

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 City Council
City of Carson
Carson, 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 discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Carson, California (the City), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated March 30, 2018.

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 below, 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 City's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the following deficiencies in internal control to be material weaknesses.

EXHIBIT NO. 2

Internal Control over Financial Reporting (Continued)

Material Weaknesses

Accounting for Carson Reclamation Authority Activity

Auditors' Comment

We noted that the following items related to activities of the Carson Reclamation Authority were not accounted for correctly: 1) A physical count of inventory was not performed at or near year end; 2) the purchase of multi-year insurance policies were not recorded as an asset and amortized; and, 3) a liability for closure and post-closure landfill costs attached to contributions received were not recorded; and, 4) a original budget amount for one account was entered incorrectly. We recommend that the City establish policies and procedures to analyze and accurately account for the activities of the Carson Reclamation Authority.

Management's Response

The City will review transactions of the Carson Reclamation Authority to ensure that they are properly accounted for. In addition, the Carson Reclamation Authority will perform an annual physical inventory.

Grant Revenue Recognition

Auditors' Comment

We noted an instance where a MTA grant reimbursement related to costs incurred within the current fiscal year was received subsequent to the City's availability period of 60 days after year end, yet it was still recorded as revenue in the respective special revenue fund for the current year. Receivables of this nature should not be recognized as revenue but, rather recorded as a deferred inflow of resources as of the current year end. We recommend that the City review existing year-end control processes and update them as needed to ensure that the City's availability criteria is consistently applied.

Management's Response

Finance department will ensure that they are in compliance with availability policy and review items at year end to identify deferrals as needed.

Internal Control over Financial Reporting (Continued)

Material Weaknesses (Continued)

Authorizations for Disbursements of Cash

Auditors' Comment

During our testing of cash disbursements, we noted many instances where the person approving the invoice did so even though the amount of the disbursement exceeded their specific approval limits as set forth in the authorized signor listings provided to us. In addition, the Authorized Signor Listing that we received had not been updated recently and was not consistent with the electronic documentation of approvals in the City's accounting system. Furthermore, we noted a few instances where the authorized approval limit for an individual did not appear to be appropriate based on the individual's job titles/roles. Authorizations over procurements and disbursements are essential to ensuring assets are not misappropriated and are spent in accordance with the adopted budget. We recommend that the City implement controls whereby the authorized signor listings are reviewed for propriety and updated on an ongoing basis throughout the year. We further recommend these approval limits be consistent with those referenced in the accounting system.

Management's Response

The City has approved a new APP and Purchasing Ordinance and all employees involved have gone through training and understand that PO's need to be issued prior to the purchase and that invoices need to be submitted timely. However, with our current system this is difficult to monitor and enforce. With our implementation of the new ERP system we will be designing a method to better monitor this and ensure we are in compliance. In regards to the authorized signer list we feel that this is not needed as we are following the requirements as per the APP. Also with the new ERP system the approval limits will be built in.

Significant Deficiency

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 following deficiencies in internal control to be significant deficiencies.

Segregation of Duties

Auditors' Comment

One of the basic elements of internal control over financial reporting involves the segregation of duties in such a manner that the work of one employee is checked by others, and the responsibilities for custody of assets is not placed with the same employee that maintains the accounting records. Segregation of duties is not always possible. However, consideration should be given to implementing new checks and balances that would partially offset the internal control weaknesses.



Internal Control over Financial Reporting (Continued)

Significant Deficiency (Continued)

Segregation of Duties (Continued)

Auditors' Comment (Continued)

During our review and testing of controls over cash receipts, we noted the following situation where there is a lack of segregation of duties: A Treasurer's accountant prepares the bank reconciliation for Treasurers' Trust Account. The accountant also posts cash receipts, tracks all event deposits in a manual book, outside of the systems and general ledger. The accountant is responsible for controls over manual cash receipt carbon-copy booklets, and tracks these manually in a log, including tracking voids.

Also, during our review and testing of controls over payroll, we noted the following situations where there is a lack of segregation of duties:

- a) Presently, one employee in the accounting department collects employee time information, develops batch control totals for the hourly payroll, and processes the related payroll. All of these duties concentrated in one employee is a conflict and opens the way for the payroll information to be manipulated, whether intentional or unintentional.
- b) There was no documentary evidence that ACH debit payments for payroll-related deductions were reviewed and approved for payment.

We recommend that management re-evaluate these staff persons' duties and determine whether any changes can be made and whether any mitigating controls can be implemented to minimize the control risk.

Management's Response

The Accounting Manager will review and approve all bank reconciliations prepared by the Treasurer's Office on a monthly basis.

The payroll department has had turn over in employees and for most of FY 16/17 we only had one employee processing payroll. The City is in the process of recruiting for two additional payroll specialists so that we will have a total of three payroll employees. As of January 2018 we have hired a temporary payroll specialist to alleviate any segregation of duties issues.

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 that are required to be reported under *Government Auditing Standards* and which are described below.

Compliance with Senate Bill 341

Auditors' Comment

Senate Bill 341 (SB 341) requires all successor housing entities, beginning with the fiscal year ended June 30, 2014, to comply with annual report requirements within six months after the end of each fiscal year. The annual report must contain all of the required items as described in Health and Safety Code Section 34176.1 beginning with subsection (f) and must be posted to the successor housing agency's website within six months of year end. We noted that the City, in its capacity as the successor housing agency, did not prepare and post to its website the required annual report for the fiscal year ended June 30, 2016 and 2017. We recommend the City implement policies and procedures to ensure compliance with the required elements for SB 341.

Management's Response

We agree with the comment. Community Development staff are currently working with a consultant to prepare the SB 341 report for fiscal year 2016-17, and expect to have it completed and submitted by the end of March 2018. In the future, we will make sure that this annual report is completed and posted to the City's website on or before December 31.

We noted certain matters that we have reported to management and the City Council in a separate letter dated March 30, 2018.

City's Responses to the Findings

The City's responses to the findings are described above. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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.

White Nelson Diehl Evans LLP

Irvine, California
March 30, 2018

