

FINDING 2016-004

Material Audit Adjustments and Restatement

Land Held for Resale Adjustment: A material adjustment in the amount of \$2,900,000 was necessary to correct how the City recorded a sale of land between the General Fund and the CDBG fund. During our testwork it was noted the City recorded the sale in the General Fund by hitting fund balance accounts, which is not in line with GAAP. An entry was necessary to reverse the entry posted to fund balance and correctly show the transaction as current year activity in the General Fund rather than a restatement to prior year fund balance.

Recommendation: We recommend the City establish procedures to have management review all non-routine activity the City is involved in, especially paying attention to all journal entries posting adjustments to fund balance accounts. Journal entries posting to fund balance should primarily only involve corrections to errors.

Management Response and Corrective Action Plan: The City acknowledges the recommendation.

FINDING 2016-005

INTERNAL CONTROL ENVIRONMENT

During our audit, we noted that the City is a very large entity with multiple departments and various complexities. In addition, the City has decentralized processes, including accounting functions. Due to the size, and complexities within the City, it is imperative that the City have a strong internal control environment that perform monitoring functions; ensuring the safeguarding of City assets. We noted that the City's internal control environment did not have the following functionalities within its framework:

Monitoring of Internal Controls: Due to the size, complexity, and decentralized processes of the City, a robust monitoring system of internal controls is necessary and may be accomplished through an internal audit function. The City should assess operational and financial risks city-wide, and develop a plan to assess, monitor, and manage those risks.

CITY OF INGLEWOOD, CALIFORNIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016

FINDING 2016-005 (Continued)

Fraud Hotline: Due to the size, complexity, and decentralized processes of the City, a fraud hotline is needed. The fraud hotline should be anonymous in nature and handled through an independent and objective method. For example, this could be accomplished through an internal audit department. City employees and citizens should be allowed to contact the hotline anonymously. We recommend the City to implement a fraud hotline within the next fiscal year.

Management Response and Corrective Action Plan: The City has made some operational assessments and has already implemented a monitoring check and balance as it relates to monthly bank reconciliations. This monitoring control process consists of another staff member who concurrently completes the bank reconciliations separate and independent from another staff who completes the bank reconciliations monthly as a check and balance control. The secondary monitoring control process was not fully implemented at the time of this report, however it is expected to be fully implemented by the end of the current fiscal year. The City is also looking into the best way to structure and implement a Fraud Hotline for the City.

FINDING 2016-006

Assembly Bill 2766

The City received over \$100,000 in funding from the South Coast Air Quality Management District under State of California Assembly Bill 2766. Under the assembly, large recipients who receive in excess of \$100,000 are required to have a financial statement audit performed and submitted no later than the first Friday in February each year. The City failed to meet this requirement for fiscal years ended September 30, 2016, 2015 and 2014. We recommend that the City create a checklist of all annual compliance and financial reports due on an annual basis.

Single Audit

The City expended over \$750,000 in federal awards for the fiscal year ended September 30, 2016; which requires a Single Audit in compliance with Uniform Guidance. The OMB Circular requires that such audits are completed and submitted to the Federal Clearinghouse within nine (9) months of the City's fiscal year end, or June 30, 2017. This compliance requirement was not met.

Bond Compliance

As described under the City's bond indenture, the City is subject to preparing and filing with the Trustee and the Bond Insurer, annually as soon as practicable, but in any event not later than one hundred eighty (180) days after the close of each fiscal year, so long as any bonds are outstanding. For the fiscal year ending September 30, 2016, the City was not in compliance with having audited statements issued by June 30, 2017.

Management Response and Corrective Action Plan: The City met with the auditors Lance, Soll and Lunghard (LSL) and discussed the necessary planning of the 9/30/2016 audit. During this meeting, the due dates for all of the City's reports was also discussed so that the team could work towards meeting all the required due dates for all of the City's reports. The audit began in February 2017 and all audit data requests submitted to the City were provided and submitted back to the auditors within 24 hours or less. Subsequent delays in the completion of the City's audits was a result of additional data requests that were not submitted to the City initially, and also the coordination of the availability of the audit firms staff schedules were out of sync with the City's audit timelines.

CITY OF INGLEWOOD, CALIFORNIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING 2016-007

Community Development Block Grants/Entitlement Grants – Procurement, Suspension, and Debarment (Noncompliance)

Information on the Federal Program:

CFDA Number: 14.218

Program Title: Community Development Block Grants/Entitlement Grants

Name of Federal Agency: U.S. Department of Housing and Urban Development

Federal Award Number: B-15-MC-06-0520

Federal Award Year: 2015

Criteria:

The program requires that the City perform a review of the System for Award Management (SAM) to ensure that the prospective sub recipients' respective licenses have not been suspended or debarred.

Condition:

During our audit, we noted that the City did not perform a SAM check for the sub recipient until after the contract was awarded.

Cause:

The condition was caused by a lack of procedures and controls surrounding the requirements for SAM checks on prospective sub recipients before award of the contract is made.

Effect:

Without performing SAM checks for contractors or sub recipients, the City may inadvertently award federal funds to entities which are suspended or debarred from receiving such funds or working on projects funded with such funds.

Questioned Costs: \$0

Context:

For the fiscal year ended September 30, 2016, the City passed through CDBG funds to a single sub recipient agency. We tested the sub recipient agency for compliance.

Repeat Finding:

This is related to finding 2015-008 from the prior fiscal year. Refer to the Schedule of Prior Year Findings and Questioned Costs for Fiscal Year Ended September 30, 2015.

Recommendation:

We recommend that the City develop and implement procedures necessary to ensure that the SAM is reviewed for all prospective contractors and sub recipients of federal awards prior to awarding a contract or sub award agreement.

Views of Responsible Officials and Planned Corrective Actions:

The City acknowledges the finding and has subsequently updated our procurement policies and procedures to state that SAM checks are required for contractors and sub recipients.

Responsible Official:

David Esparza, Chief Financial Officer/Assistant City Manager

CITY OF INGLEWOOD, CALIFORNIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016

FINDING 2016-008

Community Development Block Grants/Entitlement Grants – Reporting (Significant Deficiency)

Information on the Federal Program:

CFDA Number: 14.218

Program Title: Community Development Block Grants/Entitlement Grants

Name of Federal Agency: U.S. Department of Housing and Urban Development

Federal Award Number: B-15-MC-06-0520

Federal Award Year: 2015

Criteria:

Program requirements state that for prime contracts awarded in amounts equal to or greater than \$25,000, the City must report the disbursements under the guidelines of the Federal Funding Accountability and Transparency Act (Transparency Act) by the end of the month following the month in which the sub award was made.

Condition:

During our audit, we noted that a sub award was made on November 17, 2015, but the Transparency Act report was not filed until September 2016.

Cause:

There is a lack of procedures and controls surrounding the timeliness of reporting required by the Transparency Act.

Effect:

The Transparency Act report was not filed in a timely manner.

Questioned Costs: \$0

Context:

The City only made one sub award for the CDBG program during the fiscal year and did not timely submit the Transparency Act report.

Repeat Finding:

This is related to finding 2015-010 from the prior fiscal year. Refer to the Schedule of Prior Year Findings and Questioned Costs for Fiscal Year Ended September 30, 2015.

Recommendation:

We recommend that the City improve their controls to ensure that all grant reporting requirements are complied with, including meeting filing deadlines.

Views of Responsible Officials and Planned Corrective Actions:

The City acknowledges the finding and has subsequently updated our policies and procedures to ensure compliance with the Transparency Act by reporting the sub awards in excess of \$25,000 by the end of the month following the month in which the sub award was made.

Responsible Official:

David Esparza, Chief Financial Officer/Assistant City Manager

CITY OF INGLEWOOD, CALIFORNIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016

Finding 2016-009

Section 8 Housing Choice Vouchers – Allowable Costs/Cost Principles (Material Weakness)

Information on the Federal Program:

CFDA Number: 14.871

Program Title: Section 8 Housing Choice Vouchers

Name of Federal Agency: U.S. Department of Housing and Urban Development

Federal Award Number: CA082

Federal Award Year: 2015

Criteria:

The Department of Housing and Urban Development (HUD) requires that grantees that elect to allocate overhead/indirect costs to their award programs, prepare a cost allocation plan (CAP) in accordance with the Uniform Guidance. This CAP must be submitted and approved by HUD before the grantee may begin allocating overhead/indirect costs to the award program.

Condition:

During our audit, we identified that the City allocated overhead charges to the Section 8 program without an approved CAP by HUD for the fiscal year ended September 30, 2016.

Cause:

The City did not receive a response from HUD, either approving or denying the CAP.

Effect:

We cannot determine the eligibility of the overhead costs charged to the Section 8 program for the fiscal year ended September 30, 2016 without the approval of the CAP from HUD.

Questioned Costs: \$267,013

Context:

Based on our communication with the City, the City followed the proper procedures in preparing and submitting a CAP to HUD. However, as of our audit, HUD has not approved or denied the CAP and has only requested the City provide additional documentation as support, in which the City has provided.

Repeat Finding:

This is related to finding 2015-011 from the prior fiscal year. Refer to the Schedule of Prior Year Findings and Questioned Costs for Fiscal Year Ended September 30, 2015.

Recommendation:

We recommend that the City implement processes and controls to include follow-up procedures to ensure the CAP is approved by the appropriate federal agency in a timely manner, prior to allocating costs to the program. Additionally, the City should monitor charges made to federal awards to ensure that overhead/indirect costs are not charged to federal awards, in the absence of an approved CAP.

Views of Responsible Officials and Planned Corrective Actions:

The City has submitted an updated cost allocation plan to HUD and has asked for HUD's approval, however, no response from HUD has been received. The Office of the Inspector General has directed HUD to work with the City and to respond to the City's inquiries and requests in order to address any issues that HUD may have with the City's cost allocations. To date, no response from HUD has been received and the matter is still open.

Responsible Official:

David Esparza, Chief Financial Officer/Assistant City Manager

**SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2015**

SECTION IV - FINANCIAL STATEMENT FINDINGS

Accounting Policies and Procedures (Material Weaknesses):

Accounting policies and procedures are both the foundation and back bone of internal controls over financial reporting. These policies and procedures dictate how financial information is initiated, processed, authorized, recorded, and reported. Without written and enforced accounting policies and procedures, the risk of financial information being presented inaccurately, untimely to make financial decisions, and fraudulently increases significantly. During our audit, we noted that, while the City has written policies and procedures, for the fiscal year that ended September 30, 2015, accounting errors and the override of accounting controls existed in which the City's accounting policies and procedures did not catch or correct until after the fiscal period. Some of these issues were identified to us by City accounting staff; however, there were issues identified by us as a result of our audit procedures. During our audit, the following internal control over financial reporting deficiencies resulted in accounting errors:

FINDING 2015-001

Manual accounting adjustments should be reviewed for the following characteristics prior to the approval and posting of the accounting adjustments: (1) the adjustment is in accordance with generally accepted accounting principles (GAAP), (2) recorded in the proper period, (3) recorded in the proper account and fund. During our audit, we noted the following accounting entries that were not in accordance with GAAP and required audit adjustments:

1. An \$11.5 million accounting adjustment performed by the Finance Department to correct an error in the classification of cash balances being reported across the City's funds.
2. Several expense and revenue items were recorded directly to various fund balance and fund equity accounts as accounting adjustments that did not follow GAAP for recording corrections to fund balance/net position.
3. Accounting adjustments were made to expense accounts for Successor Agency related debt payments to convert to the full accrual basis of accounting.
4. Accounting adjustments by City staff were recorded incorrectly in the City's accounting system which related to the Successor Agency's long-term debt recording.
5. Accounting adjustments were made to accumulated depreciation for Capital Assets of the Sanitation and Sewer fund to break out amounts into the various funds.
6. Cost reimbursements between the Successor Agency, the City's General Fund, and the Civic Debt Service Fund were treated and recorded as inter-fund activity for tracking and reconciliation by City staff. Under GAAP, cost reimbursements between the City and Successor agency should be treated as a form of revenue and expenditure.

Recommendation:

Management has corrected these errors by making the necessary accounting adjustments. We recommend management to continue reviewing journal entries to ensure conformity with GAAP.

CITY OF INGLEWOOD, CALIFORNIA

**SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2015**

FINDING 2015-001 (CONTINUED)

Management Response and Corrective Action Plan:

The City ensures that transactions are recorded in the proper period as well as the proper fund and account. In certain instances, transactions noted by the auditors reflected corrections of errors from the prior year. Staff made corrections to these errors with the intent of providing a clear audit trail and were not an attempt to circumvent GAAP. The complexity of the City's financial system and accounts requires thousands of journal entries throughout the fiscal year and those journal entries are properly supported, reviewed and approved on a timely basis.

Status: Items were addressed however certain findings are noted in 2016 audit with similarities. (items 2016-003, and 2016-004)

Responsible Official:

David Esparza, Chief Financial Officer/Assistant City Manager

FINDING 2015-002

Accounting policies and procedures ensure that account balances are properly reconciled and reflect the actual activity of the fiscal period. This includes accruing for any potential revenue earned during the fiscal period, or any expenditures that were incurred during the fiscal period. As a result of our audit, we noted the following errors that required audit adjustments:

1. As of September 30, 2015, there were approximately \$480,000 of accounting activity captured by Bank of America that had not been recorded in the City's general ledger. This was either due to sub-ledger information, such as customer receipts, and deposits received by other City Departments that did not communicate such information to the Finance Department in a timely manner.
2. A prior period adjustment of \$5,718,880 was necessary to correct the reporting of accreted interest values for 2003 and 2003A Tax Allocation Bonds for the Successor Agency Fund.
3. The City collects monies for parking citation processing in the City's Parking Fund which incorrectly reflected a negative balance as of September 30, 2015. The City had incorrectly recorded an accrual, which was subsequently reversed.

Recommendation:

Management has corrected these errors by making the necessary accounting adjustments to each respective balance. We recommend management to continue reviewing and reconciling these account balances; identifying and correcting errors prior to the annual financial statement audit.

Management Response and Corrective Action Plan:

The City agrees with the comments above and have made the necessary accounting entries to correct the balances.

Status: Items were addressed however certain findings are noted in 2016 audit with similarities. (items 2016-003 and 2016-004)

Responsible Official:

David Esparza, Chief Financial Officer/Assistant City Manager

CITY OF INGLEWOOD, CALIFORNIA

**SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2015**

FINDING 2015-003

Proper levels of segregation should exist to ensure that controls are not overridden, a dependency on a select few individuals exist, and that fraud is not colluded or covered up. During our audit, we noted that segregation of duties did not exist in the following areas:

1. Individuals performing the cashiering functions at the Police Department utilizes a sub-ledger system to capture payments made by citizens for fines and other fees. However, only one unique ID is used by the staff that receipt the cash payments on a daily basis to access the sub-ledger system.

Therefore, if errors or improprieties take place, it is difficult for the City or Police Department to determine how the error or impropriety took place.

2. Individuals performing the cashiering functions at the Police Department are able to post void transactions to customer payments without an approval from a supervisor. This is a significant risk because cashiers are the individuals directly receiving cash, and having the ability to delete the receipt of cash from the system allows for the concealment of fraud.
3. During our audit procedures, it was brought to our attention that accounting controls were overridden by the former Accounting Manager, in which journal entries were recorded with little to no support on the basis of those entries; and were not approved by the Chief Financial Officer prior to posting in the general accounting ledger. The Finance Department investigated the entries, in which most were reversed by the Finance Department due to the lack of support or reasoning behind the entry. Accounting staff personnel should not have the ability to both initiate and post journal entries directly to the accounting system; this increases the risk of financial misstatements due to errors or fraud not being identified or corrected in a timely manner.
4. During our audit, we also noted that Deputy Treasurers are allowed to directly receive financial statements and transaction reports from banking institutions; with little to no interaction from the Finance Department. Financial statements from banking institutions and transaction reports should be received by the City's Finance Department directly to allow for reconciliation and validation of transactions performed by the Treasury Department; to also ensure that treasury transactions are properly being recorded into the general accounting system.

Recommendation:

We recommend the City to review its internal procedures, to ensure that the proper level of segregation exists. The City should consider having financial statements and transaction reports be received directly by the Finance Department, and independent of the Treasury Department. The City should consider performing a cost benefit analysis on implementing a robust cashiering equipment that allows for multiple users.

Management Response and Corrective Action Plan:

The City agrees with the comments above and have taken corrective actions to address the issues noted.

Status: Items were addressed.

Responsible Official:

David Esparza, Chief Financial Officer/Assistant City Manager

CITY OF INGLEWOOD, CALIFORNIA

**SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2015**

FINDING 2015-004

The City's internal controls over financial reporting should foster an environment that ensures bank accounts are properly reconciled on a monthly basis, the aging of accounts receivable balances are periodically reviewed, accounts payable balances and other accruals are properly stated, and that assets and other liabilities are properly stated. The City needs to review its monthly and year-end closing procedures to ensure that such processes are being performed. During our audit, we noted the following deficiencies as it relates to the financial closing process:

1. Cash accounts for the City were not properly reconciled from October 1, 2014 through March 31, 2016. While the City did in fact perform monthly bank reconciliations, during our audit, we noted, and it was also brought to our attention that the monthly bank reconciliations included unreconciled information for that period. The City was able to identify the errors and issues causing the irreconcilable differences and recreated bank reconciliations for both years ended September 30, 2015 and 2014. This resulting in both material client and audit adjustments to cash for the period ended September 30, 2015.
2. In addition to the above deficiency, the City had several reconciling items that were received and recorded by the Bank, however, were not recorded into the City's accounting system until the subsequent month. This is due to the fact that some of the accounting functions at the City are decentralize. City Departments outside of the Finance Department are performing accounting duties such as cash receipting, credit card payments to vendors and payroll time keeping. It is important that financial transactions administered by the departments are timely and accurately reported to the Finance Department, to prevent such reconciling issues from happening. In addition, closing procedures of the Finance Department should include procedures of ensuring that all accounting transactions are accounted for in order to reconcile the books and properly report financial activity.

Recommendation:

We recommend that all cash accounts are properly reconciled within 10 business days following the close of the previous month. For example, September bank accounts should be reconciled no later than the 10th business day in October. We also recommend that the City does not close out month ends until all reconciling information has been properly supported and reviewed; and all irreconcilable information has been investigated and resolved.

Management Response and Corrective Action Plan:

The City performs monthly bank reconciliations in a timely fashion although, unfortunately, during the 2014-2015 fiscal year, former accounting staff recorded certain un-reviewed transactions which were subsequently corrected by the finance department. Because of those transactions, the accounts were not completely reconciled and the City engaged an outside consultant to review and perform an additional reconciliation of cash to ensure that all potential incorrect transactions had been properly rectified.

Status: Items were addressed however certain findings are noted in 2016 audit with similarities. (item 2016-001)

Responsible Official:

David Esparza, Chief Financial Officer/Assistant City Manager

CITY OF INGLEWOOD, CALIFORNIA

SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2015

FINDING 2015-005

Internal Control Environment (Significant Deficiencies):

During our audit, we noted that the City is a very large entity with multiple departments and various complexities. In addition, the City has decentralized processes, including accounting functions. Due to the size, and complexities within the City, it is imperative that the City have a strong internal control environment that perform monitoring functions; ensuring the safeguarding of City assets. We noted that the City's internal control environment did not have the following functionalities within its framework:

Monitoring of Internal Controls

Due to the size, complexity, and decentralized processes of the City, a robust monitoring system of internal controls is necessary and may be accomplished through an internal audit function. The City should assess operational and financial risks city-wide, and develop a plan to assess, monitor, and manage those risks.

Employee Training

During our audit, we noted multiple accounting entries made by accounting personnel that were not in the accordance with generally accepted accounting principles (GAAP). It is unclear if these entries were done due to limited knowledge of accounting principles or oversight. We recommend that the City look to train accounting personnel on an annual basis on generally accepted accounting principles and ethics.

Fraud Hotline

Due to the size, complexity, and decentralized processes of the City, a fraud hotline is needed. The fraud hotline should be anonymous in nature and handled through an independent and objective method. For example, this could be accomplished through an internal audit department. City employees and citizens should be allowed to contact the hotline anonymously. We recommend the City to implement a fraud hotline within the next fiscal year.

Management's Response and Corrective Action:

Management will review the assessments and recommendations and will identify the necessary steps needed to implement these recommendations.

Status: Certain items were not included as a deficiency in 2016 however it is still a recommendation of the auditors. Items reported as repeat finding (item 2016-005)

Responsible Official:

David Esparza, Chief Financial Officer/Assistant City Manager

CITY OF INGLEWOOD, CALIFORNIA

**SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2015**

FINDING 2015-006

Continuing Disclosure

The City and the City of Inglewood Public Financing Authority (a blended component unit of the City) are required to issue audited financial statements within two-hundred and eighty-five days (285) of its fiscal year or July 11, 2016, as required by Section 4.04 of the continuing disclosure agreement. The City and the City of Inglewood Public Financing Authority did not meet this covenant requirement. We recommend that the City to review its closing policies and procedures to ensure that debt covenant requirements are met on an annual basis.

Assembly Bill 2766

The City received over \$100,000 in funding from the South Coast Air Quality Management District under State of California Assembly Bill 2766. Under the assembly, large recipients who receive in excess of \$100,000 are required to have a financial statement audit performed and submitted no later than the first Friday in February each year. The City failed to meet this requirement for fiscal years ended September 30, 2015 and 2014. We recommend that the City create a checklist of all annual compliance and financial reports due on an annual basis.

OMB Circular A-133

The City received over \$500,000 in federal awards for the fiscal year ended September 30, 2015; which requires a Single Audit in compliance with Office of Management and Budget's (OMB) Circular A-133. The OMB Circular requires that such audits are completed and submitted to the Federal Clearinghouse within nine (9) months of the City's fiscal year end, or June 30, 2016. The City did not comply with this requirement. We recommend that the City to review its closing policies and procedures to ensure that requirements are met on an annual basis.

GANN Limit Calculation

The City incorrectly calculated its annual GANN Limit for the fiscal year ended September 30, 2015. We recommend that the City calculate its GANN limit and have the City Attorney's office review for compliance on an annual basis; to ensure its calculation is correct.

Real Estate Assessment Center (REAC) Submission

On an annual basis, the City is required to submit audited financial trial balances to HUD through the use of its Real Estate Assessment Center (REAC) within nine (9) months of its fiscal year end or June 30, 2016. In addition, agreed upon procedures are to be performed on these submissions by the City's external independent auditors prior to completion of the submission to HUD. The City did not comply with these requirements. We recommend that the City complete its REAC requirements within the required timeframe.

Management's Response and Corrective Action:

The City is aware of these compliance and financial reporting due dates, and will work with the auditors in order to meet the financial reporting dates in a timely manner.

Status: Items were addressed however certain findings are noted in 2016 audit with similarities. (item 2016-006)

Responsible Official:

David Esparza, Chief Financial Officer/Assistant City Manager

CITY OF INGLEWOOD, CALIFORNIA

SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2015

SECTION V - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING 2015-007

Community Development Block Grants/Entitlement Grants – Allowable Costs/Cost Principles (Material Weakness)

Information on the Federal Program:

CFDA Number: 14.218

Program Title: Community Development Block Grants/Entitlement Grants

Federal Award Number: B-14-MC-06-0520

Federal Award Year: 2014

Name of Federal Agency: U.S. Department of Housing and Urban Development

Criteria:

The Department of Housing and Urban Development (HUD) requires that grantees that elect to allocate overhead/indirect costs to their award programs, prepare a cost allocation plan (CAP) in accordance with OMB Circular A-87. This CAP must be submitted and approved by HUD before the grantee may begin allocating overhead/indirect costs to the award program.

Condition:

During our audit, we identified that the City allocated overhead charges to the CDBG program without an approved CAP by HUD for the fiscal year ended September 30, 2015.

Questioned Costs: \$37,845

Context:

Based on our communication with the City, the City followed the proper procedures in preparing and submitting a CAP to HUD. However, as of our audit, HUD has not approved or denied the CAP and has only requested the City provide additional documentation as support, in which the City has provided.

Effect:

We cannot determine the eligibility of the overhead costs charged to the CDBG program for the fiscal year ended September 30, 2015 without the approval of the CAP from HUD.

Cause:

The City did not receive a response from HUD, either approving or denying the CAP.

Repeat Finding:

This is a new finding for the fiscal year ended September 30, 2015.

Recommendation:

We recommend that the City implement processes and controls to include follow-up procedures to ensure the CAP is approved by the appropriate federal agency in a timely manner, prior to allocating costs to the program. Additionally, the City should monitor charges made to federal awards to ensure that overhead/indirect costs are not charged to federal awards, in the absence of an approved CAP.

Views of Responsible Officials and Planned Corrective Actions:

The City has submitted an updated cost allocation plan to HUD and has asked for HUD's approval, however no response from HUD has been received. The Office of the Inspector General has directed HUD to work

CITY OF INGLEWOOD, CALIFORNIA

**SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2015**

FINDING 2015-007 (CONTINUED)

with the City and to respond to the City's inquiries and requests in order to address any issues that HUD may have with the City's cost allocations. To date, no response from HUD has been received and the matter is still open.

Status: Items were addressed.

Responsible Official:

David Esparza, Chief Financial Officer/Assistant City Manager

FINDING 2015-008

Community Development Block Grants/Entitlement Grants – Procurement, Suspension, and Debarment (Significant deficiency)

Information on the Federal Program:

CFDA Number: 14.218

Program Title: Community Development Block Grants/Entitlement Grants

Federal Award Number: B-14-MC-06-0520

Federal Award Year: 2014

Name of Federal Agency: U.S. Department of Housing and Urban Development

Criteria:

The Department of Housing and Urban Development requires award recipients to check the System for Awards Management (SAM) website to ensure proposed contractor(s) are not debarred from federal funding monies. Active registration in SAM is required to apply for an award and for HUD to make a payment. In addition to checking the name of the contracting firm, the name of the president and owner of the firm should also be checked. Staff should also review any state and local debarment lists. Website printouts must be placed in the file.

Condition:

During our audit, we noted that the City was unable to provide adequate supporting documents that the above criteria was met for contractors awarded HUD monies during the audit period.

Questioned Costs: \$0

Context:

For the fiscal year ended September 30, 2015, the City contracted with three construction companies for CDBG-funded projects and passed through CDBG funds to a single sub recipient agency. We tested each of the construction companies and the sub recipient agency for compliance.

Effect:

Without performing SAM checks for contractors or sub recipients, the City may inadvertently award federal funds to entities which are suspended or debarred from receiving such funds or working on projects funded with such funds.

Cause:

The condition was caused by a lack of procedures and controls surrounding the requirements for SAM checks on prospective contractors and sub recipients before award of the contract is made.

Repeat Finding:

This is a repeat finding for the fiscal year ended September 30, 2015. Refer to finding 2014-012 on the Schedule of Prior Year Findings and Questioned Costs for Fiscal Year Ended September 30, 2014.

CITY OF INGLEWOOD, CALIFORNIA

SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2015

FINDING 2015-008 (CONTINUED)

Recommendation:

We recommend that the City develop and implement procedures necessary to ensure that the SAM is reviewed for all prospective contractors and sub recipients of federal awards prior to awarding a contract or sub award agreement.

Views of Responsible Officials and Planned Corrective Actions:

The City acknowledges the finding and has subsequently updated our procurement policies and procedures to state that SAM checks are required for contractors and sub recipients.

Status: Repeat finding for 2016 audit. (item 2016-007)

Responsible Official:

David Esparza, Chief Financial Officer/Assistant City Manager

FINDING 2015-009

Community Development Block Grants/Entitlement Grants – Reporting (Significant deficiency)

Information on the Federal Program:

CFDA Number: 14.218

Program Title: Community Development Block Grants/Entitlement Grants

Federal Award Number: B-14-MC-06-0520

Federal Award Year: 2014

Name of Federal Agency: U.S. Department of Housing and Urban Development

Criteria:

The OMB Compliance Supplement requires that direct recipients of CDBG program funding file the *HUD 60002, Section 3 Summary Report, Economic Opportunities for Low- and Very Low-Income Persons, (OMB No. 2529-0043)* electronically through HUD's online submission portal (SPEARS) within 90 days of the end of the grantee's program year.

Condition:

The City was unable to provide sufficient documentation of the *Section 3 Summary Report* or its timely submission to HUD.

Questioned Costs: \$0

Context:

The *Section 3 Summary Report* is an annual report filed once per year.

Effect:

The auditor was unable to verify that the *Section 3 Summary Report* was filed timely.

Cause:

The City does not have any personnel registered with SPEARS as a coordinator for the system. System coordinators have access to retrieve information regarding reports previously submitted. The City personnel with access to SPEARS, have "user" access, which only allows for submission of the reports. Also, the City did not retain any electronic or hard copies of the *Section 3 Summary Report* for their own records.

Repeat Finding:

This is a new finding for the fiscal year ended September 30, 2015.

CITY OF INGLEWOOD, CALIFORNIA

**SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2015**

FINDING 2015-009 (CONTINUED)

Recommendation:

We recommend that the City retain a copy of the Section 3 Summary Report for their records, and that they appoint a responsible individual as a SPEARS coordinator to give them access look up reports previously submitted.

Views of Responsible Officials and Planned Corrective Actions:

The City acknowledges the finding and has subsequently registered with SPEARS and included the timely submission of the Section 3 Summary Report in our policies and procedures.

Status: Items were addressed.

Responsible Official:

David Esparza, Chief Financial Officer/Assistant City Manager

FINDING 2015-010

Community Development Block Grants/Entitlement Grants – Reporting (Significant deficiency)

Information on the Federal Program:

CFDA Number: 14.218

Program Title: Community Development Block Grants/Entitlement Grants

Federal Award Number: B-14-MC-06-0520

Federal Award Year: 2014

Name of Federal Agency: U.S. Department of Housing and Urban Development

Criteria:

Program requirements state that for prime contracts awarded in amounts equal to or greater than \$25,000, the City must report the disbursements under the guidelines of the Federal Funding Accountability and Transparency Act (Transparency Act) by the end of the month following the month in which the sub award was made.

Condition:

During our audit, we noted that a sub award was made on September 15, 2015, but the Transparency Act report was not filed until September 2016.

Questioned Costs: \$0

Context:

The City only made one sub award for the CDBG program during the fiscal year and did not timely submit the Transparency Act report.

Effect:

The Transparency Act report was not filed in a timely manner.

Cause:

There is a lack of procedures and controls surrounding the timeliness of reporting required by the Transparency Act.

Repeat Finding:

This is related to finding 2014-011 from the prior fiscal year. Refer to the Schedule of Prior Year Findings and Questioned Costs for Fiscal Year Ended September 30, 2014.

CITY OF INGLEWOOD, CALIFORNIA

SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2015

FINDING 2015-010 (CONTINUED)

Recommendation:

We recommend that the City improve their controls to ensure that all grant reporting requirements are complied with, including meeting filing deadlines.

Views of Responsible Officials and Planned Corrective Actions:

The City acknowledges the finding and has subsequently updated our policies and procedures to ensure compliance with the Transparency Act by reporting the sub awards in excess of \$25,000 by the end of the month following the month in which the sub award was made.

Status: Repeat finding for 2016 audit. (item 2016-008)

Responsible Official:

David Esparza, Chief Financial Officer/Assistant City Manager

Finding 2015-011

Section 8 Housing Choice Vouchers – Allowable Costs/Cost Principles (Material Weakness)

Information on the Federal Program:

CFDA Number: 14.871

Program Title: Section 8 Housing Choice Vouchers

Federal Award Number: CA082

Federal Award Year: 2014

Name of Federal Agency: U.S. Department of Housing and Urban Development

Criteria:

The Department of Housing and Urban Development (HUD) requires that grantees that elect to allocate overhead/indirect costs to their award programs, prepare a cost allocation plan (CAP) in accordance with OMB Circular A-87. This CAP must be submitted and approved by HUD before the grantee may begin allocating overhead/indirect costs to the award program.

Condition:

During our audit, we identified that the City allocated overhead charges to the Section 8 program without an approved CAP by HUD for the fiscal year ended September 30, 2015.

Questioned Costs: \$287,638

Context:

Based on our communication with the City, the City followed the proper procedures in preparing and submitting a CAP to HUD. However, as of our audit, HUD has not approved or denied the CAP and has only requested the City provide additional documentation as support, in which the City has provided.

Effect:

We cannot determine the eligibility of the overhead costs charged to the Section 8 program for the fiscal year ended September 30, 2015 without the approval of the CAP from HUD.

Cause:

The City did not receive a response from HUD, either approving or denying the CAP.

Repeat Finding:

This is a new finding for the fiscal year ended September 30, 2015.

CITY OF INGLEWOOD, CALIFORNIA

**SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2015**

FINDING 2015-011 (CONTINUED)

Recommendation:

We recommend that the City implement processes and controls to include follow-up procedures to ensure the CAP is approved by the appropriate federal agency in a timely manner, prior to allocating costs to the program. Additionally, the City should monitor charges made to federal awards to ensure that overhead/indirect costs are not charged to federal awards, in the absence of an approved CAP.

Views of Responsible Officials and Planned Corrective Actions:

The City has submitted an updated cost allocation plan to HUD and has asked for HUD's approval, however no response from HUD has been received. The Office of the Inspector General has directed HUD to work with the City and to respond to the City's inquiries and requests in order to address any issues that HUD may have with the City's cost allocations. To date, no response from HUD has been received and the matter is still open.

Status: Repeat finding for 2016 audit. (item 2016-009)

Responsible Official:

David Esparza, Chief Financial Officer/Assistant City Manager

FINDING 2015-012

Highway Planning and Construction – Reporting (Significant deficiency)

Information on the Federal Program:

CFDA Number: 20.205

Program Title: Highway Planning and Construction

Federal Award Numbers: ESPL-5164(017)

Federal Award Year: 2010

Name of Federal Agency: U.S. Department of Transportation

Criteria:

The special covenants and remarks of the grant agreement stipulated Recovery Act funds are available for liquidation only until September 30, 2015 when the remaining balance of Recovery Act funds will expire and that the City agreed to submit an invoice for the balance of the project Recovery Act funds to the State of California prior to July 1, 2015.

Condition:

During our audit, we noted the final invoice for Recovery Act funds was not prepared until August 8, 2015, which is past the deadline to submit invoices for reimbursement.

Questioned Costs: \$0

Context:

The final invoice had to be submitted by the filing deadline stipulated in the grant agreement.

Effect:

The City did not timely file the final invoice for Recovery Act funding.

Cause:

This condition was caused by a lack of procedures and controls to ensure timely filing of the final invoice.

Repeat Finding:

This is a new finding for the fiscal year ended September 30, 2015.

CITY OF INGLEWOOD, CALIFORNIA

SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2015

FINDING 2015-012 (CONTINUED)

Recommendation:

We recommend that the City improve procedures and controls to ensure that all grant reporting requirements are complied with, including meeting filing deadlines.

Views of Responsible Officials and Planned Corrective Actions:

The City acknowledges this finding and has modified policies and procedures to ensure timely submission of reports.

Status: Items were addressed.

Responsible Official:

David Esparza, Chief Financial Officer/Assistant City Manager