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CITY OF INGLEWOOD
Inglewood, California

Single Audit Report on
Federal Awards

For the Fiscal Year ended September 30, 2008

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CITY OF INGLEWOOD

Single Audit Report on Federal Awards

Year ended September 30, 2008

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Honorable Mayor and City Council
City of Inglewood
Inglewood, California

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*

We have audited the financial statements of the governmental activities and each major fund and the aggregate remaining fund information of the City of Inglewood, California, (the City) as of and for the year ended September 30, 2008, which collectively comprise the City's basic financial statements 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 City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our testing disclosed three instances of noncompliance that are required to be reported under *Government Auditing Standards* and are described in the accompanying Schedule of Findings and Questioned Costs as items 2008-13, 2008-14 and 2008-15.

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

Internal Control Over Financial Reporting

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

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 City'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 City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. We consider items 2008-01 through 2008-12 as described in the accompanying Schedule of Findings and Questioned Costs 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 City'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. We consider the significant deficiencies described in items 2008-01, 2008-02, 2008-03 and 2008-4 in the accompanying Schedule of Findings and Questioned Costs to be a material weakness, as defined above.

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.

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

Mayer Hoffman McCann P.C.

Irvine, California
December 28, 2009

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM, INTERNAL CONTROL OVER COMPLIANCE AND ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS IN ACCORDANCE WITH OMB CIRCULAR A-133

Compliance

We have audited the compliance of the City of Inglewood, California, (the City) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal programs for the year ended September 30, 2008. The City's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs are the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

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

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended September 30, 2008. However, the results of our auditing procedures disclosed three instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2008-13, 2008-14, and 2008-15.

Internal Control Over Compliance

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

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2008-13, 2008-14 and 2008-15 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the City's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the City's internal control that might be significant deficiencies or material weaknesses. We did not consider any of the deficiencies described above to be material weaknesses.

Schedule of Federal Awards

We have audited the basic financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the City as of and for the year ended September 30, 2008, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 28, 2009. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying *Schedule of Expenditures of Federal Awards* and supplementary *Schedule of Expenditures of Los Angeles County Grants* are presented for purposes of additional analysis in accordance with the requirements of OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The City's written responses to the significant deficiencies identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the City's responses, and accordingly, we express no opinion on them.

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

Mayer Hoffman McCann P.C.

Irvine, California
December 28, 2009

CITY OF INGLEWOOD
Schedule of Expenditures of Federal Awards
For the Fiscal Year ended September 30, 2008

Federal Grantor/Pass-Through Grantor Program Title	Federal Domestic Assistance Number	Program Identification Number	Program Expenditures	Amounts Provided to Subrecipients
U.S. Department of Agriculture				
Direct Assistance:				
Food Donation	10.550	n/a	$ 73,171	-
U.S. Department of Housing and Urban Development				
Direct Assistance:				
Section 8 New Construction and Substantial Rehabilitation	14.182	NC-009, NC-0023, NC-007, NC-002	1,534,432	-
Section 8 Housing Choice Vouchers	14.871	CA082VO	8,183,108	-
Community Development Block Grants/Brownsfields Economic Development Initiative	14.246	SP-CA-0067, SP-CA-0063	151,038	-
Community Development Block Grants/Entitlement Grants	14.218	B03MC60520	2,160,114 *	153,664
Emergency Shelter Grants Program	14.231	S03MC060520	99,354	-
Home Investment Partnerships Program	14.239	M03MC060516	581,059 *	319,856
Subtotal			12,709,105	473,520
U.S. Department of Justice				
Direct Assistance:				
Asset Forfeiture	16.000	n/a	404,066	-
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2005DJBX1071, 2006DJBK0360	163,359	-
Subtotal			567,425	-
U.S. Department of Transportation				
Direct Assistance:				
Airport Improvement Program	20.106	3-06-0139-30, 3-06-0139-33, 3-06-0139-38, 3-06-0139-37, 3-06-0139-45, 3-06-0139-46, 3-06-0139-51, 3-06-0139-53	33,398,773 *	-
Pass-through from the County of Los Angeles Metropolitan Transportation Authority:				
New Freedom Program	20.521	CA-57-X009	58,694	-
Subtotal			33,457,467	-
U.S. Department of Health and Human Services				
Pass-through from the State of California:				
Special Programs for the Aging Title III				
Part B Grants for Supportive Services and Senior Centers	93.044	n/a	548,446	-
National Family Caregiver Support, Title III, Part E	93.052	n/a	20,847	-
Subtotal			569,293	-
U.S. Department of Homeland Security				
Pass-through from the City of Los Angeles:				
Urban Areas Security Initiative	97.008	n/a	11,808	-
Total federal expenditures			$ 47,388,269	473,520

* Major program
n/a - not available

See accompanying notes to the schedule of expenditures of federal awards

CITY OF INGLEWOOD
Schedule of Expenditures
Los Angeles County Grants
40014/40128
For the Fiscal Year Ended September 30, 2008

Federal Grantor/Pass-Through Grantor Program Title	Federal Domestic Assistance Number	Contract	Period	Award Contracted	Amount Expended
Older Americans Act (Department of Agriculture):					
NSIP/USDA Title IIIC1	10.550	40291	2007-2008	$ 32,106	32,106
NSIP/USDA Title IIIC2	10.550	40291	2007-2008	40,291	40,291
Subtotal - Older Americans Act (Department of Agriculture)				72,397	72,397
Integrated Care Management Services (State of California):					
Linkages-California State General Funds		40128	2007-2008	28,393	28,393
Linkages-Parking Fees Funds		40128	2007-2008	13,281	13,281
Subtotal - Integrated Care Management Services (State of California)				41,674	41,674
Department of Health and Human Services:					
Title IIIC1 Congregate Nutrition	93.045	40291	2007-2008	206,864	206,864
Title IIIC 2 Home Delivered Meals	93.045	40291	2007-2008	234,770	234,770
Title III Part B - Special Programs for the Aging -					
Grants for Supportive Services and Senior Centers	93.044	40291	2007-2008	4,500	4,500
Grants for Supportive Services for Aging	93.044	40218	2007-2008	76,832	76,832
Title III Part E - National Family Caregiver Support Program	93.042	40218	2007-2008	17,718	17,718
Subtotal - Department of Health and Human Services				540,684	540,684
Total - LA County Contracts 40291 and 40128				$ 654,755	654,755

Federal Funds - Reconciliation to Schedule of Expenditures of Federal Awards

Older Americans Act (Department of Agriculture) Fiscal Year Ended 6/30/08	$ -
Less: July through September 2007 Expenditures	54,731
Add: July through September 2008 Expenditures (40291)	18,440
Older Americans Act (Department of Agriculture) Fiscal Year Ended 9/30/08	$ 73,171
Department of Health and Human Services Fiscal Year Ended 6/30/08	$ 540,684
Less: July Through September 2007 Expenditures	(151,459)
Add: July through September 2008 Expenditures (40291/40128)	180,068
Department of Health and Human Services Fiscal Year Ended 9/30/08	$ 569,293

See accompanying notes to the schedule of expenditures of federal awards

CITY OF INGLEWOOD

Notes to the Schedule of Expenditures of Federal Awards

For the Fiscal Year ended September 30, 2008

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

(a) Scope of Presentation

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

(b) Basis of Accounting

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

(c) Subrecipient Expenditures

Payments to subrecipients totaled $153,664 for the Community Development Block Grant and $319,856 for the Home Investment Partnerships Program for the fiscal year ended September 30, 2008.

CITY OF INGLEWOOD

Schedule of Findings and Questioned Costs

For the Fiscal Year ended September 30, 2008

(A) Summary of Auditors' Results

1. An unqualified report was issued by the auditors on the financial statements of the auditee.

2. The audit disclosed eight significant deficiencies and four material weaknesses in internal control over financial reporting.

3. The audit disclosed no noncompliance which is material to the financial statements of the auditee.

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

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

6. The audit disclosed three findings required to be reported under paragraph .510(a) of OMB Circular A-133.

7. The major programs of the auditee were U.S. Department of Housing and Urban Development, HOME, CFDA No. 14.239, U.S. Department of Housing Urban Development, Community Development Block Grants, CFDA No. 14.218, and U.S. Department of Transportation, Federal Aviation Administration, CFDA No. 20.106.

8. The dollar threshold used to distinguish Type A and Type B programs was $1,421,648.

9. The auditee did not qualify as a low risk auditee, as defined by OMB Circular A-133, paragraph .530, for the year ended September 30, 2008 for the purpose of determining major programs.

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

(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

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

(2008-01) Need for Enhanced Controls Over Citywide Cash and Investment Reconciliation, (Continued)

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 should take the necessary steps to process and monitor uncleared items on a regular basis.

Management's Response Regarding Corrective Action Taken or Planned

The City recognizes the importance of preparing the 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) Need for Improved Accounting and Monitoring over First Time Home Buyer and Rehabilitation Loans

The "First Time Homebuyer Mortgage Assistance Loan Program" and the "Home Rehabilitation Loan Program" had a balance of approximately $6.5 million of non-interest bearing loans to qualified participants as of September 30, 2008. Of the total loans, $2.5 million were funded by HUD from HOME/CDBG grants to the City and the remaining $4.0 million were funded by the Inglewood Redevelopment Agency (RDA) from the 20% property tax set-aside in other Low and Moderate Income Housing Fund. Repayment of the loans is required if the title of the assisted property changes during the term of the loan.

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

(2008-02) Need for Improved Accounting and Monitoring over First Time Home Buyer and Rehabilitation Loans, (Continued)

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

Recommendation

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

Management's Response Regarding Corrective Action Taken or Planned

The City has completed a review of the entire loan portfolio in its possession funded through the U.S. Department of Housing and Urban Development (HUD) under the HOME Investment Partnerships Act (HOME) Program and the Community Development Block Grant (CDBG) Program, and created a database of all outstanding homeowners and loan balances. Outstanding loans were identified by property liability profiles as listing the City as the beneficiary and trustee on silent second Mortgage Assistance First Time Home Buyer trust deeds and Housing Rehabilitation deferred payment loan trust deeds. Loan payoff demands require contact with the City and follow-up for loan payoffs to the City. The CDBG Division is responsible for processing the payments through the Finance Department and preparing loan payoff documentation on behalf of the homeowner, for submission to the responsible escrow company for filing with the Office of the County Recorder.

The CDBG Division requires that contracted agencies submit quarterly performance reports and conducts quarterly desk monitoring reviews of the reports. The CDBG Division also conducts annual on-site monitoring visits to assure adherence to all applicable laws and regulations under the terms of the grant agreements.

The Redevelopment Agency concurs with the audit recommendation to upgrade, develop and implement a tracking system to effectively monitor the accuracy of the Agency's outstanding loan portfolio and payments of the loan balances for the First Time Home Buyer program. In January 2010, the Agency will be issuing a Request for Proposal for a Program Administrator (Mortgage Company, escrow or bank etc.) to implement/manage FTHB Program. That contract will include portfolio

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

(2008-02) Need for Improved Accounting and Monitoring over First Time Home Buyer and Rehabilitation Loans. (Continued)

management and monitoring. The audit recommendation will be incorporated in the new program policies and procedures.

(2008-03) 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:

- 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 $14,763,100 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.

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

(2008-03) Adjustments Detected Through the Audit Process, (Continued)

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 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.

(2008-04) 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 considerers 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 to 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.

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

(2008-04) Need for Improved Controls over Monitoring of Grants and Grant Reimbursements, (Continued)

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 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.

(2008-05) Need to Develop Written Policies and Procedures for Information Technology

General controls are the policies and procedures that apply to all or a large segment of an entity's information systems and help ensure their proper operation. Examples of primary objectives for general controls are to safeguard data, protect business process application programs, and ensure continued computer operations in case of unexpected interruptions. The effectiveness of general controls is a significant factor in determining the effectiveness of business process application controls. Without effective general controls, business process application controls can generally be rendered ineffective by circumvention or modification. For example, automated edits designed to preclude users from entering unreasonably large dollar amounts in a payment processing system can be an effective application control. However, this control 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.

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

(2008-05) Need to Develop Written Policies and Procedures for Information Technology, (Continued)

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

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.

(2008-06) 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

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

(2008-06) Need for Enhanced Security Controls over Information Technology Systems, (Continued)

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:

- 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.

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

(2008-06) Need for Enhanced Security Controls over Information Technology Systems, (Continued)

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.

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

(2008-06) Need for Enhanced Security Controls over Information Technology Systems, (Continued)

- 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.

(2008-07) 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).

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

(2008-07) Need for Enhanced Physical Security Controls in the Information Technology Environment, (Continued)

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.

(2008-08) Need for Improved Accounting over Land Held for Resale

During our testwork performed over land held for resale we noted the following:

- One property, reported at $1,204,920 in the City's general ledger as land held for resale, had been sold in prior years and the City no longer held title to that property as of October 1, 2007. The correct recording of this transaction resulted in an adjustment to beginning fund balance of the Redevelopment Agency Capital Project fund.

- During the current year, the City sold a property that had been classified as land held for resale previously purchased with low and moderate income housing tax increment revenues, but that transaction had not been properly reflected in the City's general ledger as a reduction of the asset. The amount of the property removed from the City's general ledger was $254,542.

- Another property, reported at $710,000, that had been classified as land held for resale, which was previously purchased with low and moderate income housing tax increment revenues, had been converted to a Redevelopment Agency asset to be used to provide low income housing to seniors. This project had commenced prior to October 1, 2007 which resulted in an adjustment to beginning fund balance of the Redevelopment Agency Low and Moderate Income Housing Special fund.

Recommendation

We recommend that the City develop controls for the Finance Department to properly remove properties that have been sold or converted to Agency projects from the City's general ledger. Furthermore, we recommend that the Community Development Department communicate these transactions to the Finance Department in a timely manner.

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

(2008-08) Need for Improved Accounting over Land Held for Resale, (Continued)

Management's Response Regarding Corrective Action Taken or Planned

The City recognizes the need for good intercommunications between the Finance Department and other city department staff to ensure the accounting records are complete and accurate and do not contain misstatement. The appropriate staff of the Community Development and Finance Departments will be communicating with one another on future transactions and the land held for resale listing to be compared at least annually.

(2008-09) Need for Improvements in Utility Billing Cash Receipts

During our review and testing of internal controls over utility billing cash receipts, we noted that the City currently has a process in place to review voided transactions relating to utility payments, however, adequate documentation to support these adjustments is not maintained by the City to support the voided transactions. Due to the lack of supporting documentation, it is possible for inappropriate transactions to be processed and not be detected through the City's review procedures.

Recommendation

We recommend that an individual without access to create or void utility payments review and approve all voided transactions upon the review of appropriate documentation to insure they are properly supported and authorized.

Management's Response Regarding Corrective Action Taken or Planned

The Customer Service division of the Finance Department is currently using the "Daily Journal" tape to review all voids. A more thorough review will be performed by the Cashier Supervisor on a daily basis using the "Void Listing Report" to ensure all cashier voids are accurate and justified.

(2008-10) 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.

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

(2008-10) 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.

(2008-11) Change in Methodology for Budgeting and Recording Inter-Fund Transfers

The City's current practice for budgeting and recording certain debt service payments includes the transfer of restricted cash from various debt service funds to the general fund. The process results in a transfer in with no corresponding transfer out. For the purpose of financial accounting total transfers in and total transfers out within the same governmental entity should agree. During the current year audit, audit adjusting entries were required to properly reconcile and balance transfer accounts.

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.

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

2008-11) Change in Methodology for Budgeting and Recording Inter-Fund Transfers, (Continued)

Management's Response Regarding Corrective Action Taken or Planned

The City concurs that transfers in and out should equal. For future fiscal years, the budgeted amount of transfers in and out will correspond to the respective transfers in and out amounts for known sources and uses of funds.

(2008-12) 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.

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.

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

(2008-13) FAA Special Provisions

Federal Agency: Department of Transportation
CFDA No.: 20.106
Federal Program Income: Airport Improvement Program
Federal Award Program No.: B-07-MC-06-0520
Federal Award Year: 2007 and 2008
Control Category: Special Provisions
Questioned Costs: $0

In our review of the City's contract with Karabuild Development Inc., NSA Construction Group Inc., and Sam Boo Construction Co, for the Noise Mitigation projects in the amount of $1,740,000, $1,752,000, and $1,710,000, respectively, we noted the contracts did not include the provisions for (1) recognizing mandatory standards and policies relating to energy efficiency that are contained in the State Energy Conversation Plan, (2) compliance with all applicable standards, orders, or requirements issued under executive Order 11738, and (3) compliance with all applicable standards, orders, or requirements issued under Title 49 CFR Part 20.

Recommendation

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

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, it will address that federal grants include provisions for recognizing mandatory standards and policies relating to energy efficiency that are contained in the State Energy Conservation Plan, compliance with all applicable standards, orders or requirements issued under executive Order 11738, and compliance with all applicable standards, orders, or requirements issued under Title 49 CFR Part 20.

(2008-14) FAA, CDBG and HOME – Reporting

Federal Agency: Department of Transportation, Department of Housing and Urban Development
CFDA No.: 20.106, 14.218, 14.239
Federal Program Income: Airport Improvement Program, Community Development Block Grant, HOME
Federal Award Program No.: B-07-MC-06-0520, B03MC60520, M03MC060516

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

(2008-14) FAA, CDBG and HOME – Reporting, (Continued)

Federal Award Year: 2007 and 2008
Control Category: Special Provisions
Questioned Costs: $0

Due to the delays in the completion of the City's financial audit for the fiscal year ended September 30, 2008, the Single Audit was also not completed within the reporting deadline as required by the OMB Circular A-133. Therefore, the Single Audit Reporting Package which includes the financial statements and Schedule of Expenditures of Federal Awards, Summary of Prior Audit Findings, auditor's reports and corrective action plans were not completed and submitted to the Federal Audit Clearinghouse.

Recommendation

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

Management's Response Regarding Corrective Action Taken or Planned

The City recognizes the importance of completing and submitting the Single Audit Reporting Package in a timely manner to reduce the possibility of suspension or termination of federal funding to the City. The City will be completing its annual financial audit as well as the Single Audit as required by OMB Circular A-133 and submitting its Single Audit Reporting Package to the Federal Clearinghouse within 9 months after the its fiscal year end.

(2008-15) CDBG – Program Income

Federal Agency: Department of Housing and Urban Development
CFDA No.: 14.218
Federal Program Name: Community Development Block Grant
Federal Award Program No.: B-07-MC-06-0520
Federal Award Year: 2007 and 2008
Control Category: Program Income
Questioned Costs: $64,092

Section 25(b) of OMB Circular A-102, Common Rule, defines program income as follows:

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

(2008-15) CDBG – Program Income. (Continued)

> "Program income means gross income received by the grantee or subgrantee directly generated by a grant supported activity, or earned only as a result of the grant agreement during the audit period."

The City records its activity for its Community Development Block Grant (CDBG) in its CDBG Special Revenue Fund. During the fiscal year ended September 30, 2008, this fund reported earnings totaling $36,976, while CDBG Department's records verify earnings of $101,068. Upon further investigation it was noted that the difference of $64,092 was recorded in the City's general ledger as grant reimbursements. The City's reconciliation schedule for this program reduced total allowable expenditures by $36,976 instead of the total amount of program income earned of $101,068.

According to Section 25(g)(1) of OMB Circular A-102, Common Rule:

> "Ordinarily program income shall be deducted from total allowable costs to determine the net allowable costs. Program income shall be used for current costs unless the Federal agency authorizes otherwise. Program income which the grantee did not anticipate at the time of the award shall be used to reduce the Federal agency and grantee contributions rather than to increase the funds committed to the project."

Recommendation

We recommend that the City reduce total allowable costs by all program income (and interest income when applicable) to determine the net allowable costs that should be funded by HUD. The City should also consider examining the program income incurred since the commencement of the CDBG program to determine whether program income earned in prior years should be allocated to reduce a subsequent period's reimbursement requests so that all program income is allocated appropriately.

Management's Response Regarding Corrective Action Taken or Planned

The Finance Department will be reviewing more closely its practice with respect to program income. The City will reduce total allowable costs by any offset program income and interest to determine the net allowable cost. Furthermore, the Finance Department will allocate prior year program income to current reimbursement requests and allowable costs to ensure that all program income is used appropriately.

CITY OF INGLEWOOD

Summary Schedule of Prior Audit Findings

Year ended September 30, 2008

The following is the status of prior audit findings for the year ended September 30, 2007:

Financial Statement Findings

(FS-07-1) Loans Receivable

Matter was not resolved and therefore was repeated as a current year finding. See accompanying Schedule of Findings and Questioned Costs as item 2008-02.

(FS-07-02) Audit Adjustments

Matter was not resolved and therefore was repeated as a current year finding. See accompanying Schedule of Findings and Questioned Costs as item 2008-03.

(FS-07-03) Computer Operations Policies and Procedures

Matter was not resolved and therefore was repeated as a current year finding. See accompanying Schedule of Findings and Questioned Costs as item 2008-05.

(FS-07-04) Eden Security Administration

Matter was not resolved and therefore was repeated as a current year finding. See accompanying Schedule of Findings and Questioned Costs as item 2008-06.

(FS-07-05) Information Security Policies and Procedures

Matter was not resolved and therefore was repeated as a current year finding. See accompanying Schedule of Findings and Questioned Costs as items 2008-06 and 2008-07.

(FS-07-06) Password Security

Matter was not resolved and therefore was repeated as a current year finding. See accompanying Schedule of Findings and Questioned Costs as item 2008-06.

(FS-07-07) Ineffective Oversight of the City's Financial Reporting by Those Charged with Governance

Resolved

Federal Award Findings and Questioned Costs

(07.01) Federal Aviation Administration - Special Provisions

Matter was not resolved and therefore was repeated as a current year finding. See accompanying Schedule of Findings and Questioned Costs as item 2008-13.

(07.02) Federal Aviation Administration – Davis-Bacon Act

Resolved

(07.03) Emergency Shelter Grant – Subrecipient Monitoring

Resolved

(07.04) Emergency Shelter Grant, Federal Aviation Administration, HOME Investment Partnerships Program and Section 8 New Construction Program– Reporting

Matter was not resolved and therefore was repeated as a current year finding. See accompanying Schedule of Findings and Questioned Costs as item 2008-14.