

CITY OF INGLEWOOD

Review Report

INTERNAL CONTROL SYSTEM

October 1, 2016, through September 30, 2018



BETTY T. YEE
California State Controller

May 2020



BETTY T. YEE
California State Controller

May 4, 2020

Artie Fields, City Manager
City of Inglewood
1 Manchester Boulevard
Inglewood, CA 90301

Dear Mr. Fields:

The State Controller's Office reviewed the City of Inglewood's internal control system to determine the adequacy of the city's controls for conducting operations, preparing financial reports, safeguarding assets, and ensuring proper use of public funds.

Our review found deficiencies in the city's internal control system. Our evaluation was based on conditions that existed during the review period of October 1, 2016, through September 30, 2018.

We used *Standards for Internal Control in the Federal Government* (Green Book), established by the Government Accountability Office, to assess various aspects of the city's internal control system. The Green Book outlines the fundamental components, principles, and attributes of effective internal control systems. Of the 48 control attributes evaluated, we found 15, or 31%, were present but not functioning; and 33, or 69%, were present and functioning.

The City of Inglewood should develop a comprehensive plan to address these deficiencies. The plan should identify the tasks to be performed, as well as milestones and timelines for completion. The City Council should require periodic updates at public meetings of the progress in implementing this plan. Furthermore, we request that the city provide the State Controller's Office with a progress update of its plan six months from the issuance date of this report.

If you have any questions, please contact Efren Loste, Chief of our Local Government Audits Bureau, by telephone at (916) 324-7226.

Sincerely,

Original signed by

JIM L. SPANO, CPA
Chief, Division of Audits

JLS/as

cc: The Honorable James T. Butts Jr., Mayor

City of Inglewood

George Dotson, Councilmember

City of Inglewood

Ralph Franklin, Councilmember

City of Inglewood

Eloy Morales Jr., Councilmember

City of Inglewood

Alex Padilla, Councilmember

City of Inglewood

David L. Esparza, Assistant City Manager/Chief Financial Officer

City of Inglewood

Sharon Koike, Assistant Finance Director

City of Inglewood

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Review Report

Introduction

The State Controller's Office (SCO) reviewed the City of Inglewood's internal control system for the period of October 1, 2016, through September 30, 2018 (fiscal year [FY] 2016-17 and FY 2017-18). When information obtained from city officials, independent auditors, and other audit reports merited further review, we expanded our testing to include prior-year and current-year transactions.

Our review found deficiencies in the city's internal control system as described in the Findings and Recommendations section of this report.

Background

The City of Inglewood is located in southwestern Los Angeles County, within the Los Angeles metropolitan area. The city was founded in 1887, incorporated as a general-law city in 1908, and chartered by a vote of its people in 1926. The city has a total area of 9.1 square miles, and a population of 110,598 according to the city's 2018-19 Adopted Annual Budget. According to the U.S. Census Bureau, the City of Inglewood has a 20% poverty rate, higher than the nation-leading California poverty rate of 13%.

The City of Inglewood has a council-manager type of government. The city is governed by a five-representative City Council. Each of the city's four council districts elects one representative; the city at large elects the Mayor as the fifth member. City Councilmembers are elected to four-year terms on a staggered basis every two years.

As the city's legislative body, the City Council acts upon city laws and is bound to uphold state and federal laws; the city adopted its current charter on June 5, 2018. The city sets its own laws and policies by ordinance, resolution, and minute action. The City Council adopts the annual city budget and establishes goals, objectives, and performance measures for the City Manager. The City Manager is appointed by majority vote of the City Council and acts as the Chief Executive Officer of the city. The City Manager implements the legislative policies of the City Council, manages the day-to-day operations of the city, and is responsible for efficient and effective delivery of municipal services.

The five elected City Councilmembers are:

- James T. Butts Jr., Mayor
- George Dotson, Councilmember
- Ralph Franklin, Councilmember
- Eloy Morales Jr., Councilmember
- Alex Padilla, Councilmember

The City Manager is Artie Fields.

We conducted a review of the city's internal control system pursuant to Government Code section 12422.5, which authorizes the State Controller to "audit any local agency for purposes of determining whether the agency's internal controls are adequate to detect and prevent financial errors and fraud."

We used *Standards for Internal Control in the Federal Government* (Green Book), established by the Government Accountability Office, to assess various aspects of the city's internal control system. The Green Book outlines the fundamental components, principles, and attributes of effective internal control systems. This assessment is intended to help management evaluate how well the city's internal control system is designed and implemented, and determine where improvements can be made.

Objective, Scope, and Methodology

The objective of our review was to evaluate the city's internal control system for FY 2016-17 and FY 2017-18 to ensure the:

- Effectiveness and efficiency of operations;
- Reliability of financial reporting;
- Compliance with applicable laws and regulations; and
- Adequate safeguarding of public resources.

To accomplish our objective, we:

- Evaluated the city's formal internal policies and procedures;
- Conducted interviews with city employees and observed the city's business operations to evaluate the city's internal control system;
- Reviewed the city's supporting documentation, including financial records;
- Performed tests of transactions on a non-statistical sample basis to ensure adherence with prescribed policies and procedures, and to test and validate effectiveness of controls; and
- Evaluated various aspects of the city's internal control system in accordance with the Green Book.

Conclusion

Our review found deficiencies in the city's internal control system, as described in the Findings and Recommendations section of this report. These deficiencies include the following:

- Mayor and City Council expenditures substantially higher than comparable cities (Finding 1);
- Lack of individualized justification for executive bonuses (Finding 2);
- Failure to monitor and write off Transient Occupancy Tax (TOT) revenues (Finding 3);

- Lack of proper and accurate accounting for fixed assets (Finding 4);
- Outdated administrative policies and procedures manuals (Finding 5);
- Lack of an audit committee (Finding 6);
- Lack of active oversight of city vehicle usage (Finding 7); and
- Failure to comply with policies for General Fund minimum balance (Finding 8).

Of the 48 control attributes evaluated, we found 15, or 31%, were present but not functioning; and 33, or 69%, were present and functioning. The results of our review and evaluation of the city's internal control system are included in this report as an appendix.

Views of Responsible Officials

We issued a draft review report on February 5, 2020. City Manager Artie Fields responded by letter dated March 3, 2020. The city's response is included in this report as an attachment.

Restricted Use

This review report is solely for the information and use of the City of Inglewood and SCO; it is not intended to be and should not be used by anyone other than these parties. This restriction is not intended to limit distribution of this report, which is a matter of public record and available online at www.sco.ca.gov.

Original signed by

JIM L. SPANO, CPA
Chief, Division of Audits

May 4, 2020

Findings and Recommendations

**FINDING 1—
Mayor and City
Council expenditures
substantially higher
than comparable
cities**

The Mayor and City Council expenditures are substantially higher than the majority of charter cities of comparable area and population within Los Angeles County. We found that between FY 2014-15 and FY 2017-18, the city’s Mayor and City Council budgeted expenditures were approximately 100% greater than the average of comparable charter cities, as shown in the table below:

			Mayor and City Council Adopted Budgets			
City	Population	Area (Square Miles)	Budget			
			FY 2014-15	FY 2015-16	FY 2016-17	FY 2017-18
Alhambra	83,089	7.63	\$ 341,945	\$ 345,634	\$ 346,119	\$ 352,928
Burbank	103,340	17.39	520,059	642,424	618,896	626,068
Compton	96,455	10.12	1,290,671	1,345,611	1,158,963	1,160,754
Downey	111,772	12.57	287,312	267,859	280,949	319,951
Total			\$ 2,439,987	\$ 2,601,528	\$ 2,404,927	\$ 2,459,701
Average			\$ 609,997	\$ 650,382	\$ 601,232	\$ 614,925
Inglewood	110,598	9.09	1,261,060	1,323,552	1,542,109	1,841,961
Difference from other cities’ average budgets			\$ 651,063	\$ 673,170	\$ 940,877	\$ 1,227,036
Percentage of difference from average budget			106.73%	103.50%	156.49%	199.54%

The largest contributing factor to the city’s higher expenditures for the Mayor and City Council is wages.

Mayor and City Council Salaries

For 2018, of the 482 cities in California that reported government compensation to SCO, the Mayor of Inglewood was the ninth highest-paid mayor. Mayors receiving higher pay than the Mayor of Inglewood include those of much larger cities (Los Angeles, San Francisco, Oakland, Long Beach, Chula Vista, San Jose, Fresno, and Sacramento). Mayors in the comparable charter cities, identified in the table above—Alhambra, Burbank, Compton, and Downey—earn annual salaries of \$11,340, \$16,242, \$15,000, and \$9,851, respectively. The Mayor of Inglewood earns the considerably higher salary of \$111,303.

Members of the Inglewood City Council are the ninth highest-paid City Councilmembers in the state. Only eight cities—Los Angeles, San Jose, Oakland, San Diego, Fresno, Sacramento, Chula Vista, and National City—pay their City Councilmembers higher salaries.

From 2015 through 2018, salaries for the Mayor and Councilmembers increased by \$4,857, or 1%, compared to the salary increases of approximately \$400,000 (or 100.08%), for support staff. The city also paid salary bonuses totaling \$59,108 to the Executive Assistant between 2016 and 2018.

The total wages paid to the Mayor, Councilmembers, and support staff members for 2015 through 2018 is shown in the table below:

Wages for Mayor, City Council, and Support Staff

Positions	Total Wages (Calendar Year)			
	2015	2016	2017	2018
Mayor	\$ 111,303	\$ 111,303	\$ 111,303	\$ 111,303
Councilmember	63,060	62,460	60,660	60,660
Councilmember	60,675	60,660	60,660	60,660
Councilmember	60,660	60,660	60,660	60,660
Councilmember	60,660	60,660	60,660	67,932
Subtotal	\$ 356,358	\$ 355,743	\$ 353,943	\$ 361,215
Executive Assistant to the Mayor and City Manager	\$ 90,323	\$ 128,059	\$ 245,436	\$ 306,284
Senior Assistant to the City Council	100,538	108,677	117,366	104,848
Assistant to the City Council	52,467	72,464	80,259	78,183
Assistant to the City Council	50,287	71,609	77,921	77,143
Assistant to the City Council	50,084	69,040	76,819	80,583
Assistant to the City Council	48,353	67,542	76,819	77,143
Senior Management Assistant	-	-	45,185	58,839
Senior Account Clerk	-	-	-	4,179
Subtotal	\$ 392,052	\$ 517,391	\$ 719,805	\$ 787,203
Total	\$ 748,410	\$ 873,134	\$ 1,073,748	\$ 1,148,419

Recommendation

We recommend the city:

- Re-evaluate the Mayor and City Council office expenditures, especially for support staffing levels and salaries for the Executive Assistant and Council Assistant positions; and
- Thoroughly examine the relevance and importance of the support staff members to the city’s overall purpose and operation.

City’s Response

Looking at a singular indicia like expenditures without context or other indicia is insufficient. A large portion of the measured expenditures are the salaries (VOTER APPROVED) of our elected officials which are pedestrian when compared to salaries leaders of private sector organizations far less accomplished than the leadership of Inglewood. Inglewood cannot be compared to other cities of a similar size. We are far more complex and successful....

As always, the City will continue to review and analyze the division expenditures and evaluate the appropriate level of staffing necessary for the city’s overall operations.

SCO Comment

Our finding and recommendation remain unchanged.

The city disagreed with the finding, but has agreed to continually review and analyze the division expenditures and evaluate the appropriate level of staffing necessary for the city’s overall operations.

**FINDING 2—
Lack of individualized
justification for
executive bonuses**

The city did not have adequate documentation to individually support and justify bonuses paid to Executive Directors (city department heads).

From FY 2015-16 to FY 2017-18, city management approved a total of \$701,482 in merit bonuses to 11 Executive Directors.

We requested supporting documentation that justified the Executive Directors' merit bonuses. However, city management indicated that written support was not required because bonuses were allowable per the Inglewood Executive Organization Memorandum of Understanding (MOU), valid October 1, 2016, through December 31, 2020.

Instead of written support, the city provided a transcript of a verbal report presented to the City Council that attributed the city's accomplishments to the Executive Directors. We found the report was insufficient because it did not directly identify the individual efforts of the beneficiaries; instead, it credited the city's success to the group as a whole.

The MOU only identifies criteria that executives are required to meet; the MOU is not written justification indicating which executives meet the required criteria. Without written justification to support the Executive Directors' bonuses, the city lacks transparency and accountability for merit bonuses.

The city did not have policies and procedures to ensure city management retained written justification for merit bonuses.

Recommendation

We recommend the city develop and implement formal written policies and procedures to ensure city management retains written justification for merit bonuses, to increase transparency and accountability.

City's Response

The City follows the language in the Inglewood Executive Organization (IEO) MOU to process the Executive Bonuses, as the MOU is the authority for approving them. Additionally, the City has developed a single policy that provides guidance on issuing the bonuses to the Executives. This policy will encapsulate what the City has already been performing when approving the bonuses for Executives.

**FINDING 3—
Failure to monitor
and write off
Transient
Occupancy Tax
revenues**

The city failed to promptly monitor and collect TOT revenue of \$306,490 for FY 2009-10 through FY 2016-17; and \$131,527 in TOT-related late and penalty fees for FY 2014-15 through FY 2016-17.

The city also failed to implement the write-off process for the TOT revenue and fees, which had an estimated value of up to of \$438,017 between FY 2009-10 and FY 2016-17.

Chapter 9, Article 8, section 9-61 (Penalties and Interest) of the city's Municipal Code, states:

- (1) Original Delinquency. Any operator who fails to remit any tax imposed by this Article within the time required shall pay a penalty of ten percent (10%) of the amount of the tax in addition to the amount of the tax.
- (2) Continued Delinquency. Any operator who fails to remit any delinquent remittance on or before a period of thirty (30) days following the date on which the remittance first became delinquent shall pay a second delinquency penalty of ten percent (10%) of the amount of the tax in addition to the amount of the tax and the ten percent (10%) penalty first imposed.

Section 2.5 (Write Offs For Bad Debt) of the city's Accounts Receivable Policies and Procedures states, in part:

Bad debt is defined as "payment for actual costs incurred on any given customer that is deemed uncollectible."

The Finance Department will recognize bad debts arising from accounts receivables after all appropriate, internal and external collection efforts have proven unsuccessful.

- 1) A debt will be deemed to be a bad debt after having given the collection agency a 6 month period to collect.

TOT revenues and fees are a funding source for the city's General Fund.

The city failed to collect the TOT revenues and fees because it did not regularly review the Accounts Receivable Customer Aging By Fund Reports and write off accounts that were over six months old.

Recommendation

We recommend the city:

- Adhere to TOT-specific Municipal Code and to Accounts Receivable Policies and Procedures; and
- Regularly review the Accounts Receivable Customer Aging by Fund Reports to check for accounts that are over six months old, and begin the write-off process promptly.

City's Response

The Finance department has established an updated collection policy that applies to all account receivables. The policy includes the initial invoicing and several follow-up notices sent out on all accounts. The collection policy was revised and updated on 9/12/2017 and includes a process to submit outstanding accounts to a collection agency after city staff have made several attempts to collect the account.

At this time, the Finance department is scheduled to request the authorization from City Council to write off all old outstanding receivables that have been deemed to be uncollectible. This request is scheduled to be presented at the April 7, 2020 Council meeting. Going forward, the Finance department will continue to review all outstanding

receivables on a regular basis, send out notifications, and for those accounts that receive no response or payment, the account will be submitted to a collection agency.

**FINDING 4—
Lack of proper and
accurate accounting
for fixed assets**

According to city staff, the city has not performed a physical inventory count of its fixed assets for the past five years. Furthermore, we requested records of the most recent physical inventory, but the city did not provide any.

The city's fixed assets include:

- Buildings and improvements
- Vehicles
- Equipment
- Road networks
- Landscaping
- Armored rescue vehicles
- Scissor lift trailers
- Lawnmowers

The city's Fixed Asset Listing for FY 2017-18 shows the city's total fixed assets, net of depreciation, are valued at \$137,416,651.

The city's Fixed Asset Policy states that every department is required to conduct an inventory count on an annual basis to verify the existence and condition of all items in the Fixed Asset Listing.

Section VII. (Asset inventory) of the city's Fixed Asset Policy states, in part:

A departmental inventory count shall be conducted annually to verify the existence and condition of all items listed in the fixed asset records. (When reconciled, the inventory provides evidence that each department head is meeting his or her stewardship duties over department assets. An inventory may also help departments plan for future purchases by identifying unanticipated wear and tear of equipment before the equipment breaks down.)

All fixed assets owned and purchased by the city should be properly recorded and accounted for in the city's Fixed Asset Listing, and in Comprehensive Annual Financial Reports and Financial Transaction Reports submitted to SCO.

Without regular physical inventory counts, the city does not have an accurate and complete Fixed Asset Listing. These records are essential to city governance and management. An up-to-date Fixed Asset Listing helps the city:

- Safeguard fixed assets to ensure assets can be easily located and maintained;

- Identify unanticipated wear and tear to help manage equipment replacement;
- Identify missing fixed assets;
- Report capitalized cost and depreciation;
- Record replacement and insurance values;
- Calculate overhead rates; and
- Comply with reporting requirements to ensure accountability.

The city failed to adhere to its Fixed Asset Policy, and did not assign staff stewardship responsibilities for valuable assets.

Recommendation

We recommend the city:

- Perform a physical inventory count of its fixed assets;
- Maintain a complete and accurate listing of fixed assets of significant value;
- Adhere to its Fixed Asset Policy to ensure accordance with Generally Accepted Accounting Principles, Statements of the Governmental Accounting Standards Board, and other applicable government accounting standards; and
- Assign stewardship responsibilities for valuable assets.

City's Response

The City has policies and procedures that include conducting a physical inventory of all significant city assets. Since the Finance department is in the final phase of implementing the integrated Fixed Asset module, the City will conduct periodic physical inventories of all significant city assets.

FINDING 5— Outdated administrative policies and procedures manuals

The city did not periodically review and update its administrative policies and procedures manuals.

According to city management, the city follows the *Civil Services Rules and Regulations Manual*, which was last revised on March 30, 1971. City management stated that the city was revising and updating the *Civil Services Rules and Regulations Manual*, and the process included a thorough administrative review. City management estimated this process will take another 12 months to complete.

The city acknowledges it does not have computer disaster recovery policies and procedures, and indicated the city was developing them.

A well-designed and properly maintained system of accounting policies and procedures enhances accountability and helps improve business processes and efficiency. The resulting documentation can also serve as a useful training tool for staff. Incomplete and outdated policies and related

internal controls results in unclear roles and responsibilities, and leads to improper handling of transactions. Monitoring is an essential element of internal control; this includes verification by management that policies and procedures are regularly updated to address new challenges identified by ongoing risk assessments.

Recommendation

We recommend the city:

- Perform periodic review of administrative policies and procedures manuals to ensure proper documentation, accuracy, and completeness;
- Develop a formal employee handbook, and formal policies and procedures for computer disaster recovery; and
- Disseminate the updated administrative policies and procedures manuals to all employees and provide training when necessary. The manuals should clearly state the authority and responsibility of all employees, especially the authority to approve transactions and the responsibility for the safekeeping of assets and records.

City's Response

All policies are current and in use. The fact that they have stood the test of time is no indicia of a necessity to change them for the sake of change. The City has an Administrative manual that has several policies and procedures documented that are currently still being followed. Although many of the policies are dated with the initial date the policy was originated or updated, the policies are still being followed. The Human Resource department is putting together an Employee Handbook for distribution to all employees. The City does have a computer disaster recovery policy and vehicle usage policy that are currently in place.

SCO Comment

Our recommendation is for the city to periodically review its manuals to ensure they are accurate and complete.

We updated our recommendation to remove the remark on the vehicle usage policy. We received from the city a copy of the vehicle usage policy, but we have not received a copy of the computer disaster recovery policy.

FINDING 6— Lack of an audit committee

The city lacks an audit committee to advise the City Council. The primary purpose of an audit committee is to provide oversight of the financial reporting process, the audit process, the entity's system of internal controls, and the entity's compliance with laws and regulations.

On June 30, 2012, the Los Angeles County Civil Grand Jury (Grand Jury) issued a final report of its findings and recommendations pertaining to county government matters during FY 2011-12. In this report, the Grand Jury recommended to 15 charter cities within Los Angeles County—the City of Inglewood included—that they establish formal audit committees to provide independent review and oversight of the cities' financial reporting processes, internal controls, and independent auditors.

On February 6, 2013, the city responded to the Grand Jury Report regarding the audit committee issues, stating that it agreed with this recommendation; however, the city has yet to implement the recommendation. The City Council is responsible for establishing an audit committee.

According to city management, the city has appropriate processes and controls in place specifically over the accounting and audit functions. City management also mentioned the auditing structure has been successful, and consists of a team composed of an assistant finance director with a CPA license and a city staff member with accounting and auditing experience.

However, the city should establish an audit committee to further demonstrate its commitment to accurate financial reporting, regulatory compliance, and responsible use of public resources. The audit committee's oversight of independent auditors ensures their integrity and objectivity, thus ensuring audit results are reliable.

Recommendation

We recommend the city formally establish an audit committee that would be primarily responsible for providing oversight of the financial reporting process, the audit process including the selection and retention of independent auditors, the city's system of internal controls, and the city's compliance with laws and regulations. The audit committee should be formally established through a city resolution.

City's Response

The City of Inglewood does have in place appropriate and highly effective processes and controls specifically over the accounting and audit functions. Over the last eight years, annual independent audit results have demonstrated marked improvement. Our auditing structure has been overwhelmingly successful and consist of a team composed of city staff and external financial expertise with expertise in specific financial areas that needed improvement. The City's structure has been successful, as audit results demonstrate. More than 67 audit findings over the last eight years have been addressed, and the most recent audit as of 9/30/2018 had only 3 audit findings, none being significant deficiencies.

SCO Comment

Our finding and recommendation remain unchanged.

The city claims to have in place an appropriate and highly effective process and controls specifically over the accounting and audit functions. However, the city has not formalized an audit committee through a city resolution. Best business practices dictate the audit committee be independent and consist of a majority of individuals who are not responsible for the day-to-day operations of the city. This independent perspective is lacking in the city's current governance structure.

We urge the city to consider implementing the Grand Jury's recommendation to establish an independent audit committee. Among many benefits, an audit committee would provide these principal benefits:

- Provide objective advice and recommendations to the City Council on whether the city's system of internal controls is appropriate, functioning, and effective; and
- Help to meet taxpayers' increasing demands for transparency and accountability.

**FINDING 7—
Lack of active oversight over city vehicle usage**

The city lacked active oversight of city vehicle usage.

We assessed the city's policies and procedures regarding city vehicle usage to ensure these control procedures were complete and sufficient to protect public resources from misuse.

We noted the city did not have the following vehicle usage controls in place for all departments:

- Requirement for drivers to sign documents agreeing to only use vehicles for work-related purposes; and
- An activity log or sign-in sheet.

Some departments, such as Public Works, use a sign-in sheet to keep track of vehicle usage; however, other departments including the City Manager's department do not.

Without active oversight for city vehicle usage, the city may have failed to deter employees from using city vehicles for non-work-related purposes.

Recommendation

We recommend the city develop and implement tracking methods to ensure city vehicles are used only for work-related purposes.

City's Response

The City updated and revised its vehicle usage policy which includes log sheets to document vehicles used for work-related purposes.

**FINDING 8—
Failure to comply with policies for General Fund minimum balance**

For FY 2017-18, the city approved General Fund budgeted expenditures that were in excess of the amount allowed by the city's General Fund minimum fund balance policy.

City of Inglewood Resolution No. 14-79 states, in part:

At the end of each fiscal year, the General Fund should have a minimum fund balance of 25% of the next fiscal year's General Fund annual budgeted operating expenditures, as calculated by the Chief Financial Officer. This target amount has been established in order to provide a reasonable level of assurance that the City's day-to-day operations will

be able to continue even if circumstances occur where revenues are insufficient to cover expenditures. The minimum fund balance is shown in the annual financial statements as unassigned fund balance.

Per the city’s annual budget, the approved General Fund expenditures exceeded the allowable amount by \$23.3 million, calculated below.

FY 2017-18 Approved General Fund Operating Budget

FY 2016-17 unassigned fund balance	\$ 24,864,659
Adjustment from FY 2017-18 Audited Financial Statement	<u>1,286,300</u>
Adjusted FY 2016-17 unassigned fund balance	26,150,959
	<u>25%</u>
Allowable FY 2017-18 operating expenditures based on 25% limit	104,603,836
FY 2017-18 budgeted operating expenditures	<u>127,943,354</u>
Excess amount	<u>\$ 23,339,518</u>

According to city officials, the city’s budget expenditures for FY 2017-18 exceeded the allowable amount because the city increased its public safety allocations to support the city’s police department. The city also increased its unassigned fund balance for FY 2017-18 by refinancing its pension obligation bonds, which resulted in a one-time infusion of \$35 million.

The city approved a General Fund annual budget based on the General Fund total fund balance rather than the unassigned fund balance. As a result, the budgeted General Fund expenditures for FY 2017-18 exceeded the allowable amount—thus providing the city with a lower level of assurance that it would be able to cover the cost of day-to-day operations.

Although the city ended FY 2017-18 with a positive General Fund balance, the city should consistently adhere to the General Fund minimum balance policy to prevent overspending.

Recommendation

We recommend the city:

- Develop procedures to comply with its policy for General Fund minimum balance when approving the General Fund operating budget; and
- Monitor the changes to its General Fund balance to ensure revenues received are equal to or greater than expenditures incurred.

City’s Response

The policy was generated by the Mayor and City Council and was extremely ambitious. It is odd [that] the City would be criticized for instituting a policy that few cities would be bold enough to strive for. This finding relates to the 2014-2015 fiscal year when the City fell short of this policy goal. We have far exceeded this goal every year since....

...**Moody's Investors Service** issued the following statement as an **Issuer Comment** in January of 2016 (Attachment A):

“Finances: The financial position of the city is robust and is a notable strength when compared to its A1 rating. The cash balance as a percent of revenues (41.9%) is stronger than the US median. Moreover, the fund balance as a percent of operating revenues (46.4%) **far surpasses other Moody's-rated cities nationwide and saw an impressive increase from 2011 to 2014.**”

The City has received 5 bond rating upgrades during the past 9 years; rising from BBB- to AA-; an incredible success story. At present and for the past 4 years, the City has far exceeded our self-generated General Fund balances vs. City Budget goal.

SCO Comment

Our finding and recommendation remain unchanged.

We did not criticize the city for instituting the policy. We merely noted the city did not meet its policy relating to General Fund minimum balance for FY 2017-18.

Appendix— Evaluation of Internal Control System¹

Internal Control Attributes		Present?		Functioning?		Explanations/Conclusions
		Y	N	Y	N	
CONTROL ENVIRONMENT						
1.	Demonstrates Commitment to Integrity and Ethical Values					
	a. Sets the tone at the top	X		X		
	b. Establishes standards of conduct	X		X		
	c. Evaluates adherence to standards of conduct	X		X		
2.	Exercises Oversight Responsibility					
	a. Establishes oversight structure and responsibilities	X			X	Refer to Finding 6.
	b. Provides oversight for the system of internal control	X			X	Refer to Finding 5.
	c. Provides input for remediation of deficiencies in the internal control system	X		X		
3.	Establishes Structure, Authority, and Responsibility					
	a. Considers organizational structures	X		X		
	b. Defines, assigns, and limits authorities and responsibilities	X		X		
	c. Develops and maintains documentation of the internal control system	X			X	Refer to Finding 5.

¹This evaluation tool is based on guidelines established by GAO’s *Standards for Internal Control in the Federal Government*. The evaluation tool helps local agencies to identify internal control weaknesses. SCO uses the same evaluation tool for all of its internal control system reviews of local government agencies, regardless of size.

Appendix (continued)

Internal Control Attributes		Present?		Functioning?		Explanations/Conclusions
		Y	N	Y	N	
4.	Demonstrates Commitment to Competence					
	a. Establishes expectations of competence for key roles	X		X		
	b. Attracts, develops, and retains competent personnel	X		X		
	c. Plans and prepares for succession	X		X		
5.	Enforces Accountability					
	a. Enforces accountability of personnel through mechanisms such as performance appraisals and disciplinary actions	X		X		
	b. Considers excessive pressures	X		X		
RISK ASSESSMENT						
6.	Defines Objectives and Risk Tolerances					
	a. Defines objectives in specific and measurable terms	X		X		
	b. Considers risk tolerances for the defined objectives	X		X		
7.	Identifies, Analyzes, and Responds to Risks					
	a. Identifies risks throughout the entity to provide a basis for analyzing risks	X		X		
	b. Analyzes the identified risks to estimate their significance	X		X		
	c. Determines how to respond to risks	X		X		

Appendix (continued)

Internal Control Attributes		Present?		Functioning?		Explanations/Conclusions
		Y	N	Y	N	
8.	Assesses Fraud Risk					
	a. Considers various types of frauds	X			X	Refer to Finding 7.
	b. Assesses fraud risk factors - incentives and pressures, opportunities, and attitudes and rationalizations	X			X	Refer to Finding 7.
	c. Analyzes and responds to identified fraud risks	X			X	Refer to Finding 7.
9.	Identifies, Analyzes, and Responds to Change					
	a. Identifies and assesses changes that could significantly impact the entity’s internal control system	X		X		
	b. Analyzes and responds to identified changes and related risks in order to maintain an effective internal control system	X		X		
CONTROL ACTIVITIES						
10.	Designs Control Activities					
	a. Designs control activities in response to the entity’s objectives and risks	X			X	Refer to Findings 1 and 2.
	b. Designs appropriate types of control activities for the entity’s internal control system	X			X	Refer to Findings 1 and 2.
	c. Considers at what level activities are applied	X		X		
	d. Addresses segregation of duties	X		X		

Appendix (continued)

Internal Control Attributes		Present?		Functioning?		Explanations/Conclusions
		Y	N	Y	N	
11.	Designs General Control over Information System					
	a. Designs the entity’s information system to respond to the entity’s objectives and risks	X			X	Refer to Finding 5.
	b. Designs appropriate types of control activities – general and application control activities, in the entity’s information system	X		X		
	c. Designs control activities over the information technology infrastructure to support the completeness, accuracy, and validity of information processing	X		X		
	d. Establishes relevant security management process control activities	X		X		
	e. Establishes relevant technology acquisition, development, and maintenance process control activities	X		X		
12.	Implements Control Activities					
	a. Documents in policies and procedures the internal control responsibilities of the organization	X			X	Refer to Finding 4.
	b. Reassesses policies and procedures through periodic review of control activities	X			X	Refer to Finding 5.

Appendix (continued)

Internal Control Attributes		Present?		Functioning?		Explanations/Conclusions
		Y	N	Y	N	
INFORMATION AND COMMUNICATION						
13.	Uses Quality Information					
	a. Identifies information requirements	X		X		
	b. Obtains relevant data from reliable internal and external sources in a timely manner	X			X	Refer to Finding 5.
	c. Processes the obtained data into quality information within the entity's information system	X			X	Refer to Finding 5.
14.	Communicates Internally					
	a. Communicates internal control information throughout the entity using established reporting lines	X			X	Refer to Finding 5.
	b. Selects appropriate methods of communication and considers factors such as audience, nature of information, availability, cost, and legal or regulatory requirements	X		X		
15.	Communicates Externally					
	a. Communicates to external parties, and obtains quality information from external parties using established reporting lines	X		X		
	b. Selects appropriate methods of communication and considers factors such as audience, nature of information, availability, cost, and legal or regulatory requirements	X		X		

Appendix (continued)

Internal Control Attributes		Present?		Functioning?		Explanations/Conclusions
		Y	N	Y	N	
MONITORING						
16.	Conducts Ongoing Monitoring Activities					
	a. Establishes a baseline to monitor the internal control system	X			X	Refer to Findings 3 and 8.
	b. Considers a mix of ongoing and separate evaluations	X		X		
	c. Objectively evaluates and documents the results of ongoing monitoring and separate evaluations to identify internal control issues	X		X		
17.	Evaluates Issues and Communicates and Remediates Deficiencies					
	a. Reports internal control issues through established reporting lines to the appropriate internal and external parties in a timely manner	X		X		
	b. Evaluates and documents internal control issues and determines appropriate corrective actions for internal control deficiencies	X		X		
	c. Monitors, completes, and documents corrective actions	X		X		

**Attachment—
City of Inglewood's Response to Draft Review Report**



CITY OF INGLEWOOD
OFFICE OF THE CITY MANAGER



March 3, 2020

Mr. Efren Loste, Chief
Local Government Audits Bureau
State Controller's Office, Division of Audits
Post Office Box 942850
Sacramento, CA 94250

RE: City of Inglewood Internal Control Audit Responses

Dear Mr. Loste,

This letter is in response to your audit of the City of Inglewood's internal control system for the period of October 1, 2016 through September 30, 2018. We are submitting our responses to your findings you have identified in this report.

SCO Finding # 1: Mayor and City Council expenditures substantially higher than comparable cities.

City's Response: Looking at a singular indicia like expenditures without context or other indicia is insufficient. A large portion of the measured expenditures are the salaries (VOTER APPROVED) of our elected officials which are pedestrian when compared to salaries leaders of private sector organizations far less accomplished than the leadership of Inglewood. Inglewood cannot be compared to other cities of a similar size. We are far more complex and successful. As an example over the past 9 years the Mayor and Council have:

- 1) **Decreased the unemployment rate in Inglewood from 17.5% to 4.7%;**
- 2) **Increased property values well over 150% since 2012** (giving Inglewood residents the opportunity to build generational wealth to pass to their children);
- 3) Brought the regional headquarters of the **Girls Scouts from MDR to Inglewood;**
- 4) Provided agreements that provided jobs for **Parolees with the Iron Workers on the Stadium projects** for people that had no hope of employment since their release and reintegration to society;
- 5) Re-opened the **Forum which is the #1 concert venue in California, #2 in United State; #3 in the world for booked events.**
- 6) Negotiated the return of the **NFL (RAMS & CHARGERS)** to the LA region with tax revenues to go to Inglewood; the movement of the **NFL Networks** from Culver City to Inglewood;
- 7) Negotiated the potential return of the NBA to Inglewood (**Clippers**);
- 8) The movement of the **NFL Network from Culver City to Inglewood in 2020;**

- 9) **Super bowl 54 to Inglewood in 2022;**
- 10) **The NCAA Championship College Football Bowl game in 2023;**
- 11) **WrestleMania in 2021**
- 12) **The opening ceremonies for the Summer Olympics World Games in 2028;**
- 13) **Instituted within major Development Agreements Local hiring goals of 35% for Inglewood residents** for the 50,000 construction jobs generated by projects between 2016 and 2023. These jobs pay prevailing wages...not minimum wages;
- 14) **Worked with One-Stop of the South Bay Workforce Investment Board to maximum local apprenticeship opportunities and local resident placement** by the unions on these jobs; (See attached chart)
- 15) **Re-Paved more street lane miles of roadway and linear feet of sidewalk than any administrations in the history of Inglewood;**
- 16) **Reconstructed CENTURY BLVD** which was 20 years overdue;
- 17) **Begun reconstruction of Imperial Hwy;**
- 18) **Picked a Chief of Police that has given us 7 of the 8 consecutive years of the lowest crime rates in the history of Inglewood;** a Chief of Police that has raised the clearance rate for homicides in Inglewood from a dismal 27% in 2010 to over 73% YTD in 2018 (the average clearance rate for California is 64%);
- 19) **Produced the #1 Residential Sound Insulation program in the United States** after being defunded in 2010;
- 20) **Opened a \$27 million dollar, 35,000 square foot state of the art Senior Center** in January that had been promised to the seniors since 2006.
- 21) **Entered into a Development Agreement to bring the LA Philharmonic Youth Orchestra Program (YOLA) to Inglewood**
- 22) **Quintupled our unobligated reserves from a low of \$10 Million dollars to over \$55 Million.**

As always, the City will continue to review and analyze the division expenditures and evaluate the appropriate level of staffing necessary for the city's overall operations.

SCO Finding #2: Lack of individualized justification for executive bonuses

City's Response: The City follows the language in the Inglewood Executive Organization (IEO) MOU to process the Executive Bonuses, as the MOU is the authority for approving them. Additionally, the City has developed a single policy that provides guidance on issuing the bonuses to the Executives. This policy will encapsulate what the City has already been performing when approving the bonuses for Executives.

SCO Finding# 3 – Failure to monitor and write off Transient Occupancy Tax revenues

City's Response: The Finance department has established an updated collection policy that applies to all account receivables. This policy includes the initial invoicing and several follow up notices sent out on all accounts. The collection policy was revised and updated on 9/12/2017 and includes a process to submit outstanding accounts to a collection agency after city staff have made several attempts to collect the account.

At this time, the Finance department is scheduled to request the authorization from City Council to write off all old outstanding receivables that have been deemed to be uncollectible. This request is scheduled to be presented at the April 7, 2020 Council meeting. Going forward, the Finance department will continue to review all outstanding receivables on a regular basis, send out notifications, and for those accounts that receive no response or payment, the account will be submitted to a collection agency.

SCO Finding # 4 – Lack of proper and accurate accounting for fixed assets

City's Response: The City has policies and procedures that include conducting a physical inventory of all significant city assets. Since the Finance department is in the final phase of implementing the integrated Fixed Assets module, the City will conduct periodic physical inventories of all significant city assets.

SCO Finding # 5 – Outdated administrative policies and procedures manuals

City's Response: All policies are current and in use. The fact that they have stood the test of time is no indicia of a necessity to change them for the sake of change. The City has an Administrative manual that has several policies and procedures documented that are currently still being followed. Although many of the policies are dated with the initial date the policy was originated or updated, the policies are still being followed. The Human Resource department is putting together an Employee Handbook for distribution to all employees. The City does have a computer disaster recovery policy and vehicle usage policy that are currently in place.

SCO Finding # 6 – Lack of audit committee

City's Response: The City of Inglewood does have in place appropriate and highly effective processes and controls specifically over the accounting and audit functions. Over the last eight years, annual independent audit results have demonstrated marked improvement. Our auditing structure has been overwhelmingly successful and consists of a team composed of city staff and external financial expertise with expertise in specific financial areas that needed improvement. The City's structure has been successful, as audit results demonstrate. More than 67 audit findings over the last eight years have been addressed, and the most recent audit as of 9/30/2018 had only 3 audit findings, none being significant deficiencies.

SCO Finding # 7 – Lack of active oversight over vehicle usage

City's Response: The City has updated and revised its vehicle usage policy which includes log sheets to document vehicles used for work related purposes.

SCO Finding # 8 – Failure to comply with policies for General Fund minimum balance.

City's Response: The policy was generated by the Mayor and City Council and was extremely ambitious. It is odd the City would be criticized for instituting a policy that few cities would be bold enough to strive for. This finding relates to the 2014-2015 Fiscal year when the City fell short of this policy goal. We have far exceeded this goal every year since. In fact

Moody's Investors Service issued the following statement as an Issuer Comment in January of 2016 (Attachment A):

"Finances: The financial position of the city is robust and is a notable strength when compared to its A1 rating. The cash balance as a percent of revenues (41.9%) is stronger than the US median. Moreover, the fund balance as a percent of operating revenues (46.4%) far surpasses other Moody's-rated cities nationwide and saw an impressive increase from 2011 to 2014."

The City has received 5 bond rating upgrades during the past 9 years; rising from BBB- to AA-; an incredible success story. At present and for the past 4 years, the City has far exceeded our self-generated General Fund balance vs. City Budget goal.

If you have any further questions, please do not hesitate to contact Sharon Koike, Assistant Finance Director at (310) 412-8724.

Yours truly,



Artie Fields
City Manager

Cc: Jim L. Spano, CPA, Chief, Division of Audits
David L. Esparza, ACM/CFO, City of Inglewood
Sharon Koike, Assistant Finance Director, City of Inglewood

ISSUER COMMENT

21 January 2016

RATING
General Obligation (or GO Related)¹

 A1 No Outlook
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City of Inglewood, CA
Annual Comment on City of Inglewood
Issuer Profile

The City of Inglewood is located in Los Angeles County, California, approximately eight miles southwest of Los Angeles, within the greater LA metro area. Los Angeles County has a population of 10,116,705 and a population density of 2,493 people per square mile. The county's per capita income is 549,400 (1st quartile) and the August 2015 unemployment rate was 5.9% (3rd quartile).² Los Angeles County is commonly associated with the entertainment industry. All six major film studios, including Paramount Pictures, 21st Century Fox, Sony, Warner Bros., Universal Pictures, and Walt Disney Studios, are located within the county. Los Angeles County has a very diverse economy and beyond motion picture and television program production, other major industries include international trade supported by the Port of Los Angeles and the Port of Long Beach, technology, music recording and production, aerospace, and professional services such as law, financial services and medicine. Top ranking employers include federal, state, and local government, Los Angeles Unified School District, University of California, Los Angeles, Kaiser Permanente, Northrup Grumman, Target, Providence Health, University of Southern California, and Bank of America.

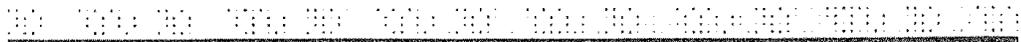
Credit Overview

Inglewood has a solid credit position. However, its A1 rating is slightly under the median rating of Aa3 for US cities. Key credit factors include a very strong financial position and a moderate socioeconomic profile with an ample tax base. The rating also reflects the city's highly elevated pension liability with a light debt burden.

Finances: The financial position of the city is robust and is a notable strength when compared to its A1 rating. The cash balance as a percent of revenues (41.9%) is stronger than the US median. Moreover, the fund balance as a percent of operating revenues (46.4%) far surpasses other Moody's-rated cities nationwide and saw an impressive increase from 2011 to 2014.

Economy and Tax Base: Overall, the economy and tax base of the city are strong and are largely consistent with its A1 rating. The total full value (\$7.2 billion) is materially above the US median. Full value per capita (\$65,555) matches the US median and rose between 2011 and 2014. On the other hand, the median family income equates to only 76.5% of the US level.

Debt and Pensions: The net direct debt to full value (1.2%) is slightly elevated when compared to the US median, although this metric remained relatively flat from 2011 to 2013. The Moody's-adjusted net pension liability to operating revenues (3.9x) unfavorably far exceeds the US median. Since fiscal 2014, however, the city increased employee pension contributions, which is expected to help offset the city's fixed cost burden.



**State Controller's Office
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