CITY OF ALAMEDA
MEMORANDUM ON INTERNAL CONTROL

FOR THE YEAR ENDED JUNE 30, 2019

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For the Year Ended June 30, 2019

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MEMORANDUM ON INTERNAL CONTROL

To the City Council of
the City of Alameda, California

We have audited the basic financial statements of the City of Alameda, California, for the year ended June 30, 2019, and have issued our report thereon dated May 4, 2020. Our opinions on the basic financial statements and this report, insofar as they relate to the Alameda Municipal Power Enterprise Fund, are based solely on the reports of other auditors. In planning and performing our audit of the basic financial statements of the City as of and for the year ended June 30, 2019, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing 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. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be 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 deficiencies in internal control included on the Schedule of Material Weaknesses to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control included on the Schedule of Significant Deficiencies to be significant deficiencies.

Included in the Schedule of Other Matters are recommendations not meeting the above definitions that we believe are opportunities for strengthening internal controls and operating efficiency.

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Management's written responses included in this report have not been subjected to the audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

This communication is intended solely for the information and use of management, City Council, others within the organization, and agencies and pass-through entities requiring compliance with *Government Auditing Standards*, and is not intended to be and should not be used by anyone other than these specified parties.

Maze & Associates

Pleasant Hill, California
May 4, 2020

SCHEDULE OF MATERIAL WEAKNESSES

2019-01 Timeliness of Year-End Close

Well-managed organizations should develop a plan to ensure that adequate resources will remain available in the event of employee departures. Part of that is ensuring there are resources available to be utilized on short notice to fill gaps in key positions, especially in the Finance Department. These resources need to be in place throughout the fiscal year to ensure accounting processes and procedures continue and allow time for analysis of account balances and activities.

Due to the staff turnover during the year, there is a significant strain on the City's ability to maintain a good internal control environment and to produce accurate and timely financial data. As a result, the year-end audit was adversely affected. During the audit, City staff proposed thirty-seven post-closing journal entries, including a number of material post-closing adjustment entries. City staff had difficulty completing material closing entries prior to providing the general ledger for audit for areas including cash and investments, accounts receivable, interfund transactions, capital assets, pension liabilities and related deferred outflows/inflows of resources, and OPEB liabilities and related deferred outflows/inflows of resources. These areas affected the year-end closing process and most of the City's funds.

The above condition delayed the completion of the year-end closing process, which increases the risk that errors or misstatements may go undetected by staff and corrections may not be made in a timely manner. Audit effort was substantially increased in response to these increased risks.

The City should analyze staff resources to determine what plans can or should be made to ensure that the financial data is processed properly and timely during staffing transitions. In addition, the City must develop procedures to ensure that accounts are analyzed throughout the fiscal year and after the year end close to ensure that additional closing entries are not required prior to providing the general ledger for audit.

Management's Response:
This is a top priority to us, and the City has acquired the services of Management Partners to assist us in identifying key deficiencies in our staffing and management of assignments. We have hired 2 new Accountants in the past 5 months, and expect to make some significant changes to work assignments and possibly reporting relationships in the upcoming months. We also plan on supplementing our accounting staff with contract service support to assist in catching up on general ledger duties. We expect, over the next several months to make sure all regular general ledger review items are assigned to a staff member. All of this will make our year end close process more effective. While we hope this year end close process is completed timely, due to continued staff vacancies and Shelter in Place restrictions, we are certain it will be timely by the end of fiscal year 2020-21.

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SCHEDULE OF SIGNIFICANT DEFICIENCIES

2019-02 Segregation of Duties in Major Control Areas

During our review of the City's internal controls for proper segregation of duties and procedures and as noted in prior year Memorandum on Internal Control comment 2018-01, we noted areas in which controls need to be improved and employee's access and/or duties revised. Good internal controls require that employees with access to the City's assets not have access to edit the City's accounting records for the same assets. Inappropriate access could potentially result in undetected errors or unauthorized transactions.

a) Access to Customer Database and Cash Receipts/ Non-Sufficient Funds Checks

City staff that is involved in the cash receipts process should not normally be allowed to have access to make changes to the customer database. And, employees that generate accounts receivable billings should not be involved with the collection of cash receipts or processing of non-sufficient funds checks and ability to adjust the general ledger.

The Finance Supervisor and the Accounting Technician handle cash receipts and have access to the customer database, non-sufficient funds checks and can adjust the general ledger, while it does not appear that changes to the customer database are reviewed. In addition, three Account Clerks that handle cash receipts also have access to the customer database, and, the Accounting Technician generates accounts receivable billings.

We understand the Finance Department was understaffed, which resulted in a need to reallocate certain employee duties.

The access to make changes to the customer database should be removed from the Finance Supervisor, the Accounting Technician and the three Account Clerks. In the event the system does not allow such a change, there should be a review and approval of all changes to the customer database on a regular basis to ensure all changes were authorized. In addition, the processing of non-sufficient funds checks should be transferred to an employee that is not involved with both billings and collections and if the Accounting Technician continues to prepare accounts receivable billings, she should not be involved with cash collections.

Management's Response:
We believe these issues will be solved in the new financial system, as it will create a log of changes. Unfortunately, the current system does not do that. We note that the City does not generate a significant number of Accounts Receivable billings. In the meantime, we will have an Accountant with no access to the cash to review and sign off on all accounts receivable billings and NSF recordings.

SCHEDULE OF SIGNIFICANT DEFICIENCIES

2019-02 Segregation of Duties in Major Control Areas (Continued)

b) Finance Staff with General Ledger Super User Rights

A system super-user is an individual who has full access over the City's financial system including all modules and all functions. Accounting staff should not normally be allowed to have super-user rights in the City's general ledger system.

We noted that the City's Finance Supervisor has super-user access to the City's general ledger system.

When accounting staff have super-user rights, there is a potential risk of restricting or allowing access to other user's abilities to access the different modules in the accounting system. In addition, unauthorized transactions and misstatements may occur without timely detection and correction.

We understand that City staff believes sufficient controls are in place to mitigate the risk.

The City should consider restricting super user rights to as few employees as possible, preferably to those outside of the Finance Department, such as Information Technology personnel, since they are not involved with processing or approving general ledger transactions. Until that is possible, the City should implement mitigating controls such as a review and approval of changes made to the system by the above employee.

Management's Response:
We agree with the finding on super-user access, and will be working to reassign super-user responsibility to either the Financial Services Manager or to an Accountant in the upcoming weeks, as this will take training.

City staff must develop procedures to review the City's internal controls to ensure there is proper segregation of duties and that there is documentation of the review and approval of transactions and reconciliations in key control areas. Where internal control conflicts exist, if mitigating controls cannot be put in place to reduce the internal control risk, then either the ability to process the transaction or the access to the asset should be transferred to another appropriate employee.

In response to the prior year comments on the same topic, City staff indicated that it is not feasible to remove or revise super-user and customer database access from all Finance Department staff and that the City has implemented other review and approval internal controls.

Although we agree that the City has other controls in place to mitigate the super-user risk, the City should consider implementing procedures to review/approve any system changes initiated by the Finance Supervisor and the other employees.

SCHEDULE OF SIGNIFICANT DEFICIENCIES

2019-03 Timely Review of Bank Reconciliations

Bank reconciliations are one of the most important internal controls the City can have, and the bank reconciliation cannot be considered complete until it has been reviewed and approved. To be an effective control, bank reconciliations and the associated review should be completed in their entirety as soon as reasonably possible after each month-end, usually within thirty to forty-five days of the bank statement date. The dates of preparation and performance of review of the monthly Bank Reconciliations should be documented to clearly indicate proper internal controls are in place and the bank reconciliation process was completed timely.

During our review of the January 2019 and March 2019 bank reconciliations for the general checking account, we noted that although the preparer and reviewer signed off on the bank reconciliations, the date of preparation for the January 2019 bank reconciliation is not documented, and the January 2019 and March 2019 bank reconciliations were not reviewed until April 5, 2019 and May 24, 2019, respectively.

By not completing and reviewing the bank reconciliations timely, accounting errors, misstatements and/or unauthorized activities may not be identified or corrected in a timely manner.

We understand the review of the bank reconciliations was delayed due to the Finance Department being understaffed, and the missing review documentation was due to staff oversight.

We did note that the June 2019 bank reconciliations were prepared and reviewed timely, but the City should document the dates of preparation and review on the face of bank reconciliations and the bank reconciliation process should be completed within 30 to 45 days of month end throughout the fiscal year.

Management's Response:
We agree that the preparation of timely bank reconciliations should be assigned to an Accountant and signed off on by either an Accountant II or the Financial Services Manager. We are now working on procedures and template tools for ongoing bank reconciliations going forward. Our goal is to have them completed by the third week following the end of each month and plan to be caught up by September 30, 2020.

2019-04 Timely Preparation and Review of Quarterly Investment Reports

Investment account reconciliations are an important element of the City's internal controls. In order to be an effective control, reconciliations should be completed as soon as reasonably possible after each month-end, usually within 30-45 days if receipt of statements, and subsequently reviewed for accuracy. Errors and unreconciled differences should be researched, understood and corrected immediately, to prevent additional errors and a decrease in efficiency. In addition, Section XIV, Investment Advisory Committee/Reporting Requirements, requires that quarterly information "be submitted to the City Manager and City Council within 30 days following the end of the quarter, or as soon as practicable after the data is available to the City," and California Government Code Section 53646(b)(1) also requires filing of the report with City Council within 30 days of quarter end.

SCHEDULE OF SIGNIFICANT DEFICIENCIES

2019-04 **Timely Preparation and Review of Quarterly Investment Reports (Continued)**

During our review of the four quarterly Investment Reports for fiscal year 2019, we noted that the preparation was delayed, which in turn delayed the City Treasurer's review process and the subsequent submission to Council. (see table below for timeframes):

TR Month	Date Reviewed	Days Elapsed	Council Approval	Days Elapsed
9/30/2018	12/3/18	64 days	12/18/18	79 days
12/31/2018	10/31/19	304 days	11/19/19	323 days
3/31/2019	11/4/19	218 days	11/19/19	233 days
6/30/2019	11/4/19	127 days	11/19/19	142 days

As a result, the City is not in compliance with the requirements of the Investment Policy and the California Government Code, and any errors may not be detected in a timely manner.

We understand City staff is working to perform investment reconciliations in a timely manner, however due to staff turnover, some tasks have been delayed.

The City should develop procedures to ensure quarterly investment reports are completed, reviewed and submitted to Council in a timely manner in accordance with the reporting requirements of the Investment Policy and the California Government Code.

Management's Response:
We agree that this needs to be corrected. We are now caught up with the 2nd Quarter Investment Report, which is about to be issued, and will then complete the 3rd Quarter Report. We have identified some efficiencies that should expedite future preparation.

SCHEDULE OF OTHER MATTERS

2019-05 Timely Posting of Journal Entries

As noted above and in prior year Memorandum on Internal Control comment 2018-05, journal entries are an important transaction cycle that affects all aspects of accounting and financial reporting. Prudent internal control concepts dictate the journal entries should be posted within a timely manner that is usually within 35 to 45 days.

We selected forty journal entries for testing of supporting documentation and timely posting and noted three were not posted timely as follows:

1. A journal entry with an effective date in December 2018 was not posted until April 2019
2. A journal entry with an effective date in January 2019 was not posted until April 2019
3. A journal entry with an effective date in March 2019 was not posted until May 2019

We understand the delays were due to the following:

- #1 - The public works department did not provide the supporting documentation needed to prepare the journal entry to finance timely.
- #2 and #3 - Bank reconciliation review was not performed in a timely manner as discussed in comment 2019-03, which delayed the posting of the journal entries.

The delay in posting journal entries could potentially affect the timeliness of all aspects of accounting and financial reporting. In addition, year-end entries may not be recorded to the correct accounting period in a timely manner.

The City should remind departments of the importance of providing information to the Finance Department timely and bank reconciliations should be prepared, reviewed and approved in a timely manner to ensure associated journal entries are posted timely. The City should develop processes and procedures to ensure journal entries are prepared, reviewed and posted within 30 to 45 days after the period date for which the journal entry is to be recorded.

Management's Response:
We agree. We will work on a comprehensive policy and procedure for accounting review, controls, and due dates over the next 6 months.

2019-06 Timely Cutoff of Terminated Employees from Payroll System

As noted in prior year Memorandum on Internal Control comment 2018-04, the elapsed time between an employee's final paycheck and their termination in the payroll system should be minimized to reduce fraud risks.

We selected fourteen terminated employees for testing of proper and timely cutoff in the City's payroll system and noted five employees had been terminated in the system more than 30 days subsequent to their final check date. The length of time varied from forty-six days to over two years.

We understand these five employees were seasonal employees that remained in the system in the event they returned to work the next year.

SCHEDULE OF OTHER MATTERS

2019-06 Timely Cutoff of Terminated Employees from Payroll System (Continued)

Employees that are not terminated from the payroll system in a timely manner continue to have an "active" status which could lead to unauthorized payroll payments.

The City should develop policies and procedures to ensure that an employee is removed from or inactivated in the payroll system in a timely manner after termination.

Management's Response:
We agree. We will recommend a procedure/checklist for Finance, HR, and IT to follow when employees terminate from the City in the next 60 days.

2019-07 Timely Removal of Terminated Employees from General Ledger System Access

As noted in comment 2019-06 above, the elapsed time between an employee's termination and removal of access to the City's systems, including access to the General Ledger module, should be minimized to reduce fraud risks.

When reviewing the general ledger access log dated October 22, 2019, we noted it included the former Financial Services Manager that departed the City in January 2019 and the former Acting Financial Services Manager that left the City in May 2015. We understand the respective employees' access to the City's network was removed shortly after their termination, which is needed to access to the general ledger module.

When an employee's access from the computer system is not terminated upon their departure from the City, there is a possibility of that employee gaining unauthorized access to the City records.

We understand the accounts that are still active in the system are retained as "placeholder" accounts, so City staff does not have to create a new profile for the job title once a new person fills in the position.

The City should develop policies and procedures to ensure that an employee's system access is disabled in a timely manner after termination. And, the City should not retain access in the system with a "placeholder account" and instead eliminate the terminated employees from the computer system and create a new account once the position is filled.

Management's Response:
All employees are removed from sign-in rights by IT within 2 weeks of their leaving the City. Without sign in rights to the City's servers, those former employees cannot enter the financial system. We will address this in the termination checklist mentioned above.

SCHEDULE OF OTHER MATTERS

2019-08 Updating Signature Cards Timely

Signature cards for bank and investment accounts should be updated timely when there are changes in authorized signers.

During our review of authorized signers for the City's bank and investment accounts in June 2019, we noted that the authorized signers for the City's Wells Fargo Accounts included a former City Manager that left the City in May 2018 and the former Financial Services Manager that departed the City in January 2019.

We understand certain changes were not made timely due to the City experiencing turnover in the City Manager and in the Finance Department, and the intent to revise the signature cards only once after the positions were filled.

Although we noted that the City updated the authorized signers in October 2019, keeping terminated employees as authorized signers on the City's bank accounts exposes the City to the risk of misappropriation of assets.

The City should develop procedures to ensure bank and investment account authorized signers are updated timely upon the employee's departure from the City, such as adding a step to the employee departure checklist or process to ensure that outside parties (such as banks and investment advisors) are quickly informed that the departed employee no longer represents the City.

> ***Management's Response:***
> We agree, and this will be part of the employee termination checklist we develop, as referenced above.

2019-09 Mastick Senior Center – Voiding Cash Receipts

Voiding of cash receipts should be performed or approved by someone who does not have access to cash receipts.

The cashiers at the Mastic Senior Center can void transactions without the approval of a second employee at the time of the void.

We understand a summary report is generated and reviewed as part of the daily closing process. However, that review is performed by an employee with access to cash receipts.

Without a proper audit trail and review and approval of the voided transactions, the City is exposed to the risk of cash receipts interception.

An employee who does not have access to cash receipts should review and approve the voiding of cash receipts at the time of the voided transaction. Alternatively, an employee who does not have access to the cash receipts system should review and approve a report that shows the audit trail of all voided cash receipts transactions.

> ***Management's Response:***
> We agree that a comprehensive cash handling and audit process needs to be developed citywide. We will work to achieve this by 12/31/2020.

SCHEDULE OF OTHER MATTERS

NEW GASB PRONOUNCEMENTS OR PRONOUNCEMENTS NOT YET EFFECTIVE

The following comment represents new pronouncements taking affect in the next few years. We cite them here to keep you informed of developments:

EFFECTIVE FISCAL YEAR 2019/20:

GASB 84 – *Fiduciary Activities*

The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.

This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.

An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. Governments with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position. An exception to that requirement is provided for a business-type activity that normally expects to hold custodial assets for three months or less.

This Statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust or equivalent arrangement that meets specific criteria.

A fiduciary component unit, when reported in the fiduciary fund financial statements of a primary government, should combine its information with its component units that are fiduciary component units and aggregate that combined information with the primary government's fiduciary funds.

This Statement also provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. Events that compel a government to disburse fiduciary resources occur when a demand for the resources has been made or when no further action, approval, or condition is required to be taken or met by the beneficiary to release the assets.

GASB 90 – *Majority Equity Interests—an amendment of GASB Statements No. 14 and No. 61)*

The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value.

SCHEDULE OF OTHER MATTERS

GASB 90 – *Majority Equity Interests—an amendment of GASB Statements No. 14 and No. 61) (Continued)*

For all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit, and the government or fund that holds the equity interest should report an asset related to the majority equity interest using the equity method. This Statement establishes that ownership of a majority equity interest in a legally separate organization results in the government being financially accountable for the legally separate organization and, therefore, the government should report that organization as a component unit.

This Statement also requires that a component unit in which a government has a 100 percent equity interest account for its assets, deferred outflows of resources, liabilities, and deferred inflows of resources at acquisition value at the date the government acquired a 100 percent equity interest in the component unit. Transactions presented in flows statements of the component unit in that circumstance should include only transactions that occurred subsequent to the acquisition.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged. The requirements should be applied retroactively, except for the provisions related to (1) reporting a majority equity interest in a component unit and (2) reporting a component unit if the government acquires a 100 percent equity interest. Those provisions should be applied on a prospective basis.

GASB 92 – *Omnibus 2020*

The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics and includes specific provisions about the following:

- The effective date of Statement No. 87, Leases, and Implementation Guide No. 2019-3, Leases, for interim financial reports

- Reporting of intra-entity transfers of assets between a primary government employer and a component unit defined benefit pension plan or defined benefit other postemployment benefit (OPEB) plan

- The applicability of Statements No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68, as amended, and No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, as amended, to reporting assets accumulated for postemployment benefits

- The applicability of certain requirements of Statement No. 84, Fiduciary Activities, to postemployment benefit arrangements

SCHEDULE OF OTHER MATTERS

GASB 92 – *Omnibus 2020 (Continued)*

- Measurement of liabilities (and assets, if any) related to asset retirement obligations (AROs) in a government acquisition
- Reporting by public entity risk pools for amounts that are recoverable from reinsurers or excess insurers
- Reference to nonrecurring fair value measurements of assets or liabilities in authoritative literature
- Terminology used to refer to derivative instruments.

The requirements of this Statement are effective as follows:

- The requirements related to the effective date of Statement 87 and Implementation Guide 2019-3, reinsurance recoveries, and terminology used to refer to derivative instruments are effective upon issuance.
- The requirements related to intra-entity transfers of assets and those related to the applicability of Statements 73 and 74 are effective for fiscal years beginning after June 15, 2020.
- The requirements related to application of Statement 84 to postemployment benefit arrangements and those related to nonrecurring fair value measurements of assets or liabilities are effective for reporting periods beginning after June 15, 2020.
- The requirements related to the measurement of liabilities (and assets, if any) associated with AROs in a government acquisition are effective for government acquisitions occurring in reporting periods beginning after June 15, 2020.

EFFECTIVE FISCAL YEAR 2020/21:

GASB 87 – *Leases*

The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

A lease is defined as a contract that conveys control of the right to use another entity's nonfinancial asset (the underlying asset) as specified in the contract for a period of time in an exchange or exchange-like transaction. Examples of nonfinancial assets include buildings, land, vehicles, and equipment. Any contract that meets this definition should be accounted for under the leases guidance, unless specifically excluded in this Statement.

SCHEDULE OF OTHER MATTERS

GASB 89 – *Accounting for Interest Cost Incurred before the End of a Construction Period*

The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period.

This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5–22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements,* which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund.

This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles.

EFFECTIVE FISCAL YEAR 2021/22:

GASB 91 – *Conduit Debt Obligations*

The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures.

A conduit debt obligation is defined as a debt instrument having *all* of the following characteristics:

- There are at least three parties involved:
    - (1) an issuer
    - (2) a third-party obligor, and
    - (3) a debt holder or a debt trustee.
- The issuer and the third-party obligor are not within the same financial reporting entity.
- The debt obligation is not a parity bond of the issuer, nor is it cross-collateralized with other debt of the issuer.
- The third-party obligor or its agent, not the issuer, ultimately receives the proceeds from the debt issuance.
- The third-party obligor, not the issuer, is primarily obligated for the payment of all amounts associated with the debt obligation (debt service payments).

SCHEDULE OF OTHER MATTERS

GASB 91 – *Conduit Debt Obligations (Continued)*

All conduit debt obligations involve the issuer making a limited commitment. Some issuers extend additional commitments or voluntary commitments to support debt service in the event the third party is, or will be, unable to do so.

An issuer should not recognize a conduit debt obligation as a liability. However, an issuer should recognize a liability associated with an additional commitment or a voluntary commitment to support debt service if certain recognition criteria are met. As long as a conduit debt obligation is outstanding, an issuer that has made an additional commitment should evaluate at least annually whether those criteria are met. An issuer that has made only a limited commitment should evaluate whether those criteria are met when an event occurs that causes the issuer to reevaluate its willingness or ability to support the obligor's debt service through a voluntary commitment.

This Statement also addresses arrangements—often characterized as leases—that are associated with conduit debt obligations. In those arrangements, capital assets are constructed or acquired with the proceeds of a conduit debt obligation and used by third-party obligors in the course of their activities. Payments from third-party obligors are intended to cover and coincide with debt service payments. During those arrangements, issuers retain the titles to the capital assets. Those titles may or may not pass to the obligors at the end of the arrangements.

Issuers should not report those arrangements as leases, nor should they recognize a liability for the related conduit debt obligations or a receivable for the payments related to those arrangements. In addition, the following provisions apply:

- If the title passes to the third-party obligor at the end of the arrangement, an issuer should not recognize a capital asset.

- If the title does not pass to the third-party obligor and the third party has exclusive use of the entire capital asset during the arrangement, the issuer should not recognize a capital asset until the arrangement ends.

- If the title does not pass to the third-party obligor and the third party has exclusive use of only portions of the capital asset during the arrangement, the issuer, at the inception of the arrangement, should recognize the entire capital asset and a deferred inflow of resources. The deferred inflow of resources should be reduced, and an inflow recognized, in a systematic and rational manner over the term of the arrangement.

This Statement requires issuers to disclose general information about their conduit debt obligations, organized by type of commitment, including the aggregate outstanding principal amount of the issuers' conduit debt obligations and a description of each type of commitment. Issuers that recognize liabilities related to supporting the debt service of conduit debt obligations also should disclose information about the amount recognized and how the liabilities changed during the reporting period.

SCHEDULE OF OTHER MATTERS

GASB 91 – ***Conduit Debt Obligations (Continued)***

How the Changes in this Statement will Improve Financial Reporting

The requirements of this Statement will improve financial reporting by eliminating the existing option for issuers to report conduit debt obligations as their own liabilities, thereby ending significant diversity in practice. The clarified definition will resolve stakeholders' uncertainty as to whether a given financing is, in fact, a conduit debt obligation. Requiring issuers to recognize liabilities associated with additional commitments extended by issuers and to recognize assets and deferred inflows of resources related to certain arrangements associated with conduit debt obligations also will eliminate diversity, thereby improving comparability in reporting by issuers. Revised disclosure requirements will provide financial statement users with better information regarding the commitments issuers extend and the likelihood that they will fulfill those commitments. That information will inform users of the potential impact of such commitments on the financial resources of issuers and help users assess issuers' roles in conduit debt obligations.

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CURRENT STATUS OF PRIOR YEAR SIGNIFICANT DEFICIENCIES

2018-01 Segregation of Duties in Major Control Areas

During our review of the City's internal controls for proper segregation of duties and procedures, we noted areas in which controls need to be improved and employee's access and/or duties revised. Good internal controls require that employees with access to the City's assets not have access to the City's accounting records for the same assets. Inappropriate access could potentially result in undetected errors.

a) Access to Customer Database and Cash Receipts/ Non-Sufficient Funds Checks

City staff that is involved in the cash receipts process should not normally be allowed to have access to make changes to the customer database. And, employees that generate accounts receivable billings should not be involved with the collection of cash receipts or processing of non-sufficient funds checks and ability to adjust the general ledger.

The Finance Supervisor and the Accounting Technician handle cash receipts and have access to the customer database, non-sufficient funds checks and can adjust the general ledger, while it does not appear that changes to the customer database are reviewed. And, the Accounting Technician generates accounts receivable billings.

We understand the Finance Department was understaffed, which resulted in a need to reallocate certain employee duties.

The access to make changes to the customer database should be removed from the Finance Supervisor and the Accounting Technician and in the event the system does not allow such a change, there should be a review and approval of all changes to the customer database on a regular basis to ensure all changes were authorized. In addition, the processing of non-sufficient funds checks should be transferred to an employee that is not involved with both billings and collections and if the Accounting Technician continues to prepare accounts receivable billings, she should not be involved with cash collections.

b) Finance Staff with General Ledger Super User Rights

A system super-user is an individual who has full access over the City's financial system including all modules and all functions. Accounting staff should not normally be allowed to have super-user rights in the City's general ledger system.

We noted that the City's Finance Supervisor has super-user access to the City's general ledger system.

When accounting staff have super-user rights, there is a potential risk of restricting or allowing access to other user's abilities to access the different modules in the accounting system. In addition, unauthorized transactions and misstatements may occur without timely detection and correction.

We understand that City staff believes sufficient controls are in place to mitigate the risk.

CURRENT STATUS OF PRIOR YEAR SIGNIFICANT DEFICIENCIES

2018-01 Segregation of Duties in Major Control Areas (Continued)

The City should consider restricting super user rights to as few employees as possible, preferably to those outside of the Finance Department, such as Information Technology personnel, since they are not involved with processing or approving general ledger transactions. Until that is possible, the City should implement mitigating controls such as a review and approval of changes made to the system by the above employee.

City staff must develop procedures to review the City's internal controls to ensure there is proper segregation of duties and that there is documentation of the review and approval of transactions and reconciliations in key control areas. Where internal control conflicts exist, if mitigating controls cannot be put in place to reduce the internal control risk, then either the ability to process the transaction or the access to the asset should be transferred to another appropriate employee.

Current Status:
See current year comment 2019-02.

2018-02 Charging Building Permit Fees and False Alarm Fees in Accordance with the Master Fee Schedule

The fees charged in the City's billing system should be accurately calculated based on the Master Fee Schedule approved by City Council. As soon as City Council approves an update to the Master Fee Schedule, the billing system should be updated timely.

We selected twenty-five cash receipts to test for supporting documentation and calculations in accordance with the Master Fee Schedule and noted the following exceptions:

- The Technology Fee for one permit, which is based on 5% of certain components of the permit, was incorrectly calculated as $42.50, instead of $51.75.

- The City's 1% Improvement Tax for one permit was calculated using the project's original valuation instead to the project's amended valuation, resulting an understatement of the permit fee in the amount of $150.

- One remittance for false alarm fees charged by the Police Department was comprised of nine payments and four of the false alarm fees were invoiced for $158, instead of the correct rate of $163, and two were invoiced for $78, instead of the correct rate of $81. We also noted that the false alarm fees were paid late, but the customers had not been charged a late fee. Finally, these invoices were for customer billings that dated back to fiscal year 2017 and we did note that the City had corrected the fee amounts charged to customers in fiscal year 2018.

We understand the Technology Fee error was due to was due to the fee being set up incorrectly in the system, the Improvement Tax error was due to staff oversight and the false alarm fee error was due to the Police Department staff not being aware of the change to the Master Fee Schedule.

CURRENT STATUS OF PRIOR YEAR
SIGNIFICANT DEFICIENCIES

2018-02 Charging Building Permit Fees and False Alarm Fees in Accordance with the Master Fee Schedule (Continued)

Although the fee errors are individually small, they could accumulate to significant balances. Without setting up the system correctly, the City could be under- or overcharging customers.

The City should ensure that all rate and fee calculations are reviewed and agree to the applicable Master Fee Schedule. The City also should ensure that fees are set up correctly in the system and inform all City Departments of rate and fee changes. And, after fee changes are implemented, City staff should spot check customer invoices to ensure they are being calculated correctly.

Current Status:
The City has followed up with the Police Department and Recreation on verifying their fees. Finance Department staff will work with all City departments to ensure the revised Master Fee Schedule is used to update various City systems that calculate fees and charges. We will ensure ongoing compliance with new fee schedule.

2018-03 Purchasing Policy Compliance

The City's Purchasing Policy Appendix A states that Materials and Services over $25,000, and Professional and Personal services for $5,000 to $75,000, and over $75,000 require a standard contract approved by City Council. In addition, the City should process invoices and scheduled payments in a timely manner.

We selected forty-six disbursements to test for supporting documentation and compliance with the City's purchasing policy and noted the following:

- One payment was comprised of three vendor invoices totaling $1,774 that were individually below the threshold requiring a contract, but the City used the vendor throughout the fiscal year for various door repairs/replacements totaling $129,830.

- One payment was for landscape services in the amount of $1,325, which does not individually require a contract, but payments to the vendor for the fiscal year totaled $296,284.

- One payment for truck repairs that was comprised of two vendor invoices totaling $46,637 that were individually below the threshold requiring a contract, so only a purchase order was used.

- One payment for operating expenses (utility, trash/compost, & water service charges) in a landscaping and lighting district for which there is no contract. We understand the City took over the responsibilities from another entity dating back to 1986, but a contract was not established with the City and instead a purchase order is used. We also understand a formal agreement is in process.

CURRENT STATUS OF PRIOR YEAR SIGNIFICANT DEFICIENCIES

2018-03 Purchasing Policy Compliance (Continued)

- There were two payments to vendors whose contracts had expired – one for cell phone services and one for psychological services.

It appears contracts should have been in place for all of the disbursements noted above. Without valid contracts, the City may experience problems if disagreements with vendors arise and there are no enforceable contracts in place. Although the City's Purchasing Policy does not address whether the use of vendors throughout the fiscal year for unrelated purchases that collectively exceed the authorization thresholds require the use of purchase orders, two of the vendors noted above were used for ongoing services.

The City should ensure that contracts are in place for vendors that meet the thresholds in the purchasing policy and payments to vendors are made only when a current contract is in place. The City should review the contracts often, and make sure they are in effect and in compliance. The City should also develop a procedure to review the services throughout the year for the same vendor rather than just looking at one individual invoice to determine if a contract should be in place.

Finally, the City should clarify in the Purchasing Policy for whether the use of one vendor throughout the fiscal year for which disbursements cumulatively exceed the authorization thresholds trigger the need to comply with the contract requirements of the Policy.

Current Status:
The City staff is aware of the current Purchasing Policy deficiencies. Finance Department, with assistance from a consultant, completed an assessment of the citywide procurement process and review of existing procurement policies and procedures. The Purchasing Policy and related City Ordinances will be reviewed once a new Finance Director is hired, and proposed changes will be presented to the City Council for approval. In addition, all appropriate city staff will be trained on the new policies and procedures.

CURRENT STATUS OF PRIOR YEAR OTHER MATTERS

2018-04 Timely Cutoff of Terminated Employees from Payroll System

The elapsed time between an employee's final paycheck and their termination in the payroll system should be minimized to reduce fraud risks as well as with being removed from having access to the General Ledger.

We selected fifteen terminated employees for testing of proper and timely cutoff in the City's computer system and noted seven part-time employees had been terminated in the system more than 30 days subsequent to their final check date. We also noted that six employees still had access to the general ledger as their accounts were never erased.

When an employee's access from the computer system is not terminated upon their departure from the City, there is a possibility of that employee gaining unauthorized access to the City records.

We understand the six accounts that are still active in the system are retained as "placeholder" accounts so City staff does not have to create a new profile for the job title once a new person fills in the position.

The City should develop policies and procedures to ensure that an employee's system access is disabled in a timely manner after termination. And, the City should not retain access in the system with a "placeholder account" and instead eliminate the terminated employees from the computer system and create a new account once the position is filled.

Current Status:
We agree. We will recommend a procedure/checklist for Finance, HR, and IT to follow when employees terminate from the City in the next 60 days.

See also current year comments 2019-06 and 2019-07.

2018-05 Timely Posting of Journal Entries

Journal entries are an important transaction cycle that affects all aspects of accounting and financial reporting. Prudent internal control concepts dictate that journal entries should be posted within a timely manner that is within 30 to 45 days after the period date for which the journal entry is intended to record.

We selected forty journal entries and noted two that were not posted timely.

- One journal entry was to record fuel charges for the month of December 2017. The journal entry was prepared on March 1, 2018 and posted on March 29, 2018.
- One journal entry posted in June 2018 was to record Engineering Charges for the month of March 2018.

We understand the Finance department was heavily involved in preparing budget reports during the month of December 2017, coupled with a shortage in department staff, that caused the delay in posting the fuel charge journal entry. As for the delay in posting the Engineering Charges activity was due to the Engineering department's project time (billable time) not being integrated with the general ledger system. As a result, City staff has to manually enter all transactions, which can be a tedious and time consuming process.

CURRENT STATUS OF PRIOR YEAR
OTHER MATTERS

2018-05 Timely Posting of Journal Entries (Continued)

The delay in posting journal entries could potentially affect the timeliness of all aspects of accounting and financial reporting.

The City should develop procedures to ensure that all journal entries are prepared, reviewed and posted within 30 to 45 days after the period date for which the journal entry is to be recorded, including Engineering Department's time billing.

> ***Current Status:***
> We agree. We will work on a comprehensive policy and procedure for accounting review, controls, and due dates over the next 6 months.
>
> See also current year comment 2019-05

2018-06 Develop a Review Process for Deposits Payable

To ensure that deposits payable balances are accurate, deposit payable details should be reviewed on a regular basis, such as monthly or quarterly.

We selected forty journal entries for testing and noted one was for the reclassification of a Business Improvement Area deposit that was collected in August 2017 and paid out in September 2017. The deposit payable remained in the deposit account, because the disbursement was coded to an expense account and the error was identified and corrected in December 2017.

We understand the City does not have a procedure in place to review Business Improvement Area deposits to ensure that payment activity is reconciled to the deposits payable activity. Lack of review could result inaccurate accounting for the deposits payable balances.

The City should develop a review process for the Business Improvement Area deposits payable to ensure all balances are outstanding and were not refunded in a prior period.

> ***Current Status:***
> The staff agrees with the proposed recommendation and will develop a review process for the Business Improvement Area deposits payable.

CURRENT STATUS OF PRIOR YEAR OTHER MATTERS

2018-07 Timely Remittance of Invoices from Each Department to the Finance Department

The City should pay vendor invoices in a timely manner and departments should remit invoices to the Finance Department in a timely manner.

We selected 46 disbursements for testing and noted one disbursement in February 2018 in the amount of $46,637 was for invoices from a vendor dated August and November 2017 with net 30 payment terms.

When we inquired about the cause of the delay in payment, we understand that the Public Works Department lost the invoice and it went unnoticed until the vendor asked for payment. We also understand the Department has revised its workflow to minimize the possibility of recurrence.

When invoices are not paid timely, the City runs the risk of unpaid invoices and incurring late fees.

The City should ensure that all departments implement procedures to submit all invoices to Finance in a timely manner.

> ***Current Status:***
> Staff processes invoices within one to two weeks from the date of receipt in Finance Department. The City has a decentralized procurement process in which invoices and payment requests are handled by individual departments before being processed by the Finance Department. However, Finance staff will work with individual departments to improve processing times.

2018-08 Review of Service Organization Reports

The City has several independent contractors which process transactions for various City activities including fiscal agent cash, investments, ambulance billing services, parking citations and others. The City should review the Statements on Standards for Attestation Engagements #16 (SSAE 16) reports from their service organizations.

City staff does not currently request and review SSAE 16 reports from the service organizations to ensure that findings are addressed by the entities and such findings do not involve or affect the City's transactions.

The procedures used by these service organizations are outside the scope of City oversight and staff review, nor are these controls part of the scope of an audit of the City's financial statements. Typically, cities may employ a variety of approaches to gain comfort that service organizations are performing their functions in a prudent manner and producing reliable data. For example, trust departments manage funds held pursuant to debt indentures, but cities rarely have audits performed as City staff review transactions and verify the trust data. Less frequently, special audits are performed to determine adequacy of controls and to verify the data produced. There is a third option which is to request a review and report on internal controls pursuant to the requirements of Statements on Standards for Attestation Engagements #16.

We understand that City staff was unaware that SSAE 16 reports were available for review and should be requested and reviewed on an annual basis.

CURRENT STATUS OF PRIOR YEAR OTHER MATTERS

2018-08 Review of Service Organization Reports (Continued)

The City should request a SSAE 16 report from its independent contractors. Any weaknesses or system problems disclosed by that audit should be addressed and resolved by the contractor to the satisfaction of the City.

Current Status:
As part of the year-end procedures, the City will request SSAE16 reports from identified service organizations.

2018-09 Alameda County Transportation Commission Timely Use of Funds Policy

In December 2015, the Alameda County Transportation Commission (ACTC) approved a Timely Use of Funds Policy. This policy was adopted to encourage Measure B/Measure BB/Vehicle Registration Fee (VRF) recipients to expend voter-approved transportation dollars expeditiously on transportation improvements and operations that the public can use and benefit from immediately.

Under the terms of the Policy, a recipient of Measure B, BB or VRF cannot carry a fiscal year end fund balance greater than 40% of the direct local distribution revenue received for that same year for four consecutive fiscal years within each funding program. ACTC will monitor the recipient agencies' annual ending fund balance to revenue received ratio, cumulatively across the recipient's programmatic categories by fund program, to verify Policy compliance.

If the recipient does not meet the requirements of the Policy, the ACTC may determine that the recipient does not need Measure B, BB or VRF funding and rescind the recipient's subsequent fiscal year's Measure B, BB or VRF direct local distribution in part or in its entirety and redistribute those funds to the same program type.

The provisions of the Timely Use of Funds Policy begin with the Measure B, BB, or VRF funding received in fiscal year 2017, which means that if the fund balance for any program exceeds 40% of the distribution consecutively in each of the fiscal years of 2017 to 2020, funding for fiscal year 2021 could be at risk. ACTC provided the recipient agencies with a flow chart to assist in determining compliance and track the funds. In the event the recipient's fund balance for a program does exceed the maximum allowed percentage, there are provisions in the Policy for submitting a request for exemption with a justification and implementation plan, which resets the consecutive fiscal year "clock." However, ACTC will only allow exemptions under extraordinary circumstances and the recipient must provide a timely expenditure plan for use of the funds.

The City should ensure that it is using the flow chart and any other compliance tools necessary to ensure that the City is spending the funds as intended and not accumulating ending fund balance in any of the three programs in excess of the maximum allowed percentage for four consecutive fiscal years, or request an exemption, if applicable.

CURRENT STATUS OF PRIOR YEAR OTHER MATTERS

2018-09 Alameda County Transportation Commission Timely Use of Funds Policy

Current Status:
The City of Alameda has traditionally used Measure B, BB and VRF funding to support a variety of transportation related projects throughout the City and these funding sources currently support more than a dozen Capital Projects and operational programs. However, in response to the Timely Use of Funds Policy, the City has prioritized Measure B, BB and VRF funding towards the City's annual pavement management program. Through mid-March in Fiscal Year 2019, the City has expended approximately $5.5 million in Measure B, BB and VRF funding for pavement restoration including $4.8 million in direct construction costs. The recent focus on pavement projects in conjunction with ongoing work on other Capital Improvement Program projects and operational programs, the City is expecting to reduce ending fund balance for Fiscal Year 2019 to less than 40% of the direct local distribution revenue.

2018-10 Information Technology Best Practices Recommendations

We conducted an Information Systems Review with our audit which encompassed the financial information system and the network environment that houses it. We expanded our work in previous years beyond simply looking at financial information systems as a result of greater risks of unauthorized access caused by overall industry growth of web-based commerce and internet based financial systems. Internal controls that are present in the overall network environment have become more important and relevant to understanding the internal controls over the financial system. We believe Information System controls must be continuously improved and enhanced to stay ahead of the ever-increasing sophistication of hackers and criminals.

Currently, there are no Information Systems standards to which local governments are required to conform. Indeed, there are a wide variety of informal guidelines and suggested controls from many different organizations which local governments can use to implement appropriate controls to ensure adequate security over information technology. A voluntary risk-based Cybersecurity Framework has been developed by the National Institute of Standards and Technology (NIST) per Presidential Executive Order 13636 (12 FEB 2013). The *Framework for Improving Critical Infrastructure Cybersecurity* version 1.0 (12 FEB 2014) offers some appropriate standards. Our Information Systems auditors have reviewed the voluntary framework and concluded that the risk management framework developed by NIST for the Federal Information Security Management Act (FISMA) is the most appropriate for local governments[1]. The NIST risk management framework represents the minimum security requirements for federal government agencies and recommends these controls for private industry and state and local governments. Our procedures included performing an external network scan based on NIST criteria and in determining that internal control provides for:

- Internet access defenses including hacker prevention, detection and deterrent systems
- Security of data from physical or network access
- Adequately protecting data from unauthorized internal access
- Reasonable measures to ensure continuation of service

[1] "State, local, and tribal governments, as well as private sector organizations are encouraged to consider using these guidelines, as appropriate." NIST SP 800-37 Rev 1 pg 11

CURRENT STATUS OF PRIOR YEAR OTHER MATTERS

2018-10 Information Technology Best Practices Recommendations (Continued)

We again noted areas which could be improved to conform to NIST guidelines. A summary of these recommendations which we believe are "best practices" as follows:

Payment Card Industry Compliance
The City is not in compliance with the Payment Card Industry Data Security Standard (PCI-DSS). Any organization that processes credit cards is required to comply with PCI-DSS, even if the processing is outsourced. Failure to meet compliance requirements results in higher transaction fees and liability if a security breach is found. Because the City accepts credit cards as a form of payment, the City must be compliant with the applicable controls.

Audit/Event Logging
The City does not appear to have audit logs on the financial application server, such that any change, addition or deletion of user accounts within the application are tracked and monitored. The City should have audit/event logs of any addition, deletion or change in financial application user accounts and that log should be monitored by someone without the rights to effect such changes. Also, any administrative access such as upgrades or application modifications by IT personnel, outside consultants or vendors should also be logged and reviewed.[2]

Session Locks
The City does not have session locks turned on for the financial application or the workstation operating systems. A session lock is a temporary lockout of the operating system or financial application when a user stops work and typically moves away from the immediate physical vicinity of the computer. Employees may leave their workstation for lunch or break and not log off or log out of the application. This leaves the operating system or financial application open and available to any passerby. Any person with physical access would be able to perform any tasks the absent user has privileges or rights to do. At the very least workstations should be set to lock out the workstation after a period of inactivity. Best practice would be to have both the operating system and financial application have lockouts after a period of inactivity.

General Information Systems Controls
Our administrative and technical control review is based on the National Institute of Standards and Technology (NIST) control catalog NIST SP 800-53 rev. 4 for a moderate system as defined by NIST SP 800-60. Although there is no required IT standard for local governments, NIST encourages state, local and tribal governments to consider the use of these guidelines, as appropriate. In adopting NIST standards, the local government demonstrates due diligence in designing and implementing appropriate controls around its information systems.

A list of the controls that are not fully in place is available in the questionnaire provided to City staff.

> ***Current Status:***
> Recognizing there are no material weaknesses in our Information Systems Review, the following measures will be or are being implemented to improve our best practices efforts.

[2] For more information on Audit/Event log management see NIST SP 800-92 Guide to Computer Security Log Management.

CURRENT STATUS OF PRIOR YEAR OTHER MATTERS

2018-10 Information Technology Best Practices Recommendations (Continued)

Payment Card Industry Card Compliance: Our current version of Central Square eFinance Plus is outdated and does not provide a mechanism to process card payments in the system and requires the use of a separate processing station to process all card transactions that reconcile to daily deposits. Third-party systems used across the City are PCI compliant by storing the card information in tokens at the point of entry through the gateway rather than using a separate processing system. The City is implementing a new ERP system that will improve PCI compliance for all City departments.

Audit/Event Logging: Our current version of Central Square eFinance Plus is outdated and does not provide the detailed audit logs recommended, however, the city is replacing Central Square eFinance Plus in 2021 with Tyler Munis System. The replacement financial system includes detailed audit logs on the financial application for any change, addition or deletion of user accounts and will be tracked and monitored by someone without the rights to effect such changes. This is a requirement for the new financial system.

Any administrative access such as upgrades or application modifications by IT personnel, outside consultants or vendors will be logged and reviewed following the IT Change Control Policy requirements.

Session Locks: Implemented

General Information Systems Controls: As part of our IT Governance strategy plan, the city is following the National Institute of Standards and Technology (NIST) to adhere to best practices for cybersecurity. While the city is not yet 100% compliant, we are 32% fully compliant, 19% partially compliant and 49% non-compliant with the NIST cybersecurity framework (CSF) mentioned in the audit; however, the IT Department does have a plan for action to address the partial and non-compliant standards to follow best practices.

2018-11 Uniform Guidance Procurement Standards

The City is required to implement changes to its procurement policies and procedures in accordance with the Uniform Guidance procurement standards in 2 CFR 200.317 through 200.326 for any federally funded procurements beginning on or after July 1, 2018.

Since the City receives federal awards, a few of the general standards over procurement include:

- The City must have documented procurement procedures that reflect federal law, Uniform Guidance standards, and any state regulations.
- The City must maintain an appropriate level of oversight to ensure that contractors perform in accordance with the terms of their contracts or purchase orders.
- Written conflict-of-interest policies are required. No employee or agent of the City may participate in the selection, award, or administration of a contract funded by federal grant dollars if he or she has an actual or apparent conflict of interest.

**CURRENT STATUS OF PRIOR YEAR
OTHER MATTERS**

2018-11 Uniform Guidance Procurement Standards (Continued)

- Entities should focus on the most economical solution during the procurement process, and must avoid using federal funds for the acquisition of unnecessary items. Organizations are encouraged to consider the use of shared services and intergovernmental agreements to foster greater economy and efficiency.

- The City must maintain records sufficient to detail the history of procurement, including the rationale for the method of procurement, contract type, and the basis for the contractor selection or rejection and price.

In addition to other requirements, the Uniform Guidance also requires full and open competition. Contractors who assist in drafting specifications for invitations for bids or requests for proposals (RFP) must be excluded from competing for those procurements.

The Uniform Guidance also outlines five methods of procurement to be followed for federally funded projects:

- Micro-purchase: Purchases where the aggregate dollar amount does not exceed $3,000 (or $2,000 if the procurement is construction and subject to Davis-Bacon). When practical, the City should distribute micro-purchases equitably among qualified suppliers. No competitive quotes are required if management determines that the price is reasonable.

- Small purchase: Includes purchases up to the Simplified Acquisition threshold, which is currently $150,000. Informal purchasing procedures are acceptable, but price or rate quotes must be obtained from an adequate number of qualified sources.

- Sealed bids (formal advertising): Used for purchases over the Simplified Acquisition Threshold, which is currently $150,000. Under this purchase method, formal solicitation is required, and the fixed price (lump sum or unit price) is awarded to the responsible bidder who conformed to all material terms and is the lowest in price. This method is the preferred procurement method for construction contracts if certain provisions apply.

- Competitive proposals: Used for purchases over the Simplified Acquisition Threshold, which is currently $150,000. This procurement method requires an adequate number of qualified sources submitting an offer for either a fixed-price or cost-reimbursement contract, and is used when sealed bids are not appropriate. The contract should be awarded to the responsible firm whose proposal is most advantageous to the program, with price and other factors considered.

- Noncompetitive proposals: Also known as sole-source procurement, this may be appropriate only when specific criteria are met. Examples include when an item is available only from a single source, when a public emergency does not allow for the time of the competitive proposal process, when authorized by the federal awarding agency, or after a number of attempts at a competitive process, the competition is determined to be inadequate.

The provisions above are just highlights from the new procurement standards and the City should ensure that all of the procurement standards in the Uniform Guidance have been reviewed and that applicable policies and procedures in place for fiscal year 2019.

CURRENT STATUS OF PRIOR YEAR OTHER MATTERS

2018-11 **Uniform Guidance Procurement Standards (Continued)**

If the City determines that it will have different purchasing policies for federally funded vs non-federally funded projects, procedures should be in place to ensure that all contracts awarded related to federally-funded projects are in compliance with the requirements of the Uniform Guidance Procurement Standards. This is critical in the event a grant award allows for the reimbursement of costs incurred prior to award issuance, if those contracts were awarded using procedures that are not in compliance with the Uniform Guidance Procurement Standards.

NOTE – we understand that the micro-purchase and simplified acquisition thresholds have been amended by the GSA office for fiscal year 2018 in its February 16, 2018 letter, but the rates in the Uniform Guidance remain at the levels noted above. It is expected that the Uniform Guidance thresholds will be amended to coincide with the Federal Acquisition Regulation (FAR) thresholds, but that cannot be guaranteed.

Therefore, City staff should periodically review the Uniform Guidance thresholds to see if they have been revised.

Current Status:
Noted. The City will ensure the required procurement standards are reviewed and up-to-date to comply with Uniform Guidance.

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