

CITY OF RIO VISTA

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August 23, 2012

Solano County Grand Jury
County of Solano
600 Union Avenue
Fairfield, CA 94533

RE: Solano County Grand Jury Report 2011-12
City of Rio Vista Financial Reporting

Foreperson Goodman and Members of the Grand Jury:

The City of Rio Vista hereby presents its responses to the above referenced Grand Jury Report. The City Council and staff have carefully considered the contents of the entire report. In particular, the specific findings and recommendations have been considered so as to present the responses herein.

Finding 1 – As of March 1, 2012, the City had not submitted an accurate form to obtain reimbursement for funds expended in 2009 for the Community Development Block Grant awarded to comply with the Americans with Disabilities Act. The outstanding balance is estimated to be \$727,000, which adversely impacts the City's financial health.

Recommendation 1 – City officials coordinate with the California Department of Housing and Community Development to accurately complete and submit a Funds Request Form to obtain reimbursement for outstanding grant funds due to the City.

Response 1 – The City is pleased to report that on April 19, 2012, it submitted an accurate Funds Request Form to the California Department of Housing and Community Development. Subsequent to this most recent submittal, a Management Decision and Clearance Letter dated April 26, 2012 was issued by the Department of Housing and Community Development declaring the Funds Request Form acceptable for payment. Reimbursement in the amount of \$718,703 has been received by the City. To date, the City has received a total of \$752,406 in reimbursements for this grant. The City reviewed the appeals process and decided not to seek reimbursement for an additional \$115,547 that was deemed as ineligible costs by the Department of Housing and Community Development.

While the City's early efforts to respond to the deficiencies identified in the California Department of Housing and Community Development monitoring report were not deemed acceptable, the most recent

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Funds Request Form resulted in the issuance of the Management Decision and Clearance Letter and subsequent reimbursement. The City was able to obtain reimbursement and bring closure to this matter by working collaboratively with the California Department of Housing and Community Development and by using the services of Pacific Municipal Consultants, a professional planning consulting firm. The use of the professional planning consulting firm added a measure of assurance that proper collaboration would occur, and so that the Funds Request Form would be accurately completed.

Finding 2 – The City did not have adequate internal accounting controls to ensure accurate and timely financial reporting. External audit reports identified serious internal control weaknesses that could expose the City to increased loss exposure. Weaknesses noted in the audit report were:

- Accounting errors causing prior period adjustments
- Lack of accounting policies and procedures
- Lack of fraud policies and procedures
- Insufficient computer controls
- Failure to follow City Inter-Fund Loan and Transfer Policy
- Inadequate segregation of accounting duties

Additional concerns noted by the Grand Jury include:

- Key personnel changes
- Work prioritization issues
- Communication breakdowns
- Lack of employee knowledge of the City's accounting system
- Failure to perform month-end reconciliations and closing of the books
- Failure to have the annual audit completed in a timely manner

Recommendation 2 – City officials design, document, and implement appropriate internal controls to promote operational efficiency. Controls must be sufficient to safeguard City assets, check accuracy and reliability of accounting data, and provide reasonable assurance that errors or unauthorized activity will be prevented, timely detected and corrected. Officials should provide the resources and training to properly perform the financial functions so information generated from the accounting system can be relied on to plan and control the affairs of the City.

Response 2 – The City staff has prepared a Financial and Accounting Policies and Procedures Manual that addresses many of the identified concerns. The manual has been reviewed by City Council and is currently being further refined and will be presented to City Council on September 6, 2012 in order to ensure proper operating procedures that promote accuracy, reliability and financial/accounting safeguards. City Auditors have reviewed and commented on a draft version of the policies and procedures manual. Some of the procedures included in the manual are as follows:

- Accounting control procedures that separate activities of each program into separate reporting units/funds so as to ensure reliability and accuracy of accounting data.
- Data storage procedures that ensure that the computer system have backup controls that enable the City to recover data in the event of disaster or other event causing data loss. An outside Informational Technology Consultant receives alerts in the event there is a failure in the backup system. Examples of data storage procedures include:

- Onsite backups are done to an external drive. Backups of “off-site” servers are located at City facilities such as the Police and Fire. Data is backed up onto a hard drive attached to the servers.
- IT Staff will use alerts through the monitoring agents if the backup has any failures.
- Any errors will be acted upon in a manner commensurate with the type of error. Responsible IT Staff will use contract technical support as needed to resolve problems and ensure the validity of backup data. Also, IT Staff will ensure replacement of backup drive as needed.
- The IT Staff will perform file/data restores from the back up drive as requested by staff, and log successful restore functions. Any problems identified during the restore function must be acted on in a timely fashion. Responsible personnel will use contract technical support as needed to resolve problems and ensure the validity of backup data.
- Financial retention procedures that include supporting documents and other records. These procedures call for retention periods no less than required by Federal and Contract regulations. Examples of financial retention procedures include maintenance of:
 - Supporting documents such as bank records, invoices, cash receipts and deposit slips. Additionally, for payroll times sheets, and payroll reports from the payroll processor, ADP (Automatic Data Processing).
- Cash management procedures involving cash or checks which require the presence of two employees for the accounting of currency and deposit backups. The procedures ensure documentation sufficient to trace any transaction from inception to completion (audit trail) for cash receipts, accounts receivables and as well as the issuance of credit to customers and vendors.
- Disbursement procedures that require approval by authorized City staff. Persons authorized to sign checks will not have access to blank check stock.
- Procedures requiring the retention of photocopied checks and backup in accounts payable files.
- Payroll procedures, petty cash and interfund transfer procedures.
- A fraud policy and procedure is included and cross referenced as previously approved by the City Council on June 17, 2010 via Resolution 2010-048.

The Finance Department staff has carefully developed the Financial and Accounting Policies and Procedures Manual to ensure for a system of efficiency and reliability.

In addition to the Financial and Accounting Policies and Procedures Manual, there are other operating controls that have been implemented. The Finance Manager reviews and initials all journal entries. All deposit slips are double- checked by a second staff member and initials are reflected at the end of this process. Finance management also reviews all payroll prior to it being processed in the data processing system. The Finance Staff continues to work as diligently as possible to facilitate the timely preparation of the annual audit.

Finding 3 – Insufficient oversight by elected officials contributed to the City’s financial reporting issues.

Recommendation 3a – Elected officials provide proactive oversight through regular verbal and written communication among the Council, Treasurer, staff and others. Financial items must be regularly placed on City Council agendas pursuant to the Brown Act.

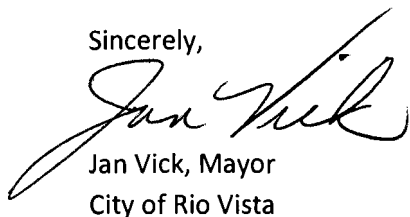
Response 3a – The City Council will receive periodic reports regarding the City's finances so they may be appropriately informed regarding matters in the financial reporting process. Reports provided will include the following: Monthly Financial Reports, Monthly General Fund Cash Flow Report, Treasurer's Report, Quarterly Sales Tax Report, and Bi-Annual Property Tax Report. This will ensure that there is sufficient financial oversight to assist in the timely resolution of reporting issues. These reports will be placed on City Council agendas in a manner consistent with the Brown Act.

The Monthly Financial Reports provide revenue and expense information for the various City fund groups. It also includes departmental expenditures which are tracked on a monthly basis. The Monthly General Fund Cash Flow Report provides a monthly accounting of revenues and expenses specific to the general fund. The Treasurer's Report provides bank balances for each reportable period. The Quarterly Sales Tax Report and Bi-Annual Property Tax report provide overall detail on the two largest sources of revenue in the General Fund. These reports will be placed on the City Council Agenda on a regular basis so that they may be evaluated by the City Council.

Recommendation 3b – The City establish a Finance Committee to gain a better understanding of the City's finances and operations through more frequent meeting (e.g., monthly). Faced with limited time and resources, this activity could be incorporated into the City's Investment Planning and Review Committee (retitle it as Investment Planning and Financial Review Committee), which could continue to be chaired by the elected City Treasurer. In addition to investment activities, the revised committee's duties could be expanded to include ensuring financial records are closed monthly in a timely basis, review of the City's monthly Revenue and Expenditures Reports, and responsibilities related to preparing for and participating in the annual audit. As an example, the committee could consist of the Treasurer, City Manager, Finance Director/Manager, two Council Members, and one or more interested financial experts from the community.

Response 3b – The City will retitle the Investment Committee as the Investment Planning and Financial Review Committee. This committee will be reformed so as to have the following members: City Treasurer, City Manager, Finance Director/Manager, one City Council Member, and one non-City employee to be appointed by the Mayor with City Council approval, said person to have professional funds investment experience in the public and/or private sector. This committee will monitor the monthly closure of financial records, and otherwise review Monthly Financial Reports, Monthly General Fund Cash Flow Report, Treasurer's Report, Quarterly Sales Tax Report, and Bi-Annual Property Tax Report.

Sincerely,



Jan Vick, Mayor
City of Rio Vista