

CITY OF IMPERIAL BEACH, CALIFORNIA

SINGLE AUDIT REPORT

JUNE 30, 2014

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CITY OF IMPERIAL BEACH

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS*

To the Honorable Mayor and Members of the City Council
City of Imperial Beach, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Imperial Beach, California, (the City) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated November 20, 2014.

Internal Control over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency 2014-001 described in the accompanying schedule of findings and questioned costs to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency 2014-002 described in the accompanying schedule of findings and questioned costs to be a significant deficiency.



To the Honorable Mayor and Members of the City Council
City of Imperial Beach, California

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed the no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*:

City's Response to Findings

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

Purpose of this Report

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

Lance, Soll & Lughard, LLP

Brea, California
November 20, 2014

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND
ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES
OF FEDERAL AWARDS REQUIRED BY OMB CIRCULAR A-133

To the Honorable Mayor and Members of the City Council
City of Imperial Beach, California

Report on Compliance for Each Major Federal Program

We have audited the City of Imperial Beach's (the City) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2014. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City of Imperial Beach complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.



To the Honorable Mayor and Members of the City Council
City of Imperial Beach, California

Report on Internal Control over Compliance

Management of City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Report on the Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Imperial Beach, California, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated November 20, 2014, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.



To the Honorable Mayor and Members of the City Council
City of Imperial Beach, California

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Lance, Soll & Lingham, LLP

Brea, California

February 13, 2015 (except for the Report on the Schedule of Expenditures of Federal Awards Required by OMB Circular A-133 thereon dated November 20, 2014)

CITY OF IMPERIAL BEACH

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
<u>U.S. Department of Housing and Urban Development</u>			
Passed through the County of San Diego			
Department of Housing and Community Development			
Community Development Block Grant*	14.218	1018212-2618	\$ 304,403
Total U.S. Department of Housing and Urban Development			<u>304,403</u>
 <u>U.S. Department of Homeland Security</u>			
Direct Program:			
FEMA:			
Safer 2013	97.083	EMW-2013-FH-00895	39,319
Passed through the San Diego Unified Port District			
FY 2011 Port Security Grant Program	97.056	EMW-2011-PU-00052	125,000
Passed through the County of San Diego			
SHSGP FY10-11	97.008	2011-SS-0077	22,403
SHSGP FY11-12	97.008	2012-SS-00123	33,181
SHSGP FY12-13	97.008	2013-00110	14,739
Passed through the City of San Diego			
UASI FY10-11	97.067	2011-0077	964
UASI FY12-13	97.067	2013-00110	1,498
UASI FY13-14	97.067	2013-00110	4,234
Total U.S. Department of Homeland Security			<u>241,338</u>
Total Federal Expenditures			<u>\$ 545,741</u>

* Major Program

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

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

Note c: Total amount provided to subrecipients during the year was \$0.

CITY OF IMPERIAL BEACH

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2014**

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

a. Scope of Presentation

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

b. Basis of Accounting

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

c. Relationship to City Basic Financial Statements and Federal Financial Reports

Information reported in the accompanying Schedule agrees with the amounts reported in both the basic financial statements and related federal financial reports for the federal award programs. Revenues from federal award programs are reported as intergovernmental revenues in the basic financial statements.

d. Loan Programs with Continuing Compliance Requirements

The City participates in the Community Development Block Grants/Entitlement Grants (CFDA No. 14.218) of the U.S. Department of Housing and Urban Development, which is subject to continuing compliance requirements for outstanding loans. The program's outstanding loan balances with continuing compliance requirements is \$0.

CITY OF IMPERIAL BEACH

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unmodified Opinion

Internal control over financial reporting:

- Significant deficiencies identified? _yes _no
- Material weaknesses identified? _yes _none reported

Noncompliance material to financial statements noted?

_yes _no

Federal Awards

Internal control over major programs:

- Significant deficiencies identified? _yes _no
- Material weaknesses identified? _yes _none reported

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

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?

_yes _no

Identification of major programs:

CFDA Number(s)

Name of Federal Program or Cluster

14.218

Community Development Block Grant

Dollar threshold used to distinguish between type A and type B program

\$300,000

Auditee qualified as low-risk auditee?

_yes _no

CITY OF IMPERIAL BEACH

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

SECTION II - FINANCIAL STATEMENT FINDINGS

MATERIAL WEAKNESS

2014-001: Fund Balance Restatements

Criteria

Financial statement closing procedures should be designed and followed in a manner that allows the Finance Department to accurately identify financial statement misstatements in a timely manner. The financial statement closing process should include such procedures that allow the Finance Department to accurately reconcile the general ledger balances to sub-ledger information.

Condition, Cause and Effect

During the fiscal year ended June 30, 2014, the City restated the Successor Agency Debt Service Fund to reduce current year interest expense by \$89,699 which related to interest expense incurred in prior year for the 2010 Tax Allocation Bonds. The City also restated the Self-Insurance Fund to reduce the beginning balance of compensated absences by \$2,539, due to the double entry of accrued wages.

Recommendation

We recommend that the Finance Department, as part of their closing procedures, ensure that all asset and liability balances are fully reconciled from sub-ledger information to the accounting general ledger. This will ensure that bond interest amortization is properly stated and that current year beginning balances are properly stated on the financial statements.

Management's Response and Corrective Action Plan

In general, we agree with the auditors' comments, and the following actions will be taken to improve financial governance. The accrual and reversal was made properly in fiscal year 2014. Further review of journal entries by the Senior Accountant and Finance Director will be made to assure that double entries are not incorrectly posted. A further review of accounts at year-end will be implemented to assure that there are no double entries.

Expected Completion Date

This recommendation is fully implemented.

Responsible Person

Doug Bradley, Director of Administrative Services

CITY OF IMPERIAL BEACH

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

SIGNIFICANT DEFICIENCY

2014-002: Internal Controls over Accrual of Accounts Payable

Criteria

An organization should have a system of internal controls, which are suitable designed to allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements of the City's financial statements on a timely basis. Formal written policies and procedures are in integral part of a system of internal controls. Such policies and procedures are established to ensure integrity over financial reporting, including compliance with provisions, laws, regulations, contracts, and grant agreements that could have a direct and material effect on the financial statements, and to safeguard assets. An effective system of internal controls also needs to operate as designed. Key duties and responsibilities need to be divided or segregated amongst different people to reduce the risk of error or fraud. This should include separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets. No one individual should control all key aspects of a transaction or event.

Condition, Cause and Effect

During the fiscal year ended June 30, 2014, four payable items incurred during the fiscal year were not recognized related to the City of Imperial Beach Development Review project resulting in an \$8,083 understatement of accounts payable and expenditures.

Recommendation

We recommend that the Finance Department implement procedures to ensure proper maintenance of the City's expenditure and accounts payable balances.

Management's Response

Increased awareness of correctly coding invoices, particularly at year-end, has been implemented and discussed. The Finance Director has instructed Accounts Payable to closely review invoices for proper coding.

Expected Completion Date

This recommendation is fully implemented.

Responsible Person

Doug Bradley, Director of Administrative Services

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

CITY OF IMPERIAL BEACH

**SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

SECTION II - FINANCIAL STATEMENT FINDINGS

MATERIAL WEAKNESS

2013-001: Internal Controls over Significant Accounting Procedures

Criteria

An organization should have a system of internal controls, which are suitable designed to allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements of the City's financial statements on a timely basis. Formal written policies and procedures are in integral part of a system of internal controls. Such policies and procedures are established to ensure integrity over financial reporting, including compliance with provisions, laws, regulations, contracts, and grant agreements that could have a direct and material effect on the financial statements, and to safeguard assets. An effective system of internal controls also needs to operate as designed. Key duties and responsibilities need to be divided or segregated amongst different people to reduce the risk of error or fraud. This should include separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets. No one individual should control all key aspects of a transaction or event.

Condition, Cause and Effect

We have identified the following material weaknesses in internal controls during our audit:

1. Journal Entries
 - a. The City did not have proper segregation of duties regarding the preparation and approval of journal entries. The same person was documented as preparing and approving entries. In other cases there was a lack of documentation and proper approval of journal entries.
2. Bank Reconciliations
 - a. The Finance Department did not reconcile the bank statements for various accounts to the general ledger. Most of the problems encountered can be avoided if the bank statements are reconciled to the general ledger and not the pooled cash account.
3. Revenue and Accounts Receivable
 - a. Two receivable items were not recognized related to the proper accrual of sales-tax revenue and the Highway Users Tax revenue resulting in an \$84,459 variance. Additionally, unearned revenue and revenue was not properly recognized for rent collected during the prior year resulting in a journal entry in the amount of \$60,000.
4. Grants reconciliation
 - a. Grants had not been reconciled to the general ledger at the end of the fiscal year resulting in audit adjusting entries to accrue grants receivables for expenditures incurred and eligible for reimbursement, and to transfer matching funds to the grant fund under the grant agreements.

CITY OF IMPERIAL BEACH

SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS FOR THE FISCAL YEAR ENDED JUNE 30, 2013

Recommendations

1. Journal Entries – We recommend that formal procedures are documented and followed regarding the journal entry process.
2. Bank Reconciliations – We recommend that all of the bank accounts be reconciled monthly to the general ledger and that all suspicious reconciling items be promptly investigated and adjusted with adequate explanations.
3. Revenue and Accounts Receivable – We recommend that the City implement procedures to ensure the proper maintenance of the City's revenue and receivable accounts receivable balances.
4. Grants Reconciliation – We recommend that grant activities be reconciled shortly after fiscal year end to record grants receivable and transfer matching fund when applicable.

Management's Response and Corrective Action Plan

1. Journal Entries
 - a. The cause of the deficiency was due to several instances in which the former Finance Director prepared and approved journal entries; in addition, City accounting staff, on occasion, prepared a journal entry without attaching supporting documentation. The City has taken action to ensure that all journal entries are prepared by accounting staff and then reviewed by a Senior Accountant with final review and approval performed by the Finance Director; ensuring that all supporting documentation is attached to the journal entries. The Finance Director will then update the journal entry in the general ledger.
2. Bank Reconciliations
 - a. The cause of the deficiency was due to bank statements being reconciled to a pooled cash balance in a City pooled memo fund rather than to the general ledger pooled cash balances of all governmental, proprietary and fiduciary funds. The City is in the process of analyzing the bank reconciliation process and developing procedures to ensure that all pooled bank statements are reconciled appropriately to general ledger pooled cash accounts. The City will identify any past entries that have been made to the pooled memo fund cash account and determine the purpose of the entries. Under the guidance of the Finance Director, the City anticipates this deficiency to be corrected prior to June 30, 2014.
3. Revenue and Accounts Receivable
 - a. The cause of the deficiency was due to past management in the finance department not clearly delegating responsibilities to accounting staff for managing receivables. Going forward, the accounting department will review all outstanding sources of revenue with a special focus on grants, contracts and other known receivables. Accounting staff will monitor all revenue sources closely identifying those that will require an accrual at year-end. The Finance Director will assign each accounting clerk an area of responsibility. The accounting clerks, along with assistance from the Senior Accountants, will monitor outstanding revenues and make appropriate accrual entries.

CITY OF IMPERIAL BEACH

**SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

4. Grant Reconciliation

- a. The cause of the deficiency was due to past management in the finance department not clearly delegating responsibilities to accounting staff for grant management. The City has currently implemented procedures to record and track all grants in the accounts receivable system under a customer number and project number; that matches to a specific fund receivable account. All grants are monitored and reconciled quarterly for invoice and audit. All grant expenses utilize a purchase order in which is ties to the proper project number and general ledger account. This also includes grants with City matching requirements.

Expected Completion Date and Status

All recommendations have been fully implemented.

2013-002: Fund Balance Restatements

Criteria

Financial statement closing procedures should be designed and followed in a manner that allows the Finance Department to accurately identify financial statement misstatements in a timely manner. The financial statement closing process should include such procedures that allow the Finance Department to accurately reconcile the general ledger balances to sub-ledger information.

Condition, Cause and Effect

During the fiscal year ended June 30, 2013, in the CDBG Fund, a fund balance restatement was made to recognize CDBG revenue into the prior year. Furthermore, the City failed to properly close out the prior fiscal year's financial records resulting in material fund balance restatements that were later corrected.

Recommendation

We recommend that the Finance Department, as part of their closing procedures, ensure that all asset and liability balances are fully reconciled from sub-ledger information to the accounting general ledger. This will ensure that bond interest amortization is properly stated and that current year beginning balances are properly stated on the financial statements.

Management's Response and Corrective Action Plan

The cause of the deficiency was due to the past management changes in the finance department and lack of oversight in accounting staff in following procedures to properly close all twelve (12) accounting periods for the fiscal year. The City's finance department has implemented a process to ensure that all 12 accounting periods are properly closed in a sufficient timeframe after all necessary closing entries are made to accounting records. All subsequent entries will be provided and proposed to Lance, Soll & Lunghard, and recorded in an accounting period subsequent of the closed fiscal year-end period (period 13 entries). Upon audit completion, Lance, Soll & Lunghard will provide the City's finance department with all adjusting audit entries, in which, the finance department shall record in an accounting period subsequent of the accounting period in which the City made proposed entries to the closed fiscal year-end period (period 14 entries).

Expected Completion Date and Status

This recommendation is fully implemented.

CITY OF IMPERIAL BEACH

**SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

2013-003: General Ledger

Criteria

Finance Department personnel should have sufficient knowledge and expertise, through education and experience, to be responsible for the financial statements and to ensure that the general ledger is adequately maintained.

Condition, Cause and Effect

Based on our review of the trial balance and transactions posted to the general ledger, it appears that the City did not have finance personnel with sufficient knowledge and expertise to be responsible for the financial statements and to ensure that the general ledger was adequately maintained for the fiscal year 2012-2013.

Recommendation

We recommend that the City address these critical needs by having personnel with sufficient education and governmental experience necessary to maintain a complete and accurate general ledger.

Management's Response and Corrective Action Plan

The cause of the deficiency was due to the fact that during the fiscal year, the primary accounting staff person responsible for fiscal management left employment with the City. In addition, both the Finance Director and Finance Supervisor left the City, leaving a large knowledge and managerial gap; in which the City hired a professional to temporary fill the Finance Director position. As of December 2013, the City hired a Finance Director with over 20 plus years of finance experience. The finance department has also restructured creating two (2) Senior Accountant positions. The finance department hierarchy has been flattened proving much greater interaction between the new Finance Director and accounting staff. In addition, there is a renewed culture for continuing accounting education. The Finance Director encourages accounting staff to seek professional training. Annual employee reviews will be tied to professional development goals obtained.

Expected Completion Date and Status

This recommendation is fully implemented.

SIGNIFICANT DEFICIENCY

2013-004: Recordkeeping for Claims and Judgments

Criteria

The Finance Department should maintain adequate records and detail for claims and judgments made against the City. These records should be reconciled to the general ledger on a regular basis to ensure proper reporting in the financial statements.

Condition, Cause and Effect

During fiscal year 2012-2013, the City's claims and judgment liability records are not maintained by the City.

Recommendation

We recommend that the City maintained detailed claims and judgment liability records and reconcile these records to the general ledger on a timely basis to ensure accurate accounting for these liabilities.

CITY OF IMPERIAL BEACH

**SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

Management's Response and Corrective Action Plan

The cause of the deficiency was a result of management changes in the finance department incurred by the City during the year, in which, the responsibility of this assignment was not managed or delegated to accounting staff during the year. The City has developed and implemented the policy that the Finance Director assigns the task of maintaining claims and judgment liability records to a Senior Accountant. The Senior Accountant is responsible for maintaining and updating the claims log on a continuous basis. In addition, the City is performing an internal audit of this process, in which, any recommendations from the internal audit will also be fully implemented.

Expected Completion Date and Status

This recommendation is fully implemented.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

The City did not require a Single Audit for the fiscal year ended June 30, 2013, as total federal awards expended by the City during that year did not exceed the \$500,000 threshold.