

NOTICE

COMPTON CITY COUNCIL AGENDA Tuesday, May 14, 2013 5:45 PM

HEARING(S)

OPENING

ROLL CALL

INTRODUCTION OF SPECIAL GUESTS

COMMENDATORY RESOLUTIONS/PRESENTATIONS

1. **ORAL PRESENTATION - HOUSING ELEMENT - Planning Department**

PUBLIC COMMENTS ON AGENDA ITEMS AND NON-AGENDA MATTERS

CONSENT AGENDA

Consent items are routine and expected to be non-controversial. They will be acted upon by the Council at one time without discussion unless a Council Member requests an item be removed or discussed.

APPROVAL OF MINUTES

REPORTS OF OFFICERS AND COMMISSIONS

CITY MANAGER/CITY ATTORNEY/CITY TREASURER REPORTS

2. **COUNCIL RECEIPT AND FILE - AUDIT FINDINGS FROM CPA FIRM MACIAS GINI & O'CONNELL LLP REGARDING CLAIMS OF WASTE, FRAUD AND ABUSE DURING 2010-2011 FISCAL YEAR**

WATER DEPARTMENT

3. **A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF COMPTON AUTHORIZING THE CITY MANAGER TO ISSUE A PURCHASE ORDER TO SPRINGBROOK SOFTWARE COMPANY TO PAY FOR CUSTOM UPGRADES TO THE UTILITY BILLING SOFTWARE**

END CONSENT AGENDA

REGULAR AGENDA

REPORTS OF OFFICERS, BOARDS, COMMISSIONS AND COMMITTEES

CITY MANAGER'S REPORT

4. REQUEST TO SCHEDULE A PUBLIC HEARING FOR THE DENIAL AND APPROVAL OF THE 2013 FIREWORKS APPLICATION (**May 14, 2013 at 5:50 p.m.**)

CITY ATTORNEY'S REPORTS

UNFINISHED BUSINESS

NEW BUSINESS

5. A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF COMPTON AUTHORIZING THE CITY MANAGER TO ENTER INTO A CONTRACT WITH THE CPA FIRM MACIAS GINI & O'CONNELL TO PROVIDE INDEPENDENT CITY-WIDE AUDIT SERVICES FOR FISCAL YEAR 2011-2012

APPROVAL OF WARRANTS

6. Warrant #215618 - Date - 5/8/13 - Name - Urban Graffiti Enterprises Inc. - Service - Graffiti Removal - Amount - \$4,675.00 - Requested by: City Manager

COUNCIL COMMENTS

ADJOURNMENT

NEXT REGULAR MEETING: Tuesday, May 21, 2013 @ 5:45 PM.

Visit our website at <http://www.comptoncity.org>

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May 14, 2013

TO: HONORABLE MAYOR AND COUNCIL MEMBERS

FROM: CITY MANAGER

SUBJECT: **COUNCIL RECEIPT AND FILE - AUDIT FINDINGS FROM CPA FIRM MACIAS GINI & O'CONNELL LLP REGARDING CLAIMS OF WASTE, FRAUD AND ABUSE DURING 2010-2011 FISCAL YEAR.**

SUMMARY

The services of Macias Gini & O'Connell LLP (MGO) were procured by the City Council on November 6, 2012, to address the accusation of waste, fraud and abuse of public monies. MGO determined that there was no evidence of waste, fraud and abuse and furthermore dispelled all allegations of impropriety within the alleged areas of concern. In all, 5 subject matter audits were completed by MGO to supplement the 2010/11 audit performed by Mayer Hoffman McCann. The investigative report regarding the audit findings are attached for receipt and filing by the City Council.

BACKGROUND

On June 27, 2012, the City of Compton's independent audit firm, Mayer Hoffman McCann P.C., (MHM) issued a letter to the Mayor and City Council stating in part that on December 1, 2011, the Mayor of the City of Compton sent a letter to the California State Controller alleging waste, fraud, and abuse of public monies. The audit firm, upon further action, was unable to satisfy themselves about the matters by means of other audit procedures. therefore MHM issued a disclaimer of opinion on the City's financial statements for the fiscal year which ended June 30, 2011.

On November 6, 2012, the City of Compton engaged Macias Gini & O'Connell LLP to investigate the allegations of waste, fraud, and abuse of public monies (Attachment I). After interviewing the Mayor, MGO ascertained that there was no evidence to warrant a forensic audit. However, MGO felt that audits in five areas listed by the Mayor should be examined to determine if problems exists.

The five areas of concern to be audited were:

- Housing Authority Audit
- Journal Entry Audit

#2.

**Council Receipt and File – Audit Finding of Macias Gini & O’Connell
Re Claims of Waste, Fraud & Abuse FY 2010-11
May 14, 2013, page 2**

- Cash Handling Audit
- Self Insurance Audit
- Retirement Audit

MGO found no waste, fraud or abuse in any of the five areas (Attachment II). MGO made some recommendations to improve operations but nothing within any of the five audits rose to the level of concern or abuse of public monies.

STATEMENT OF ISSUE

The 2010/11 audit was completed by MHM in June 2012 and included a disclaimer of unanswered questions regarding waste, fraud and abuse. The City has answered those questions with the completion of the MGO audit. The City Manager’s office issued the MHM report to City bond holders. The State Controller’s Office determined that the MHM Audit (although it had a disclaimer) met all State and Federal Auditing guidelines. The City will need to determine if it will submit MGO audits to MHM and request an updated 2010/11 audit or move forward with MGO’s audits as addendums to MHM’s existing documents.

ALTERNATIVE

The City could take the results of the MGO audits and submit them to MHM, and request they provide a quote for updating the audit and provide the City with an opinion confirming the questions of waste, fraud and abuse have been answered. MGO did try and engage MHM, but because the City contracted with MHM, they were unwilling to talk with MGO.

RECOMMENDATION

Staff recommends that the City Council receive and file the MGO audit findings.

**G. HAROLD DUFFEY
CITY MANAGER**

ATTACHMENT

I

**PROFESSIONAL SERVICES AGREEMENT
BETWEEN
THE CITY OF COMPTON
AND
MACIAS GINI O'CONNELL LLC**

This **AGREEMENT** is entered into by and between the **CITY OF COMPTON**, a municipal corporation of the State of California (hereinafter referred to as "**CITY**") located at 205 South Willowbrook Avenue, Compton, California 90220, and **MACIAS GINI O'CONNELL LLC**, a California Certified Accounting firm (hereinafter referred to as "**CONSULTANT**"), located at 3000 "S" Street, Suite 300, Sacramento, California 95816.

RECITALS:

WHEREAS, Section 1419 of the Compton City Charter provides for the employment of a qualified accountant at the beginning of each fiscal year who shall examine the books, records, inventories and reports of all offices and employees who receive, handle or disburse public funds and of such other offices, employment and departments as the City Council may direct; and

WHEREAS, the **CITY** hired Mayer Hoffman McCann P.C. to prepare the **CITY's** Annual Audit Reports, Comprehensive Annual Financial Report (CAFR) and the City and PFA State Controller's Report for fiscal years ending June 30, 2010, 2011 and 2012; and

WHEREAS, during the 2010-2011 audit services, Mayer Hoffman McCann P.C. identified an allegation of fraud, waste and abuse but were unable to investigate, thus they issued a "disclaimer of opinion" and terminated their services; and

WHEREAS, by Resolution No. 23,639, adopted on the 6th day of November 2012, the City Council gave approval to award a contract to Macias Gini O'Connell LLC, an experienced and qualified Certified Public Accounting firm, to provide auditing services to the City for audit allegations raised regarding the Fiscal Year 2010-2011 audit; and

WHEREAS, **CONSULTANT** is willing to render such professional services, as hereinafter defined, on the following terms and conditions.

NOW, THEREFORE, CONSULTANT and CITY, for the consideration, terms and conditions herein described, mutually agree as follows:

AGREEMENT:

1. SCOPE OF SERVICES TO BE RENDERED BY CONSULTANT

It is the mutual understanding of the parties that the **CONSULTANT**, in conjunction with their consulting division, IntelliBridge Partners, shall perform and be responsible for rendering the following professional services – implement four (4) separate audits of Fiscal Year 2010-2011 to address the following issues:

1. Are there questionable contracting, financial management and business practices at the Compton Housing Authority (Housing Authority audit)?

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2. Is the City implementing correct journal entries related to PERS contributions, accounts payable and enterprise accounting (Journal entry audit)?
3. Does the City's Planning Department have sufficient cash handling controls (Cash handling audit)?
4. City self-insurance activities related to:
 - Has the City appropriately implemented administrative leave policies?
 - Has the City classed employees correctly which impact benefit packages?
 - Are workers compensation payments paid correctly (Self-insurance audit)?
 - Has the City planned for and budgeted the re-hiring of retired City employees (Retirement audit)?

as such services are more fully described in the attached **CONSULTANT's Proposal (City of Compton Selected Internal Audits)** dated October 29, 2012, which is incorporated hereby.

It is understood and agreed that **CONSULTANT** has the professional skills, experience and knowledge necessary to perform the services agreed to be performed under this Agreement and that **CITY** relies upon the professional skills of **CONSULTANT** to do and perform **CONSULTANT's** work in a skillful and professional manner.

CONSULTANT agrees to perform all the said services and furnish all the necessary materials at its own cost and expense necessary to complete said services in a manner consistent with that degree of care and skill ordinarily exercised by members of the same profession currently practicing under similar circumstances and in accordance with Generally Accepted Governmental Accounting Policies and Principles.

CONSULTANT services hereunder shall be performed in good, workmanlike and professional manner. **CONSULTANT** shall be responsible for correcting and completing all errors and omissions related to the services provided by the **CONSULTANT** for this Agreement at no additional cost to the **CITY**. "Errors" and "Omissions" for purposes of this paragraph are defined to mean a failure by the **CONSULTANT** to meet the standards of its profession as set forth in the preceding paragraph.

Acceptance by **CITY** of the work performed under this Agreement does not operate as a release of said **CONSULTANT** from such professional responsibility for the services performed.

2. ASSIGNMENT OF PERSONNEL

CONSULTANT has, or will secure, all personnel required to perform the services under this Agreement. **CONSULTANT** shall make available other qualified personnel of the firm as may be required to complete **CONSULTANT's** services. The **CITY** has the right to approve or disapprove any proposed changes in **CONSULTANT's** staff providing service to the **CITY**. The **CITY** and **CONSULTANT** agree such personnel are employees only of **CONSULTANT** and shall not be considered to be employees of the **CITY** in any way whatsoever.

Denise D. Callahan, Partner of **CONSULTANT**, shall be primarily responsible for representing **CONSULTANT** in performance of this Agreement.

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3. DURATION OF CONTRACT

CONSULTANT agrees to commence the services provided for herein upon written Notification to Proceed from the **CITY** and to continue in a diligent and professional manner until performance of the agreed services for **Fiscal Year 2010-2011** are completed, unless this Agreement is terminated as provided herein. It is anticipated by the Parties that the services to be rendered by the **CONSULTANT** may be completed within six (6) months from commencement.

4. COMPENSATION

The method of payment for this Contract will be on a fee-for-services basis, as more specifically identified in **CONSULTANT's Proposal**, attached hereto and incorporated hereby. More specifically for services performed and completed for each Audit service:

• Audit 1: Housing Authority Audit	\$76,400.00
• Audit 2: Journal Entry Audit	40,650.00
• Audit 3: Cash Handling Audit	40,650.00
• Self-Insurance Audit	49,100.00
• Retirement Audit	12,150.00

Hourly rates for services and anticipated billable hours are specified within **CONSULTANT's "Cost Proposal"**, contained with **CONSULTANT's Proposal**.

CONSULTANT understands and agrees that the maximum total compensation, including agreed reasonable expenses, authorized to be paid for completion of all services to be performed during the term of this Agreement shall be limited to the not-to-exceed sum of up to **Two Hundred Eighteen Thousand Nine Hundred Fifty Dollars (\$218,950.00)**.

The total compensation paid the **CONSULTANT** includes compensation for all services, including travel, materials, supplies, vendor services, expenses and subcontracted work. No additional compensation will be paid to the **CONSULTANT**, unless there is a change in the scope of the work or the scope of the project. In the instance of a change in the scope of work or scope of the project, adjustment to the total compensation will be negotiated between the **CONSULTANT** and the **CITY**. Adjustment in the total compensation will not be effective until authorized and approved by the **CITY**.

Progress payments may be made in arrears based on the percentage of work and deliverables completed by the **CONSULTANT**. If **CONSULTANT** fails to submit the required deliverable items according to schedule or in accordance with the provisions of the Agreement, the **CITY** shall have the right to delay payment and/or terminate this Agreement in accordance with the provisions noted herein.

CONSULTANT shall be reimbursed within thirty (30) days, or as promptly as fiscal procedures may permit, upon receipt by the **CITY** of itemized invoices for services completed.

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Invoices shall be submitted no later than 45 calendar days after the performance of services for which the **CONSULTANT** is billing. Invoices shall detail the work performed on each task as applicable. Invoices shall be mailed or delivered to the **City Manager** at the following address: **City of Compton, 205 South Willowbrook Avenue, Compton, California 90220.**

The **CONSULTANT** is required to comply with all federal, state and local laws and ordinances applicable to the work.

In the event of termination, the **CONSULTANT** shall be entitled to compensation for the undisputed reasonable value of services performed to the effective date of termination; including any noncancellable obligations incurred prior to termination; provided, however, that the **CITY** may condition payment of such compensation upon the **CONSULTANT's** delivery to the **CITY** of any and all **CITY** property, documents, reports, records, materials and work product associated with the performance of this Agreement.

5. OWNERSHIP OF MATERIALS

All electronic and hardcopy data, reports, documents, records, plans, discs, diskettes or other material ("Documents") prepared, developed or discovered by or provided to **CONSULTANT** during the course of providing services pursuant to this Agreement shall be the property of the **CITY**, whether or not the services are completed, and all common law and statutory copyrights now held or acquired in the future by the **CONSULTANT** in the documents are hereby assigned to the **CITY**. **CONSULTANT** shall deliver all Documents to the **CITY** no later than the earlier of: (a) the date of final completion of the services, or (b) the date this Agreement is terminated for any reason prior to final completion of the services. If this Agreement is terminated for any reason, the **CITY** and its agents, employees, representatives and/or assigns may use the Documents, in whole or in part, or in modified form, at City's sole discretion.

6. INDEPENDENT CONTRACTOR STATUS

CONSULTANT, its officers, employees, subconsultants, agents and volunteers (collectively hereinafter the "Consultant"), is a wholly independent Consultant and not an officer, employee, subcontractor or agent of the **CITY**. Neither the **CITY** nor any of its officers, employees, agents or volunteers shall have any control over the conduct of the **CONSULTANT**, except as expressly set forth in this Agreement. **CONSULTANT** expressly warrants that while engaged in carrying out and complying with any terms and conditions of this Agreement that **CONSULTANT** shall not at any time or in any manner, represent that **CONSULTANT** is in any manner officers, employees, agents or volunteers of the **CITY**. **CONSULTANT** shall obtain no rights to retirement, health care or any other benefit that accrue to **CITY** officials, officers, or employees. **CONSULTANT** expressly waives any claim to such rights.

7. SUCCESSORS, ASSIGNMENT AND DELEGATION

The **CITY** and the **CONSULTANT** each binds themselves, their partners, successors, assigns and legal representatives to the other party hereto and to partners, successors, assigns and legal representatives of such other party in respect to all covenants, agreements and obligations contained in this Agreement.

The expertise and experience of **CONSULTANT** are material considerations for this Agreement. **CONSULTANT** shall not assign or transfer any interest in this Agreement or the

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performance of any of **CONSULTANT's** obligations under this Agreement without the prior written consent of the **CITY**. Any attempted assignment or transfer of any of **CONSULTANT's** rights, duties or obligations arising under this Agreement shall be null and void.

8. NONDISCRIMINATORY EMPLOYMENT PRACTICES

During the performance of this Agreement, the **CONSULTANT** agrees not to discriminate against any employee or applicant for employment because of race, sex, creed, color, religion, age, sexual orientation, marital status, national origin, political affiliation, handicap or belief in accordance with requirements of City, State or Federal laws and regulations. **CONSULTANT** will take affirmative action to ensure that applicants are employed, and that employees are treated during employment without regard to their race, sex, creed, color, religion, age, sexual orientation, marital status, national origin, political affiliation, handicap or belief in accordance with requirements of City, State or Federal laws and regulations. Such actions shall include, but not be limited to the following: employment, upgrading, demotion or transfer; recruitment or recruitment advertising; layoffs or termination; rates of pay or other forms of compensation; and selection for training, including apprenticeship. The **CONSULTANT** agrees to post in conspicuous places, available to employees, applicants and subcontractors for employment, notices setting forth the provisions of this non-discrimination clause.

In the event of the **CONSULTANT's** non-compliance with the non-discrimination clause of this Agreement, this Agreement may be immediately canceled, terminated or suspended in whole or in part.

9. INDEMNIFICATION

CONSULTANT shall indemnify and save harmless the **CITY**, its officials, officers, employees, agents and volunteers (collectively hereinafter the "City"), against any and all damages to property or injuries to or death of any person or persons, including property and employees or agents of the **CITY** and shall defend, indemnify and save the **CITY** from any and all liability and expense including defense costs and legal fees, and claims, demands, suits, actions or proceedings of any kind or nature, including Workers' Compensation claims, of or by anyone whomsoever in any way and to the extent resulting from or arising out of the negligent, reckless or willful misconduct of **CONSULTANT**, its officers, employees, subconsultants, or agents in the performance of the duties undertaken by **CONSULTANT** pursuant to this Agreement.

This indemnification and hold harmless obligation does not extend to claims arising out of the sole negligence, active negligence or willful misconduct of the **CITY**.

10. INSURANCE

Without limiting the **CONSULTANT's** indemnification of the **CITY**, **CONSULTANT** shall provide and maintain, at its own expense, and require any of its subconsultant's to maintain, during the term of this Agreement the following program(s) of insurance covering its operations as applicable hereunder in this Agreement.

Such insurance, which shall be provided by insurer(s) satisfactory to the City's Risk Manager, shall be primary to and not contributing with any other insurance or self-insurance programs maintained by the **CITY**. Evidence of insurance shall be delivered to the **CITY** at the

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time of **CONSULTANT's** execution of this Agreement. Such evidence shall specifically identify this Agreement and shall contain express conditions that the **CITY** is to be given written notice at least thirty (30) days in advance of any termination or implementation of a reduction of limits or material change of insurance coverage as specified herein, including at least ten (10) day notice of any non-payment of premium(s). Failure on the part of the **CONSULTANT** to procure or maintain insurance shall constitute a material breach upon which the **CITY** may immediately terminate this Agreement.

All insurance required hereunder shall not call on the **CITY's** program for contributions. Program(s) of insurance shall include:

a. **General Liability:** **CONSULTANT** shall provide and maintain at its own expense during the term of this Agreement a program, including but not limited to commercial general liability, inclusive of contractual liability, personal injury liability and broad form property damage with a combined single limit of not less than **One Million Dollars (\$1,000,000.00)** per occurrence. The coverage shall be written on an occurrence basis. Claims made coverage is not acceptable.

b. **Workers' Compensation Insurance:** **CONSULTANT** shall provide and maintain at its own expense during the term of this Agreement a program of Workers' Compensation Insurance and Employer's Liability Insurance in an amount and form to meet all applicable requirements of the State Labor Code and which specifically covers all persons providing services by or on behalf of the **CONSULTANT** and all risks to such persons under the Agreement.

c. **Professional Liability:** Insurance covering liability from any error, omission, negligent or wrongful act of the **CONSULTANT**, its officers, employees, agents and professional consultants of at least **One Million Dollars (\$1,000,000.00)** per claim. The coverage shall also provide an extended two (2) year reporting period commencing upon termination or cancellation of this Agreement.

d. **Insurance Endorsements.** The liability insurance policy(ies) shall be endorsed with the following language:

.1 The City of Compton and its respective elected and appointed officers, officials, employees, agents and volunteers are to be named and covered as "**additional insureds**" with respect to liability arising out of the activities of the **CONSULTANT**.

.2 The insurer waives all rights of subrogation against the **CITY**.

.3 Any failure to comply with reporting provisions of the policies shall not affect coverage provided to the **CITY**.

.4 Identity of the Insured(s).

Insurance coverage specified herein constitutes the minimum requirements and said requirements shall in no way lessen or limit the liability of the **CONSULTANT** under the terms of the Agreement. **CONSULTANT** shall procure and maintain, at its own costs and expense, any additional kinds and amounts of insurance that, in its own judgment, may be necessary for its proper protection of the **CONSULTANT's** work.

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CONSULTANT shall ensure any and all subconsultants performing services under this Agreement meet the insurance requirements of this Agreement.

11. PERMITS AND LICENSES

CONSULTANT, at its own expense, during the term of this Agreement, shall obtain and maintain all appropriate business and professional permits, licenses and certificates that may be required in connection with the performance of services by the **CONSULTANT**.

Upon execution of this Agreement, the **CONSULTANT** shall show evidence of a business license permit in conformance with *Section 9-1.2 of the Compton Municipal Code*.

12. WARRANTIES

CONSULTANT represents and warrants (i) that **CONSULTANT** has no obligations, legal or otherwise, inconsistent with the terms of this Agreement or with **CONSULTANT's** undertaking this relationship with **CITY**, (ii) that the performance of the services called for by this Agreement do not and will not violate any applicable law, rule or regulation or any proprietary or other right of any third party, (iii) that **CONSULTANT** will not use in the performance of his responsibilities under this Agreement any confidential information or trade secrets of any other person or entity and (iv) that **CONSULTANT** has not knowingly entered into or will enter into any agreement (whether oral or written) in conflict with this Agreement.

CONSULTANT shall be responsible to **CITY** for acts and omissions of its subconsultants and the employees and agents of each of them.

13. FEDERAL AND STATE WITHHOLDING TAXES

CONSULTANT shall be responsible for paying when due all federal and state income withholding taxes for all earnings under this Agreement. **CONSULTANT** agrees to indemnify **CITY** for any claims, costs, losses, fees, penalties, interest, or damages suffered by **CITY** resulting from **CONSULTANT's** failure to comply with this provision.

14. COMPLIANCE WITH LAW

All services rendered hereunder shall be provided in accordance with the requirements of relevant local, State and Federal laws.

15. CONFIDENTIAL INFORMATION AND ASSIGNMENTS

The **CONSULTANT** and **CITY** shall retain as confidential all information and data furnished by the other party that is known to be confidential or proprietary, or which is clearly identified as such, in connection with this Agreement and such information will not be disclosed or used except to the extent that such disclosure or use is reasonable necessary to the performance of this Agreement, or is required by statute, regulation, ordinance, judicial order or other governmental request. The obligation of confidentiality imposed upon either party shall subject to standard exceptions and shall survive the completion, expiration or termination of this Agreement.

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16. WAIVERS

A waiver by either party to this Agreement of any breach of any terms, covenants or condition contained herein shall not be deemed to be a waiver of any subsequent breach of the same or any other term, covenant or condition contained herein, whether of the same or a different character.

17. CONSULTANT'S BOOKS AND RECORDS

CONSULTANT shall maintain any and all ledgers, books of account, invoices, vouchers, canceled checks, and other records or documents evidencing or relating to work, services, expenditures and disbursements charges to the **CITY** for the period and to the extent required by laws relating to audits of public agencies and their expenditures.

CONSULTANT shall maintain all documents and records which demonstrate performance under this Agreement for the period and to the extent required by laws relating to audits of public agencies and their expenditures.

Any records or documents required to be maintained pursuant to this Agreement shall be made available for inspection or audit, at any time during regular business hours, upon written request by the **CITY** or a designated representative. Copies of such documents shall be provided to the **CITY** for inspection when it is practical to do so. Otherwise, unless an alternative is mutually agreed upon, the records shall be available at **CONSULTANT's** address indicated for receipt of notices in this Agreement.

18. EXAMINATION AND AUDIT

This Contract shall be subject to examination and audit of the State Auditor of the State of California and any duly authorized representative of the federal government, at the request of the **CITY**, or as part of any audit of the **CITY**, for a period of at least seven (7) years after final payment under this Agreement.

19. CONFLICT OF INTEREST

CONSULTANT shall at all times avoid conflicts of interest or the appearance of any conflicts of interest with the interests of the **CITY** in the performance of this Agreement.

20. TERMINATION

Notwithstanding any other provision of this Agreement, this Agreement may be terminated as follows:

a. Either party may terminate this Agreement at any time by giving fifteen (15) calendar days written notice of termination to the other party. If the **CITY** gives such notice of termination, **CONSULTANT** shall cease immediately all work in progress, unless instructed different by **CITY**.

b. If **CONSULTANT** fails to perform or breaches any material obligation under this Agreement, after giving written notice of default and five (5) days to correct the same, then, in

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addition to any other remedies, the CITY may terminate this Agreement immediately without further notice.

c. The CITY may terminate this Agreement immediately upon written notice if CONSULTANT becomes insolvent; that is, it has ceased to pay its debts in the ordinary course of business, whether or not it has committed an act of bankruptcy, and whether or not insolvent within the meaning of the federal Bankruptcy law.

d. The CITY's obligation is payable only from funds appropriated for the purpose of this Agreement. All funds for payments after the end of the current fiscal year are subject to the CITY's legislative appropriation for this purpose. In the event this Agreement extends into succeeding fiscal year periods and the City Council does not allocate sufficient funds for the next succeeding fiscal year payments, this Agreement shall terminate immediately upon written notice from the CITY.

e. Upon termination by either the CITY or CONSULTANT, CONSULTANT shall deliver to the CITY all property of the CITY in CONSULTANT's possession and copies of all reports, documents and other work prepared by CONSULTANT pursuant to this Agreement. CONSULTANT shall furnish to the CITY a final invoice for work performed.

21. AMENDMENTS

This Agreement may be modified or amended only by a written document executed by both CONSULTANT and CITY's City Manager and approved as to form by the City Attorney. Such document shall expressly state that it is intended by the parties to amend the terms and conditions of this Agreement.

22. GOVERNING LAW AND SEVERABILITY

This Agreement shall be governed by and construed under the laws of the State of California. In the event of litigation between the parties, venue in state trial courts shall lie exclusively in the County of Los Angeles. In the event of litigation in a U.S. District Court, venue shall lie exclusively in the Central District of California, in Los Angeles.

Should any part of this Agreement be declared by a final decision by a court or tribunal of competent jurisdiction to be unconstitutional, invalid, or beyond the authority of either party to enter into or carry out, such decision shall not affect the validity of the remainder of this Agreement, which shall continue in full force and effect, provided that the remainder of this Agreement, absent the unexecuted portion, can be reasonably interpreted to give effect to the intentions of the parties.

23. EXTENT OF AGREEMENT AND EXHIBITS INCORPORATED

This Agreement and any attachments hereto, constitute the entire understanding and agreement of the parties. This Agreement integrates all of the terms and conditions mentioned herein or incidental hereto and supersedes all negotiations or previous agreements between the parties with respect to all and any part of the subject matter hereof. Neither party has been induced to make or enter into this Agreement by reason of promise, agreement, representation, statement or warranty other than as herein contained. Nothing in this Agreement shall create any contractual relations between any subconsultant or subcontractor and the CITY.

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24. NOTICES

All notices, demands or requests to be given under this Agreement shall be given in writing and conclusively shall be deemed received when: (a) delivered personally, or (b) on the third business day after the deposit thereof in the United States mail, postage prepaid, registered or certified, and addressed as hereinafter provided, or (c) one business day after send by facsimile transmission.

TO CONSULTANT:

MACIAS GINI O'CONNELL LLC
3000 "S" Street, suite 300
Sacramento, California 95816
Attn: Denise D. Callahan, Partner
(916) 928-4600
(916) 928-2755 -- fax.

TO CITY:

CITY OF COMPTON
205 South Willowbrook Avenue
Compton, California 90220
Attn: City Manager
(310) 605-5585
(310) 761-1429 -- fax.

In the event of any change of address, the moving party is obligated to notify the other party of the change of address in writing. Each party may amend, supplement and update the notice list to add, delete or replace any listed individuals; however, the amendment must be in writing.

25. CERTIFICATIONS

CERTIFICATIONS OF CONSULTANT

I, Denise D. Callahan, C.P.A., **HEREBY CERTIFY** that I am a Partner, and duly authorized representative of the **CONSULTANT** firm of MGO, a certified public accounting firm and that, except as hereby expressly stated, neither I nor the above firm that I represent have:

(a) employed or retained for a commission, percentage, brokerage, contingent fee, or other consideration, any firm or person (other than a bona fide employee working solely for me or the above consultant) to solicit or secure this agreement; nor

(b) agreed, as an express or implied condition for obtaining this contract, to employ or retain the services of any firm or person in connection with carrying out the agreement; nor

(c) paid, or agreed to pay, to any firm, organization or person (other than a bona fide employee working solely for me or the above consultant) any fee, contribution, donation, or consideration of any kind, for or in connection with, procuring or carrying out this agreement.

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Financial Auditing and Related Services
FY 2010-2011 [Resolution No. 23,639]

DEBARMENT AND SUSPENSION CERTIFICATION

The **CONSULTANT**, under penalty of perjury, certifies that, except as noted below, he/she or any other person associated therewith in the capacity of owner, partner, director, officer, manager:

- is not currently under suspension, debarment, voluntary exclusion, or determination of ineligibility by any Federal, State or local agency;
- has not been suspended, debarred, voluntarily excluded or determined ineligible by any Federal, State or local agency within the past 3 years;
- does not have a proposed debarment pending; and
- has not been indicted, convicted, or had a civil judgment rendered against him/her by a court of competent jurisdiction in any matter involving fraud or official misconduct in connection with obtaining, attempting to obtain, or performing a public (Federal, state or local) transaction or contract under a public transaction; violation of Federal or state antitrust statutes or commission of embezzlement, theft, forgery, bribery, falsification or destruction of records, making false statements, or receiving stolen property within the past 3 years; and
- are not presently indicted or otherwise criminally or civilly charged by a governmental entity (Federal, State or local) with commission of any of the offenses enumerated in the preceding paragraph; and
- have not had one or more public transactions (Federal, State or local) terminated for cause or default within the past 3 years.

If there are any exceptions to this certification, insert the exceptions in the following space.

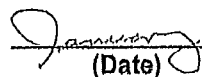
[Supply exceptions on separate page]

For any exception noted above, indicate below to whom it applies, initiating agency, and dates of action.

[Attach separate page]

The above certifications are part of this Contract. Signing this Agreement on the signature portion thereof shall also constitute signature of the above Certifications.


James V. Godsey, C.P.A., Partner

 31, 2013
(Date)

26. MISCELLANEOUS

CONSULTANT agrees to obtain, keep and maintain that at all times during the performance of the Agreement a Faithful Performance Bond in the amount of the contract sum. Said Bond shall be in form approved by the Compton City Attorney's Office/Risk Management Division and issued by a surety authorized to do business in the state of California. Proof of maintenance of the Performance Bond shall be due and delivered to the **CITY** at the beginning of this Agreement.

Professional Services Agreement – MGO (CPA)
Financial Auditing and Related Services
FY 2010-2011 [Resolution No. 23,639]

CONSULTANT and **CITY** acknowledge that the terms of this Agreement have been mutually negotiated and that such documents shall not be interpreted against either **CITY** or **CONSULTANT** on the basis that either party was responsible for or in control of the drafting of such documents.

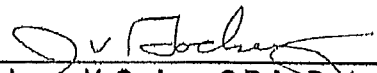
All provisions of this Agreement which by their nature continue beyond the termination or completion of performance under this Agreement, including, without limitation, those obligations pertaining indemnification, insurance, confidentiality and ownership of documents, shall survive and continue in force after either termination or completion of performance by **CONSULTANT**.

Should either party hereto, or any representative, successor or assign of either party hereto, resort to litigation to enforce the provisions of this Agreement, the party or parties prevailing in such litigation shall be entitled, in addition to such other relief as may be granted, to recover its or their reasonable attorney's fees and costs in such litigation from the party or parties against whom enforcement is sought.

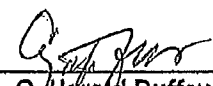
IN WITNESS WHEREOF, **CONSULTANT** has executed this Agreement, and the **CITY**, by its City Manager, who is authorized to do so, has executed this Agreement.

MACIAS GINI O'CONNELL LLC
CONSULTANT

Dated: January 31, 2013

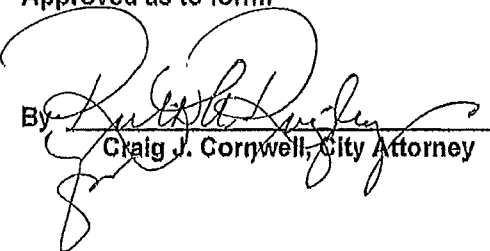
By 
James V. Godsey, C.P.A., Partner

CITY OF COMPTON

By 
G. Harold Duffey, City Manager

Dated: 2/7/13

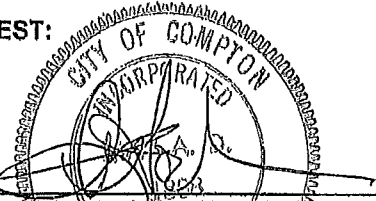
Approved as to form:

By 
Craig J. Cornwell, City Attorney

Dated: 2/6/13

Dated: 2-13-13

ATTEST:

By 
Alita Godwin, City Clerk





October 29, 2012

Mr. G. Harold Duffey
City Manager, City of Compton
205 S. Willowbrook Avenue
Compton, California 90220

Dear Mr. Duffey,

On behalf of MGO, a California certified public accounting firm and our consulting division, IntelliBridge Partners, we are pleased to provide a proposal to address concerns raised during a meeting that our firm held with the Mayor. Several of the issues discussed may pose a risk of potential fraud, waste or abuse, but no actual incidents were actually identified. As a result, a forensic audit is not needed at this time, but audits of the issues are needed to determine if whether problems exist. Our objective for these projects is to determine whether reasonable internal controls and procedures are in place to prevent potential fraud, waste and abuse. If, for any reason, we are unable to complete the work, we will describe any restrictions on the performance of the procedures in our report, or will not issue a report as a result of this engagement. We plan to conduct four separate audits related to:

- (1) Are there questionable contracting, financial management, and business practices at the Housing Authority? (Housing Authority audit)
- (2) Is the City implementing correct Journal entries related to PERS contributions, accounts payable, and enterprise accounting? (Journal entry audit)
- (3) Does the City's Planning Department have sufficient cash handling controls?
- (4) City self-insurance activities related to:
 - Has the City appropriately implemented administrative leave policies?
 - Has the City classed employees correctly which impact benefit packages?
 - Are worker compensation payments paid correctly? (Self-insurance audit)
- (5) Has the City planned for and budgeted the re-hiring of retired City employees? (Retirement audit)

Other concerns were cited by the Mayor related to City operations. At the completion of these initial audits, we will use the audit results to determine the need to examine City operations.

MGO/IntelliBridge Group, Inc.

The five internal audits that we propose do constitute a financial audit. Should the reviews result in the identification of fraud, we will promptly notify you and discuss the need, at that time, for a forensic audit and negotiate new fees for the work. It is expected, however, that the results of the reviews will alert the City to weaknesses in processes and procedures and lead to recommendations that could lead to better ways to implement operations and service delivery. We can begin the reviews immediately upon authorization by the City. Unless unforeseeable problems are encountered, the engagements – assuming the City wishes to conduct them as soon as possible – should all be completed between December 30, 2012 and January 31, 2013. At the conclusion of each engagement, we will submit a report to the City provided timely receipt of data requested from our firm. All work will be performed according to generally accepted government auditing standards.

Our fee for all five internal audits total \$218,950. Each audit is separately priced in this proposal. The fees will be billed as progress is incurred. The fee estimate is based on the assumption that unexpected circumstances will not be encountered during the engagement. Our invoices for these fees will be rendered for work completed within each calendar month and are payable on presentation.

We appreciate the opportunity to assist you and believe this letter accurately summarizes the significant terms of our engagement. If you have any questions, please let us know. If you agree with the terms of our engagement as described in this letter, please sign the enclosed copy and return it to us. All work shall be performed in accordance with generally accepted governmental auditing standards for performance audits. If you have any questions, please feel free to call me at 213.286.6413 or email at dcallahan@intellibridgepartners.com, or dcallahan@mgocpa.com.

Very truly yours,

Denise D. Callahan

Denise D. Callahan
Partner

City of Compton

AGREEMENT TO COMMENCE WORK

This letter sets forth our understanding of the scope of services and provides authorization to MGO and IntelliBridge Partners to perform selected internal audits as address described in this engagement letter. Payment will be rendered on a monthly basis upon receipt of invoice.

G. Harold Duffy, City Manager

Date _____

Audits to be performed 1, 2, 3, 4, 5 (Please circle)

Please email a copy of this letter to:
Dcallahan@IntelliBridgePartners.com

ATTACHMENT

II



Certified Public Accountants.

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mgocpa.com

February 18, 2013

Mr. G. Harold Duffey
City Manager
City of Compton
205 S. Willowbrook Avenue
Compton, CA 90220

Dear Mr. Duffey,

On October 29, 2012, our firm was hired by the City of Compton to review the sufficiency of controls for potential fraud, waste and abuse, as related to issues and concerns described by the former Mayor of Compton against the Compton Housing Authority (Authority). We have completed our internal audit of the reported allegations involving the Authority and have attached our report.

We would like to take this opportunity to thank the city employees, including Compton Housing Authority staff, that also participated in this project. Their collective interest and cooperation is appreciated.

Sincerely,

Maxine Tini & O'Connell LLP

3000 S Street
Suite 300
Sacramento
CA 95816

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CA 94596

505 14th Street
5th Floor
Oakland
CA 94612

2029 Century Park East
Suite 500
Los Angeles
CA 90067

4675 MacArthur Ct.
Suite 600
Newport Beach
CA 92660

225 Broadway
Suite 1750
San Diego
CA 92101



Proud To Be Boring Accountants®

Investigation of Allegations against City of Compton Housing Authority

Background

On June 27, 2012, the City of Compton's Independent audit firm, Mayer Hoffman McCann P.C., issued a letter to the Mayor and City Council stating in part that:

On December 1, 2011, the Mayor of the City of Compton sent a letter to the California State Controller alleging waste, fraud, and abuse of public monies. The audit firm, upon further action, was unable to satisfy themselves about the matters by means of other audit procedures.

Because of the significance of the matters raised by the Mayor, the audit firm stated the scope of their work was not sufficient to enable them to express an opinion on the City's financial statements.

As a result, on July 24, 2012, the Compton City Council adopted Resolution #23,588, authorizing the City Manager to enter into an agreement with Los Angeles County to investigate the allegations. In response, on September 25, 2012, the Los Angeles County Board of Supervisors determined that the City should focus on finding and hiring a new auditor to complete the financial audit and review the Mayor's investigation.

The City of Compton then engaged MGO to investigate the allegations. Upon meeting with the Mayor, we determined that further review was needed of the allegations through auditing internal controls and business processes related to contracting, financial management, and business practices at the Housing Authority. This is the first of five reports to be issued to the City of Compton.

Principal Results

Our audit did not find anything that would cause us to believe that the Compton Housing Authority's internal control system, management processes, accounting, and data processing did not adequately assure that the program was effectively and efficiently managed in compliance with the Authority's policy and procedures requirements. Notwithstanding, the audit did identify some information system controls that could be improved.

Concern Investigated: The Housing Authority has contracted with City employees that serve as landlords.

Finding: Our review of the Authority's fiscal year 2010-2011 revenues and expenditures, as well as our review of the internal controls surrounding financial transactions, found no other questionable financial practices within the Authority.

Analysis: Based on our review of policies and procedures, internal controls, and a sample of 32 tenant/ owner case files, the Authority fairly selected applicants, reviewed tenant eligibility, verified property ownership, reviewed rent reasonableness, properly inspected and approved owner and tenant rental units, and completed tenant and owner certifications of (1) non-relationships between owner and tenant and (2) prohibited leasing of a Section 8 rental unit to relatives.

In addition, we found no overlap between key city officials, their spouses or partners, and HUD landlords. Finally, we note that Department of Housing and Urban Development (HUD) regulations do not prohibit city employees, other than those within the Housing Authority and city officials, from serving as landlords for Housing Assistance Program tenants.

The Authority had no other contracted services (i.e., no third-party services aside from the Housing Assistance Program) in fiscal year 2010-2011.

Concern Investigated: The Housing Authority issued payments to its vendors when other City departments were requested to delay payments.

Finding: Our review of the Authority's fiscal year 2010-2011 expenditures noted that 100 percent of expenditures were funded by HUD, and none from the city's General Fund. Thus the Authority's timely payments to vendors had no impact on the city's General Fund cash flow or cash balance.

In addition, our review of the Authority's fiscal year 2010-2011 revenues and expenditures, as well as our review of the internal controls surrounding financial transactions, found no other questionable financial practices within the Authority.

Analysis: Prior to September 2010, the Authority did not effectively manage interagency billings for portability tenants. A September 2010 Department of Housing and Urban Development (HUD) audit report of the Compton Housing Authority found that the Authority did not fully comply with portability procedures and responsibilities. It was not fully reimbursed for housing assistance payments made for its portability tenants.

The Authority has implemented procedures to address the audit findings. The Authority currently tracks and reconciles its portability tenants moving in and out of the city to assure that it is properly compensated for transfer tenants. During the period September 2010 to June 2011, the City of Compton managed portability transfers such that it had no negative financial impact from its portability tenants.

Concern Investigated: There are questionable business practices, including inadequate internal controls, at the Housing Authority.

Finding: Our review of the Authority's fiscal year 2010-2011 revenues and expenditures, as well as our review of the Authority's policies, procedures, and internal controls, found no questionable business or administrative practices within the Authority. We found two administrative issues that, while not indicative of fraud or material internal control weaknesses, are opportunities for operational improvement.

Analysis:

Tenant/ Owner Files

According to the Compton Housing Authority's *Administrative Plan Statement of Policies*, the Compton Housing Authority will only provide owners payments after a fully executed contract and the Authority receives any addendums. Further, the owner is required to provide the following documentation:

1. Proof of Ownership
2. Recorded Grand Deed
3. Management Agreements (if applicable)
4. Tax Identification (ID) or Social Security (SS) Number
5. W-9 Forms
6. City of Compton Business License
7. Current Property Tax
8. Current Government Issued Identification (ID) and
9. Mortgage Statement.

Of the 32 tenant/ owner case files that we reviewed, 18 had one or more documents referenced above missing (or without explanation for absence) from the case file. Each file, however, did contain sufficient documentation to validate the ownership of the rental property.

Information Technology Controls

While the Compton Housing Authority has basic information technology controls in place, we found opportunities to strengthen password access and provide a more robust review of user activity.

General computer controls require that access to the IT network and applications be properly controlled. The City of Compton's *Information Systems Acceptable Use Policy*, however, does not require complex password standards for Active Directory and application access. The City requires passwords of any seven characters for Active Directory access. Any password combination is allowable for HAPPY application access. Without formal requirements, password configuration standards may change based on administrator preference, rather than adherence to standard industry practices. Additionally, if strong passwords are not used, the chance of someone hacking into the City network or a financial application increases considerably.

Recommendation 1 (City of Compton Information Technology Department): Develop and implement policies for complex password access for the City of Compton's Active Directory (network access) and for financial application access, as shown below.

Password Policy Setting	Current Settings (City of Compton Active Directory)	Current Settings (CHA HAPPY Application)	Recommended Value Range
Enforce password history	6 passwords remembered	None	12 to 24 passwords remembered
Maximum password age	90 days	None	30 to 90 days
Minimum password length	7 Characters	None	8 to 14 characters
Password must meet complexity requirements	Disabled	Disabled	Enabled
Password complexity	None	None	• Minimum of eight characters. • Contains at least two numeric or special characters.

In addition, the HAPPY application provides a record of the user who made the most recent change to a tenant file. The application does not provide a ready audit report of all changes to a tenant file.

General computer controls over the access to programs and data require that network and application security controls be implemented to administrative user activities are properly and authorized and to safeguard information technology resources and data. During our review we noted that there are no established procedures to monitor administrative user activity in the HAPPY system.

Recommendation 2 (Compton Housing Authority): Develop policies and implement procedures requiring periodic (e.g. quarterly) reviews of HAPPY administrative user activity. The review should be performed by a position outside of the chain of command of these users with high level access and should be pursuant to guidelines and criteria that would aid in identifying the nature of this activity.

Objective

Our overall objective was to determine whether the Compton Housing Authority employed acceptable management practices and internal controls, including conflict of interest prevention controls, to effectively and efficiently administer its Section 8 program in compliance with federal Department of Housing and Urban Development (HUD) requirements and its Housing Assistance Program. Specifically, we investigated allegations regarding questionable contracting, financial management, and business practices at the Housing Authority.

The team began their work on November 19, 2012 and concluded their investigation on January 30, 2013 according to generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. A draft report was provided to the Office of the City Manager and the Housing Authority and comments were incorporated into this report as appropriate.

Scope

The scope of the audit covered the Compton Housing Authority's contracting, financial management, and business practices for the period July 1, 2010 to June 30, 2011. Our scope included activities of other City departments, such as Information Technology and the City Controller, that directly supported the Housing Authority's practices.

Methodology

The team interviewed the following individuals to understand the current and historical Housing Authority contracting, financial management, and business practices:

Figure 1.0: Interviews Performed with City of Compton Personnel

Employee Name	Position
G. Harold Duffey	Compton City Manager
Stephen Ajoblewe	City Controller
Craig Cornwell	City Attorney
Douglas Sanders	City Treasurer
Delmonsha Green	Interim Housing Director
Glenda Driscoll	Accounting Technician
Cheryl Stephens	Family Self-Sufficiency Coordinator
Willie Washington	Housing Inspector
Russell Lieng	Information Technology
Garry Francis	Information Technology

To determine whether any Housing Assistance Program owners were city officials or Authority employees, we reviewed the Landlord Payment files for fiscal year 2010-11. We analyzed owner and tenant information for the fiscal year, including:

1. Reviewed HUD regulations¹ governing Conflict of Interest within the Housing Assistance Program
2. Reviewed individual ownership records for matches of city officials, including their spouses and partners on file with the city's Human Resources department, with the owners in the fiscal year 2010-2011 landlord payment transactions.
3. Reviewed individual ownership records for matches of Authority employees with the owners in the fiscal year 2010-2011 landlord payment transactions.
4. Reviewed Form 700 (Statement of Economic Interests) forms filed by city officials for 2010 and 2011 to determine if they contained any rental properties receiving Housing Assistance Program payments from the city.
5. For Housing Assistance Program contracts with corporate owners, verified ownership with the California Secretary of State records to determine any city official or Authority employee ownership of corporations.
6. Interviewed Housing Authority Director and staff for any known conflicts of interest.

To determine whether the control of accuracy of CHA files was in place and working, we reviewed 34 case files, 32 tenant files and 2 homeowner files for a total of 34 files.

¹ 24 CFR § 982.161, Revised April 1, 2000.

We found that controls were in place to verify that documents required by the CHA's Administrative Plan Statement of Policies were in the case files in most instances. These controls consisted of:

1. Review. Reviews of 20 case files per year by the Interim Housing Director.
2. Information System. Ordered and prearranged inputting of information into a planned system. CHA uses a software program (called HAPPY Software) records such information as waitlist, occupancy, tenant financial information, monthly dollars coming in, monthly disbursements, and reporting requirements.
3. Uniform recording of expenditures. Use of Excel spreadsheets to record monthly Housing Authority Expenditures such as HUD Housing Assistance Payment (HAP) Disbursement.
4. Supervisory Review. Review of Housing Assistance Landlord Payment run that is checked by the Compton's Controller's Office and the CHA Accounting Technician.
5. Contract Review. Review of Tenant and Owner contract. Contract reviewed and signed by tenant and owner, reviewed and signed by the CHA Accounting Technician, and reviewed and signed by City Attorney, and reviewed by City Manager and City Clerk.

To assess controls over tracking and reconciliation of portability voucher accounts, we initially reviewed a prior (September 2010) Department of Housing and Urban Development (HUD) audit report of the Compton Housing Authority. The report found:

The Authority did not use Section 8 funds in accordance with HUD rules and regulations as it did not fully comply with portability procedures and responsibilities. It was not fully reimbursed for housing assistance payments made for its portability tenants. We attribute these deficiencies to the Authority's lack of procedures and controls for portability accounting. Additionally, there was a lack of tracking and reconciliation between what was paid and what was received. As a result, over the years, the Authority used more than \$2.2 million from its net restricted assets account to pay for the shortfall, operated in a deficit situation, and did not have sufficient funds to pay for its portability tenants. Ultimately, these deficiencies put tenants at risk of losing their housing assistance².

To determine whether the Housing Authority had addressed the HUD audit recommendations, including control of tracking and reconciliation of the portability voucher accounts, we held discussions and reviewed tracking and reconciliation documents of the portability voucher accounts as follows:

1. Tracking and Reconciliation. Portability vouchers are tracked and reconciled by a CHA Housing Inspector and the Interim Housing Director.

² Audit Report Number 2010-LA-1016; Office of Inspector General, Department of Housing and Urban Development. Issued September 28, 2010. Page 1.

2. Monitoring. The senior Housing Inspector monitors portability payments. He monitors the reimbursements from other agencies and breaks out administrative fees.
3. Monitoring and Reconciliation. The senior Housing Inspector monitors the Remittance Advice from other agencies and reconciles the payments.
4. Validation. The Family Self-Sufficiency Coordinator validates qualification information for portability clients coming into the CHA for the purpose of providing a housing voucher.
5. Audit validation. Compton City financial auditors audit the CHA Housing Assistance Program by doing a Voucher Management System audit. Part of this audit is the portability-in billing.

In addition, we reviewed fiscal year 2010-2011 portability data including tracking and reconciliation forms, as well as remittance records that included incoming and outgoing payments for portability tenants.

To determine whether the control over inspection rental units were in place and working, we reviewed 35 case files, 33 tenant files and 2 homeowner files for a total of 35 files.

We found that controls were in place to verify that inspection documents required were in the case files in all instances. We also held discussions regarding the inspection controls in place. These controls consisted of:

1. Independent criteria. HUD and not the local housing authority set independent standards for habitability, safety, cleanliness, utilities, etc. Verification. The tenant and owner are given a copy of the inspection report.
2. Monitoring and verification. The CHA inspector inspects rental units both initially and then annually to verify they meet livability and other standards (safe, clean no hazards). The Interim Housing Director reviews 20 case files per year.
3. Documentation. The CHA inspects the unit both initially and then annually primarily around livability. There is an inspection log for each unit.
4. Identification. HAPPY Software is used to identify the occupancy of rental units and therefore the need for initial and annual inspections.

To determine whether controls over conflict of interest requirements were in place and working, we reviewed 35 case files, 33 tenant files and 2 homeowner files for a total of 35 files for Certification of non-relationships among owners, tenants and officials of the CHA.

We found that controls were in place to verify that a certification was made that there were no relationships among owners, tenants and officials of the CHA and documented this fact in our analysis of contract/leases at Compton. We also reviewed documents and held discussions regarding the conflict of interest controls in place. These controls consisted of:

1. Regulations. HUD regulations prohibit a conflict of interest in the Housing Assistance Program.
2. Policy. The Compton Housing Authority must follow a conflict of interest provision within the City Charter, Section 1202; Illegal Contracts, Financial Interest.
3. Review. All contracts for rental of owner rental units and tenant occupant are reviewed and signed by the City Attorney and reviewed by the City Manager and City Clerk thus verifying a conflict of interest does not exist.
4. Documentation. CHA case files document Housing Assistance Program contract.
5. Audit. The CHA Family Self-Sufficiency Coordinator enters the HUD Public and Indian Housing Information Center (PIC) system to audit the contract and validates the contract within the HAPPY system. The file then goes to the case manager.
6. Inspection. At contract renewal each year the CHA Family Self-Sufficiency Coordinator updates information in the case file, including a record of the tenant's renewal interview, and the information is transmitted to HUD.
7. Segregation of duties. Various people review the Contract such as the CHA, the City Attorney, City Manager, and City Clerk (from 3 and 5). The City Controller produces monthly reports on expenditure by department and fund that goes to the city manager and city council members.

To determine whether the control over rent reasonableness requirement was in place and working, we reviewed CHA documentation and interviewed responsible CHA officials.

We found that the total rent for a unit is based on a HUD payment standard for various size units (e.g. efficiency, one bedroom, two bedroom, three bedroom etc.) and covers the metropolitan area the housing authority is part of. In Compton's case it is the Los Angeles-Long Beach, CA HUD Metro Fair Market Rent Area. We also held discussions regarding the rent reasonableness controls in place. These controls consisted of:

1. Standards. HUD provides a standard each year for various rental units depending on size. The standard is entitled the Fair Market Rent Documentation System and covers a Metropolitan Area.
2. Compliance. The CHA Housing Inspector assesses the owner's rental unit compliance to the standard.
3. Review. The CHA Accounting Technician reviews HUD standard and rental unit rent for rent reasonableness.
4. Documentation. Owners sign a document to not charge a Section 8 rental unit over and above a comparable rent in their other non-Section 8 rental units.
5. Audits. CHA audit all case files and HUD pulls information transmitted to them.

6. Inspections. Each Housing Specialist performs annual inspections of case files, including rent payment history.

To determine whether the controls were in place and working over the Housing Assistance Payments (HAP) to landlord/owner by the CHA, we reviewed 34 case files, 32 tenant files and 2 homeowner files for a total of 35 files. This included a review of the contract signed by the owner and tenant and documentation required by the Authority to prove ownership.

We also held discussions regarding the CHA controls in place prior to making payments to owners for their rental unit. We found controls in place to record, monitor and verify transactions. These controls consisted of:

1. Documentation. The CHA requires documentation of owner's proper title to the rental property including nine separate documents.
2. Reports. The City Controller produces a monthly report to the City Council by Department of Revenue and Expenditures by Department and Fund.
3. Review. The City Manager and City Council review reports from the City Controller.
4. Supervisory Review. The Controller reviews the monthly General Ledger transaction report and monthly General Ledger revenue report.
5. Segregation of duties. All purchase orders from the CHA must be signed by the City Manager.
6. Approval. Purchase orders over \$25,000 must go to the City Council for approval.
7. Matching documentation. There must be matching documentation before the City Treasurer makes final payment. For accounts payable the director initiates a purchase order, and then it is approved by the City Council. The controller must also sign the purchase order. After the sign-offs, the director signs off on Request to pay and this document is sent to account payable. Accounts payable will verify matching documentation and process the check. Checks are signed by City Controller, City Manager, and the City Treasurer. The City Treasurer then releases the final check.

To determine the extent of controls over other contracted services, we held discussions regarding the CHA controls in place for contracting for outside (non-HAP) services. The controls for contracting outside are the same as those for landlord payments. In addition, we reviewed CHA expense records and found no outside contracted service expenditures for fiscal year 2010-2011.

To determine whether the controls were in place and working for the CHA information technology systems, we interviewed Compton IT support personnel, reviewed available system functionality, viewed the physical security of the CHA's server, and requested additional information from CHA's software vendor, HAPPY Software.

Our assessment focused on controls surrounding the HAPPY application, which is used for tracking tenant information and initiating owner payments. These controls consisted of:

1. Roles. The CHA's HAPPY application has various roles defined for differing user access business needs.
2. Physical security. The server hosting CHA's HAPPY application is located in a secure area.
3. Logical security. Access to the CHA's HAPPY application required initial access to the city's Active Directory and then a desktop icon and an additional password for the HAPPY application. Access requests must be approved by the Housing Director, City Manager, and Information Technology.
4. Security policies. The city has a comprehensive *Information Systems Acceptable Use Policy* which defines and prohibits unacceptable use of The City of Compton's Information systems, educates users about their Information Security responsibilities, and outlines disciplinary procedures.

Work Performed to Review Housing Authority Financial Management

To determine if any financial improprieties existed within CHA, we reviewed and analyzed the following financial documentation:

1. Fiscal Year 2010-2011 monthly CHA revenue reports
2. Fiscal Year 2010-2011 monthly CHA expenditure reports
3. Fiscal Year 2010-2011 CHA budget
4. Fiscal Year 2010-2011 CHA detailed check register
5. Fiscal Year 2010-2011 CHA detailed landlord payment records.

We found no anomalies or financial discrepancies in our analysis. Ninety-nine percent (10.29 of 10.38 million dollars) of expenditures were for Housing Assistance Payments, personnel (salaries and benefits) expenses, and contributions to other agencies (administration fees for portability payments). While the CHA received a budget appropriation of \$13,000 for "Other Contract Services" in fiscal year 2010-2011, it spent none of that appropriation. The CHA's operations were entirely funded by HUD.



Certified Public Accountants.

Sacramento • Walnut Creek • Oakland • Los Angeles/Century City • Newport Beach • San Diego

mgocpa.com

Mr. G. Harold Duffey
City Manager
City of Compton, California
205 S. Willowbrook Avenue
Compton, CA 90220

Dear Mr. Duffey,

On October 29, 2012, our firm was hired by the City of Compton, California (City) to review the sufficiency of controls for potential fraud, waste and abuse, as related to issues and concerns described by the Mayor of the City of Compton against specific areas of the City. We have completed our review of the requested areas and have attached our report.

We would like to take this opportunity to thank the City employees, including City Controller Office's staff, that also participated in this performance audit. Their collective interest and cooperation is appreciated.

Sincerely,

Macias Jini & O'Connell LLP

Sacramento, California
May 1, 2013

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CA 90067

4675 MacArthur Ct.
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Newport Beach
CA 92660

225 Broadway
Suite 1750
San Diego
CA 92101

Investigation of Concerns against Specified Areas of the City of Compton

Background

On June 27, 2012, the City of Compton's independent audit firm, Mayer Hoffman McCann P.C., (MHM) issued a letter to the Mayor and City Council stating in part that:

On December 1, 2011, the Mayor of the City of Compton sent a letter to the California State Controller alleging waste, fraud, and abuse of public monies. The audit firm, upon further action, was unable to satisfy themselves about the matters by means of other audit procedures.

Because of the significance of the matters raised by the MHM, the audit firm issued a disclaimer of opinion on the City's financial statements for the fiscal year ended June 30, 2011.

As a result, on July 24, 2012, the Compton City Council adopted Resolution No. 23,588, authorizing the City Manager to enter into an agreement with Los Angeles County to investigate the allegations. In response, on September 25, 2012, the Los Angeles County Board of Supervisors determined that the City should focus on finding and hiring a new auditor to review the Mayor's investigation.

On November 6, 2012, the City of Compton engaged Macias Gini & O'Connell LLP (MGO) to investigate the allegations relating to the requested areas at the City Controller Office. This is the fifth of five reports to be issued to the City of Compton.

Principal Results

Concern Investigated: Loans to Johnson Control for \$4 million in 2008 were not recorded in the City's financial statements.

Finding: There were no loans made to Johnson Control for \$4 million in 2008.

Analysis: We reviewed the City's contract with Johnson Control and the City Council's Resolution No. 21,976. The City paid Johnson Control \$3,919,995 during fiscal years 2007 to 2008 to implement its Citywide Energy Retrofit/Revenue Enhancement Performance Contracting Program (Energy Retrofit Program) in accordance with California Government Code Section 4217. To fund this Energy Retrofit Program, the City entered into a mortgage loan agreement for \$4,012,184 with Citimortgage on July 31, 2006 as authorized by Council's Resolution No. 22,051. Both payments to Johnson Control and drawdown of loans from Citimortgage were properly recorded in the City's financial statements.

Concern Investigated: Purchase of land in the amount of \$5.3 million was not recorded in the City's financial statements.

Finding: Purchase of land in the amount of \$5.3 million was recorded in the financial statements of the City and the Community Redevelopment Agency of the City of Compton (Agency).

Analysis: The Urban Community Development Commission's (UCDC) Resolution No. 1,778 authorized the sales to the City for properties commonly known as Burrell-McDonald Park, Tragniew Park, South Park, and Raymond Street Park (Land) in the amount of \$5,328,000 for the continuous use as park and recreational space. The Land was previously recorded as land held for resale in the Low/Moderate Income Housing Capital Projects Fund. After the City's purchase, the Land was recorded by the City's as land in its capital assets and a due to/due from in the General and the Agency's funds in the amount of \$5,328,000 at June 30, 2010.

Concern Investigated: Contributions to the Public Employee Retirement System (PERS) were not appropriately calculated for the fiscal period ended June 30, 2011.

Finding: Based on review of the payroll register and the PERS allocation report, PERS contributions were calculated correctly for specified period in question. However, we noted that PERS contributions were not paid in a timely manner.

Analysis: We reviewed the payroll register for the pay period ending August 28, 2010 from Automatic Data Processing, Inc. (ADP) and the PERS allocation report for the same pay period prepared by the City to determine the accuracy of calculation of PERS contributions for both miscellaneous and safety plans. We reviewed earnings used to calculate PERS contributions in the payroll register and noted that they are limited to regular pay, sick pay, retro pay, disability pay, vacation pay, Public Employee Retirement leave (PER LV), other pay, and bilingual pay. To determine reasonableness of the annual PERS contributions, we annualized those earnings and

multiplied them with contribution rates of 17.993% for miscellaneous plan and 46.182% for safety plan. We also included \$2.9 million of PERS contribution for Police Department that was disbanded in 2000 into our calculation of PERS contribution for safety plan. We compared the results of our calculation of PERS contribution for both plans to the Employer Contribution to Pension Plan reported in the City's financial statements for the year ended June 30, 2011 and noted only minor insignificant variances. We noted PERS contributions in the amount of \$310,096 for the year ended June 30, 2011 were not remitted to California Public Employees' Retirement System (CalPERS) until November 30, 2011 due to cash flows restrictions.

The delay in remittance of contributions to CalPERS also occurred in fiscal year 2012-13. On August 28, 2012, the City received a demand letter from CalPERS to pay past due contributions in the amount of \$3,644,508.24 by September 10, 2012. The City failed to meet this demand resulted in CalPERS filed complaints against the City. Subsequently, CalPERS dismissed the complaints filed against the City on January 14, 2013.

Concern Investigated: The City was not delaying payments to vendors due to cash flows restrictions.

Findings:

1. Per review of the canceled checks for CalPERS, we noted one (1) check that was held by the City Treasurer and subsequently cleared from the bank on November 30, 2011 (see chart below).
2. Per review of the canceled checks for Los Angeles County Sheriff's Department (LA County Sheriff), we noted that all three (3) checks reviewed were cleared from the bank on September 30, 2011 and November 30, 2011 (see chart below).

	Amount	Original Issue Date	Clearance Date
CalPERS	\$ 310,096.18	6/30/2011	11/30/2011
LA County Sheriff	1,414,998.59	5/10/2011	09/30/2011
LA County Sheriff	1,414,998.59	6/30/2011	11/30/2011
LA County Sheriff	1,414,998.59	6/30/2011	11/30/2011

Based on our inquiry with the City Controller, the delay in payments was due to lack of sufficient money in the funds to pay for obligations.

Analysis: Accounts payable is processed by batch in the accounting department. The batch is processed based on the clock-in date. After the batch is processed, two warrants are printed from the system. The first warrant is a pink copy which is signed by the City Manager and

scanned into the accounting system for filing purposes. The actual warrant is submitted to the City Controller for signature. After the City Controller signs the actual warrant, the warrant is submitted to the City Treasurer for final signature. The City Treasurer will sign and mail the actual warrant. The City Treasurer will pay the warrant out of the funds designated, if there is sufficient money in the fund for that purpose. Per the City's charter dated June 5, 2012, a warrant not paid for lack of funds needs to be registered. All registered warrants will be paid in the order of their registration when the funds are available.

We performed the following procedures:

1. Interviewed the Accounts Payable Supervisor regarding their procedures for paying accounts payable.
2. Agreed accounts payable balance for fiscal year 2011 to the June 30, 2011 financial statements.
3. Selected two (2) vendors with highest accounts payable outstanding for fiscal year 2011 which was CalPERS and the LA County Sheriff to determine when the payables were actually paid by reviewing the cancelled checks.
4. Inquired the appropriate personnel for the reason for delay in payments.

Recommendation: We recommend the City to more effectively control and manage cash to ensure payables are paid in timely manner by implementing the following procedures:

- Cash flow analysis should be prepared and reviewed periodically by management.
- Immediate and long-term cash needs should be forecasted and updated periodically based upon management's review and changing conditions.
- Obtain financing to address a temporary cash flows issue, if needed.

Concern Investigated: The Water Fund paid for salary and retirement benefit expenses that were incurred for benefit of the General Fund.

Finding: Based on the procedures performed, we concluded that the Water Fund did not pay for salary and retirement benefit expenses that were incurred for benefit of the General Fund.

Analysis: Water Fund is one of the City's enterprise funds and does not have a separate bank account. The monies are commingling with the General fund. All expenses are charged directly to the Water Fund and paid for out of the General Checking Account in the General Fund. If expenses paid pertain to the Water Fund, the accounting department would post a journal entry which would credit due to/due from and claim on cash accounts. Based on due to/from and claim on cash balances, the Water Fund would reimburse the General Fund for its expenses.

We performed the following procedures:

1. Interviewed appropriate personnel regarding their procedures for accounting the Water Fund related expenses.
2. Reviewed the staff allocation and PERS allocation report to determine if salary and retirement benefit expenses were charged directly to the Water Fund.

Objective

The objectives of the review were to determine the following:

Loans to Johnson Control

1. If loans to Johnson Control for \$4 million in 2008 were not recorded in the City's financial statements.

Purchase of \$5.3 Million Land

2. If the \$5.3 million purchase of the Land was not recorded in the City's financial statements.

PERS Contributions

3. If PERS contributions were not appropriately calculated.

Accounts Payable

4. If the City was not delaying payments to vendors due to cash flows restrictions.

Allocation of Cost to Water Fund

5. If the Water Fund paid for salary and retirement benefit expenses that were incurred for benefit of the General Fund.

Scope

The scope of this review included the period from July 1, 2010 through June 30, 2011, except, for the loans to Johnson Control in 2008 and purchase of \$5.3 million land in 2010.

Methodology

To conduct this review we:

- Interviewed the staffs in the Controller Office Finance Department to obtain understanding of the City policies and procedures related to journal entries.
- Reviewed contracts and payments made to Johnson Control as well as the related City Council's resolution.

- Reviewed the journal entry related to the purchase of Land, the Agency's financial statements for the year ended June 30, 2010 and the related UCDC's resolution.
- Reviewed PERS allocation report and the related payroll register.
- Reviewed the detail list of accounts payable as well as cancelled checks for selected payables.
- Reviewed the City's general ledger for the year ended June 30, 2011.
- Reviewed the staff allocation report for salary expenses allocated to the Water Fund.

Figure 1.0: Interviews Performed with City of Compton Personnel

Employee Name	Position
Stephen Ajobiewe	City Controller
Austin Okonta	Accountant 2
Barbara Rumbaoa	Senior Accountant
Illika Lewis	Accounts Payable Supervisor
Jamille Benabe	Accountant
Jesenia Sanchez	Payroll Supervisor
Jocelyn Logan	Accountant

We conducted our work in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Management Response

The City has commenced preparation of cash flow statements to track cash available and to monitor future cash flow needs. The City Management reviews the cash flow statement every month and includes the cash flow analysis in the quarterly financial report presented to the City Council. Further, the City has finalized the issuance of a temporary financing instrument called Tax and Revenues Anticipation Notes (TRANS) to bridge cash flow gap and ensure that the City pays all its bills on time. It is anticipated that, henceforth, the TRANS will be issued at the beginning of the fiscal year to cover expenditures between July and November of each fiscal year and that the TRANS would be repaid from the revenues collected in the second half of the fiscal year (i.e. January to June).



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April 26, 2013

Mr. G. Harold Duffey
City Manager
City of Compton
205 S. Willowbrook Avenue
Compton, CA 90220

Dear Mr. Duffey,

On October 29, 2012, our firm was hired by the City of Compton to conduct a series of performance audits, including responding to a concern raised by the Mayor about the controls over the handling of cash by staff of the Department of Building & Safety. Our review determined that the Department does not accept cash payments for any of its services. If cash is brought to their office, staff directs customers to immediately take any cash payments to the City Treasurer's Office, which is located directly across the hall from the Department at City Hall. Some checks are mailed to the Department and are physically carried by staff to the Treasurer's office.

As a general rule, the Building & Safety Department's building inspection staff recognizes that they may from time to time be offered cash payments as incentives to ignore building code violations. While we did not find evidence that City inspectors accepted any cash payments, we propose recommendations aimed at improving internal controls for employees interacting with the public in a compliance role. We also propose a recommendation aimed at reducing the number of checks mailed directly to the Department.

After commencing our work, the City Treasurer expressed concern that cash handling controls in the City's Parks and Recreation Department may be weak and not operating as intended. After discussions with you, we agreed to review and conduct limited testing of controls over the collection and deposit of cash receipts for Parks and Recreation activities such as the City pools, the golf course, senior citizens programs and sports teams. Our brief review found that each activity has procedures designed to control cash receipts, including daily reconciliation and deposits with oversight by Parks and Recreation managers and the City Treasurer's Office. We tested the process to determine if the established procedures were being followed and found no discrepancies.

We thank City staff involved in this audit for their assistance and cooperation.

Sincerely,

Macias Gini & O'Connell LLP

Macias Gini & O'Connell LLP

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San Diego
CA 92101



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Investigation of Allegations Regarding the Controls over the Handling of Cash by the Department of Building & Safety and the Department of Parks and Recreation

Background

During a meeting between MGO and the Mayor, a number of concerns were expressed, including how well the Department of Building & Safety and the Department of Parks and Recreation controls cash payments received from citizens.

Principal Results

Concern Investigated: How well controlled are cash payments received by staff of the Department of Building & Safety.

Finding: The policy of the City is that no cash can be received by Building Department staff for any reason. Checks, however, are sometimes mailed directly to the Building Department, usually by realtors, related to inspections required for the sale or exchange of residential properties. Staff estimates they receive 8-10 checks of this type per month. We found no evidence that cash is allowed to be handled by any of the Building Department's staff other than the checks mailed directly from customers. Additionally, we found no evidence that inspectors are receiving cash for any reason, including incentives for overlooking building violations.

Analysis: City policy requires all cash should be directed to the Office of the City Treasurer. With regard to checks, there is no guidance either on the Department's forms or on the City's website regarding where to send payments. Most customers are encouraged to pay permit fees in person at City Hall.

The Building Department's chief building inspector said some citizens have occasionally attempted to influence inspectors by offering cash incentives. While we found no evidence that inspectors accepted such payments, the presence of these influences is a factor that the City must consider in managing the building inspection process. This would include formalizing the process of investigating employee misconduct or attempted influence peddling, which is now done on an informal basis by the chief building inspector. We interviewed building inspectors who confirmed that they were offered and refused cash by contractors and homeowners. The chief building inspector said that he has received allegations that his inspectors have accepted cash, but he said to date none of the allegations proved to be true. The chief building inspector said that he investigates any allegation, but he said that he would greatly benefit from training on how to carry out and document such investigations.

We agree that additional training and periodic ethics certification could lead to improving the Building Department's internal control environment. Presently, only the chief building inspector is required to attend ethics training. Additionally, an important internal control in any enterprise is to allow for input from citizens who may become aware of improprieties. Currently, the Building Department is not listed on the City website's "City Hall @ Your Service" link. The City should consider adding the Building Department to the link as a means for citizens to report suspected fraud, waste or abuse.

Recommendation 1:

To reduce the number of checks received by the Building Department, it is recommended that the forms be amended to direct any mail in payments to the City Treasurer's Office. This information could also be included on the City's website. Currently there is no information on the website about how to pay permit fees. Clarifying this information would be helpful to the public and likely would result in fewer checks being mailed directly to the Building Department.

Recommendation 2

It is recommended that all inspectors in the Building Department undergo ethics certification at least every two years. There are many on-line ethics training programs that can be procured at reasonable cost.

Recommendation 3

We recommend training be provided to the chief building inspector on conducting investigations of employee misconduct and/or suspected influence peddling.

Recommendation 4

To provide a convenient conduit for public input, it is recommended that the City's website link, "City Hall @ Your Service", be modified to include the Building Department in the drop box of City agencies included in the link. This could be used by the public to report suspected abuses by or toward City inspectors.

Concern Investigated: How well controlled is the receipt and deposit of cash by City staff in the Department of Parks and Recreation.

Finding: After limited testing, it appears that procedures are in place and are being followed to ensure timely and accurate accounting and deposit of cash receipts by staff of the Department of Parks and Recreation.

Analysis: The Department of Parks and Recreation receives cash from four primary sources: the golf course, pools, senior citizen programs and sports teams. Each area has procedures for counting, reporting and depositing cash explained as follows:

--Golf Course: The cash receipts are reported and deposited daily by the golf pro. He compiles the cash register tapes and fills out a cash report with the cash sorted by denomination and placed in a special locking cash bag. The bag and the cash report are picked up daily by the City's security service and brought to the City Treasurer's Office. We reviewed the transactions for three randomly selected days and found that the procedures had been properly followed.

--City Pools: The daily cash receipts are compiled by a pool manager on a cash report sheet, which is signed and taken daily to the Parks & Recreation Office at the Dollarhide Senior Center. The money is counted and verified by a second manager who signs off. The cash receipts are then hand carried to the City Treasurer's Office for deposit. A receipt is provided upon delivery. (The only exception to this is on weekends when the receipts are locked in the Dollarhide office until Monday when they are taken to the City Treasurer's Office for deposit.) We reviewed the cash report sheet and deposit receipts for three randomly selected days from June 2012 when the pools were open. No discrepancies were noted.

--Senior citizen programs and sports teams: The Parks and Recreation Department does not accept cash for either the senior citizen programs or sports team fees. Only cashiers' checks or money orders are accepted for payment. These receipts are recorded on the Report of Cash Receipts form, bundled and signed off by office staff. The cashiers' checks and money orders are hand carried daily to the City Treasurer's Office. We randomly selected three days to determine if the established procedures had been followed. No discrepancies were noted.

Objective

The objective of the performance audit is to determine how the Department of Building and Safety and the Department of Parks and Recreation control cash. This includes determining the extent to which the Departments have instituted and apply controls for the receipt and handling of cash payments.

Scope

The scope of this performance audit included the period from July 1, 2011 through June 30, 2012.

Methodology

To conduct this performance audit, we:

- Interviewed City staff in the City Manager's Office, the Department of Building & Safety the Department of Parks and Recreation, and the City Treasurer's Office.

- Reviewed Department and City Treasurer policies regarding the receipt of cash and checks.
- Obtained all Building Department forms used to calculate and collect permit fees.
- Obtained and randomly tested documentation related to the receipt and deposit of cash for all Department of Parks and Recreation services where cash is handled by staff.
- Reviewed the City's website relative to Department of Building and Safety policies and instructions.

Figure 1.0: Interviews Performed with City of Compton Personnel

Employee Name	Position
G. Harold Duffey	City Manager
Terrance Davis	Assistant City Manager
Stephen Ajobiewe	City Controller
Victor Orozco	Interim Chief Building Inspector
Charles Scott	Supervisory Building Inspector
Reinaldo Cabrera	Building Inspector
Douglas Sanders	City Treasurer
Claudia Mijares	Chief Deputy Treasurer
Salvador Galvan	Deputy Treasurer
Daisy Mayorga	Secretary, Treasurer's Office
Gary Durant	Mail Clerk, Department of Building & Safety
Marvin Hunt	Interim Director, Department of Parks and Recreation
Anthony Cartwright	Recreation Supervisor, Dollarhide Senior Center
Pamela Coleman	Accounting Technician, Dollarhide Senior Center
Willie Forge	Golf Professional, Compton Golf Course

We conducted our work in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We provided a draft report to the City Manager who had no comments.



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April 26, 2013

Mr. G. Harold Duffey
City Manager
City of Compton
205 S. Willowbrook Avenue
Compton, CA 90220

Dear Mr. Duffey,

On October 29, 2012, our firm was hired by the City of Compton to conduct a series of performance audits, including responding to concerns raised by the Mayor about the City's management of its self-insurance programs, specifically the adequacy of controls over payments for workers' compensation, the use and control of paid administrative leave and the appropriateness of benefit packages granted to full and part-time employees.

We found that workers' compensation payments were well controlled and documented. We also found no evidence that administrative leave is used inappropriately that would result in numerous employees remaining on paid leave for excessive periods. We observed, however, that the City has published very little criteria over the use and management of paid leave and we recommend that the City's Personnel Rules and Regulations be amended to provide more specific guidance on this topic for City management. We also observed that the Personnel Rules and Regulations have not been updated and revised in over 30 years. Additionally, we found no evidence that part-time employees are receiving exactly the same benefit package as full-time employees.

We thank City staff involved in this audit for their assistance and cooperation.

Sincerely,

Macias Gini & O'Connell LLP

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Investigation of Allegations Regarding the Controls over the Payment of Workers' Compensation Claims, Use of Administrative Leave; and Matching Benefit Packages to Position Classifications.

Background

During a meeting between MGO and the Mayor, a number of concerns were expressed, including how accurately claims are paid by the City for its workers' compensation program; if the City was properly managing the use and application of administrative leave; and if the City was appropriately matching the benefits packages to classified position descriptions.

Principal Results

Concern Investigated: The process of paying workers' compensations claims is not well controlled by the City.

Finding: The City's process for paying workers' compensation claims is well controlled and documented. This was confirmed through observations and testing of actual transactions, which confirmed the accuracy and validity of the payments. In addition, State auditors have twice reviewed the program since 2011 and found no significant discrepancies. The payment process has been strengthened significantly since 2009 when the City brought suit against a former City employee and several medical providers for submitting false billings. That suit resulted in a finding for the City of over \$3 million.

Analysis: The workers' compensation program is managed within the City Attorney's Office by the Risk Manager who supervises two staff--the workers' compensation claims coordinator and the workers' compensation claims examiner. The program is administered using IVOS software. The IVOS application provides claims management, medical bill review, case management, billing, events management, risk management and other related insurance functions, critical to the City's workers' compensation program.

The City's workers' compensation program has been the focus of two recent audits by the Audit Unit of the California Department of Industrial Relations, Division of Workers' Compensation. One audit was a profile audit review, which focused on the accuracy and timeliness of claim payments. The second audit examined the level of medical care provided to claimants. In both audits the City received high marks. This audit focused on the adequacy of controls within the payment process, which in fiscal year 2010/2011 processed claim payments totaling \$1.457 million.

#2.

We found a strong separation of duties existed within the payment module of iVOS. Only two individuals—the claims coordinator and the claims examiner can create claims payments in iVOS. We also observed that each invoice for medical care was reviewed by a Medical Pricing vendor who determines if the medical services are properly priced. These reviews usually result in reducing the claim amounts. After the invoice has been reviewed by this vendor, a payment is processed. Once created, invoice payments must then be approved by the Risk Manager. Backup for the Risk Manager is provided by the IT manager. Checks are printed out once approved; however, each check must be reviewed by the City Manager and signed by both the City Controller and the City Treasurer or their backups before being released. We confirmed and tested these roles in iVOS with no deficiencies noted. After confirming that controls were in place, we tested 25 claims paid out over a two year period to determine if the controls in place were applied to actual payments. We matched all supporting documents with the amount paid and ensured all controls over the payment process were actually applied in each of the sampled transactions. We found no discrepancies in our sample.

Concern Investigated: Administrative leave is not properly controlled, which leads to granting paid leave to individuals for excessive periods of time.

Finding: We found no evidence that the City is not properly managing administrative leave since this leave is used infrequently and there is almost no written criteria covering its use.

Analysis: Administrative leave, or a paid leave of absence, as it is referred to in the City's Personnel Rules and Regulations is granted when it is determined by the City Manager that it is a danger to the employee, the City, or both to have the employee on the job. Usually the employee put on administrative leave has been suspected of not following employment rules and/or engaging in some kind of illegal activity. The employee is instructed not to report for work and receives full salary and benefits until the case is fully investigated and resolved. The City Manager then makes the final decision to either terminate the employee or return the employee to City service.

We obtained data from the last two fiscal years of individuals put on administrative leave. There were four cases where individuals were put on paid administrative leave. One case went on for over a year before the employee was terminated. The City Manager said that this case was complicated and involved suspected criminal activity, which is still under investigation by law enforcement. He said that each case is unique and the City cannot make a termination decision until the case is fully investigated, which can take a long period of time. The remaining three cases resulted in terminations and were resolved in a reasonable period of time.

We found that the City's Personnel Rules and Regulations manual only briefly mentions administrative leave. There are no criteria on how long an employee can remain on administrative leave. We researched other cities and found that their regulations provide a much more detailed definition of the types of administrative leave and puts limits on the time an individual can remain on administrative leave.

The lack of criteria in the City's Personnel Rules and Regulations is further exacerbated by the fact that the guidance we were provided had not been updated since 1979. We noted a number of items in the guidance that were in need of updated information. For example, in the order of separation in Section 8.3A there was a reference to employees covered by the Comprehensive Education and Training Act (CETA) of 1973. CETA expired in 1982 and has subsequently been replaced by new programs multiple times over the years.

Recommendation 1: We recommend that the City develop specific criteria for the use and oversight of administrative leave.

Recommendation 2: We recommend that the City review and update its entire Personnel Rules and Regulations manual.

Concern Investigated: Part-time employees are receiving full-time benefits

Finding: After testing, we found no evidence that part-time employees are receiving all full-time benefits.

Analysis: According to City personnel regulations, part-time employees have a longer waiting period but can receive many of the same benefits that full-time employees receive, such as health and life insurance. However, there are some differences, which include vacation, sick and holiday leave accumulation rates. We tested these rates for a sample of part-time employees and found no discrepancies from City policy.

Objectives

The objectives of the performance audit were to determine (1) how the City controls payments made to claimants in the Worker's Compensation Program, (2) how the City manages the use of administrative leave, and (3) if part-time workers receive the same benefits as full-time workers.

Scope

The scope of this performance audit included the period from July 1, 2010 through June 30, 2011.

Methodology

To conduct this performance audit, we:

- Interviewed staff in the City Manager's Office, the City Attorney's Office, the Information Technology Office and the City Controller's Office.

- Reviewed City Treasurer policies regarding the payment of workers' compensation invoices and other obligations.
- Obtained and reviewed data relative to the payment of workers' compensation claims.
- Reviewed the IVOS application used by the City to manage its workers' compensation program.
- Reviewed audit reports from the California Department of Industrial Relations, Division of Workers' Compensation.
- Reviewed press articles regarding the City's lawsuit against individuals for submitting false workers' compensation claims.
- Reviewed the process for granting and controlling Administrative Leave.
- Obtained data on the number of employees put on Administrative Leave in the last two fiscal years.
- Reviewed the City's regulations covering employee benefit packages.
- Tested part-time employees' annual, sick and holiday leave accumulation rates.

Figure 1.0: Interviews Performed with City of Compton Personnel

Employee Name	Position
G. Harold Duffey	City Manager
Terrance Davis	Assistant City Manager
Monica Turner	Risk Manager
Desmond Fletcher	Workers' Compensation Claims Coordinator
Dara Hill	Workers' Compensation Claims Examiner
Russell Lieng	IT Manager
Stephen Ajobiewe	City Controller
Sherl Eaton	Human Resources Analyst
Shawna Holmquist	Human Resources Specialist
Jesenia Sanchez	Payroll Supervisor

We conducted our work in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We provided a draft report to the City Manager who had no comments.



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February 18, 2013

Mr. G. Harold Duffey
City Manager
City of Compton
205 S. Willowbrook Avenue
Compton, CA 90220

Dear Mr. Duffey,

On October 29, 2012, our firm was hired by the City of Compton to conduct a series of reviews, including responding to a concern raised by the Mayor about the City activities and budgeting for the re-hiring of retired public employees, generally referred to as re-employed annuitants. We have completed our examination of this concern and found no evidence of inappropriate actions by the City. Although the City does not specifically plan or budget for the hiring of re-employed annuitants, the City hires them the same as any other qualified applicant when filling short-term or interim appointments. During the period under review, the City hired three reemployed annuitants, two of which were previously employed by other jurisdictions upon retirement and are currently filling interim high level positions in City government. Based on our review, the individuals filling these positions are fully qualified and will only serve until the positions are permanently staffed. CalPERS regulations permit reemployed annuitants to work a maximum of 960 hours per year.

We thank City staff involved in this audit for their assistance and cooperation.

Sincerely,

Macias Fini & O'Connell LLP

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225 Broadway
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Investigation of Allegations Regarding Planning and Budgeting for the Hiring of Retired City Employees

Background

During a meeting between MGO and the Mayor, a number of concerns were expressed, including how the City of Compton (City) plans for and budgets the hiring of retired public employees. This topic is the central focus of this review.

Principal Results

Concern Investigated: How and to what extent, does the City hire previously retired public employees?

Finding: The City hires few retired public employees (reemployed annuitants). Since July 1, 2010, the City has only hired three reemployed annuitants. Currently, there are two reemployed annuitants on staff--the Interim Director of Public Works/City Engineer and Interim Director of General Services.

Analysis: According to City HR regulations, qualified reemployed annuitants can apply for any temporary or interim appointment, which is defined as "a nonpermanent appointment to a position that is temporarily vacant or the work is of seasonal or short duration."

Further, interim appointments are usually made when a critical position is vacant and there is "no eligibility list from which a position may be filled." City guidance also states that the applicant must meet the minimum qualifications for the position and shall continue only until "eligibles are available from an appropriate employment list." Additionally, an interim appointment "shall not exceed 6 months full-time duty or its equivalent in part-time duty."

We reviewed the backgrounds of the two individuals currently occupying interim appointments and found their education and experience more than meets the minimum qualifications of the two positions.

CalPERS issues guidance on the hiring of reemployed annuitants. The guidance clearly states that the appointment cannot exceed 960 hours of service. CalPERS will periodically monitor its retirees for compliance with this requirement. The City reminds each reemployed annuitant of this requirement upon appointment and is periodically informed of their current hour balance on each payday.

In terms of planning for filling such positions with reemployed annuitants, City officials stressed that all applicants for temporary or interim appointments are treated equally with no regard as to whether the applicant is retired. The primary focus is the applicant's qualifications, according to officials. Our work verified that reemployed annuitants were well qualified for the interim positions that the City was seeking to fill. The advantage to the City in using a reemployed annuitant is the savings of not having to pay health benefits, since reemployed annuitants already receive these benefits as part of the CalPERS retirement package.

Objective

The objective of the review is to determine how the City plans and budgets for the re-hiring of retired public positions into City positions. This includes determining the extent to which the City has hired this class of employees and how these appointments fit into the City's Human Resources (HR) process.

Scope

The scope of this review included the period from July 1, 2010 through June 30, 2011.

Methodology

To conduct this review, we:

- Interviewed City staff in Human Resources and Finance.
- Reviewed City policies for employee selection, appointment and advancement.
- Obtained data on the number of reemployed annuitants hired during the period under review.
- Reviewed California Public Employees' Retirement System (CalPERS) guidance on the hiring of retired employees.
- Reviewed the position descriptions and qualifications of reemployed annuitants currently filling City positions.

Figure 1.0: Interviews Performed with City of Compton Personnel

Employee Name	Position
Terrance Davis	Assistant City Manager
Shawna Holmquist	Human Resources Specialist
Stephen Ajobiewe	City Controller
Jesenia Sanchez	Payroll Supervisor

We conducted our work in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings

#2.

and conclusions based on our audit objectives. A draft report was provided to the Office of the City Manager and comments were incorporated into this report as appropriate.

ATTACHMENT

III



JOHN CHIANG

California State Controller

February 12, 2013

Director of Finance
City of Compton
205 South Willowbrook Avenue
Compton, CA 90220

Re: 2010-11 Fiscal Year Single Audit Report Certification and Audit Finding Resolution

We completed a desk review of your single audit report for the year ended June 30, 2011. We determined that the report meets the requirements of the United States Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, prescribes the audit and reporting standards for state and local governments that expend federal awards.

OMB Circular A-133 requires federal and state funding agencies to resolve any audit findings cited in the report that may affect federal award programs. The attachment to this letter identifies those findings that require resolution. The findings are referenced by enclosure and page number.

OMB Circular A-133 also requires pass-through state agencies to follow up on the resolution of findings that affect federal programs administered by these agencies. The state agency referenced in the attachment will be in contact to follow up on the resolution of the applicable findings.

The State Controller's Office is responsible for resolving most cross-cutting findings or audit leads. A cross-cutting finding is one that affects the programs of more than one agency. If cross-cutting findings are identified in your report, our office will contact you. An audit lead is a specific issue identified in your report that may require additional investigation by federal or state agencies. Federal or state agencies may ask you to provide additional information related to the audit lead.

Your audit report may also contain general internal control findings not referenced in the attachment to this letter. These findings do not appear to affect the federal award programs. Therefore, we have not identified them for resolution action; however, you should ensure that your audit report for the 2011-12 fiscal year addresses the resolution of these findings.

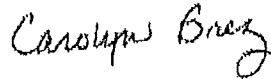
MAILING ADDRESS P.O. Box 942850, Sacramento, CA 94250-5874
SACRAMENTO 3301 C Street, Suite 700, Sacramento, CA 95816 (916) 324-8907
LOS ANGELES 600 Corporate Pointe, Suite 1000, Culver City, CA 90230 (310) 342-5656

Director of Finance
February 12, 2013
Page 2

Your audit satisfies all financial and compliance audit requirements under individual federal award programs. This does not preclude state and federal agencies from making any additional audits that are necessary to carry out their responsibilities under federal laws and regulations. State and federal agencies may contact you to arrange for additional audits.

If you have any questions regarding this letter or any other single audit issue, please contact a member of my Single Audits staff by telephone at (916) 324-6442 or by email at singleaudits@sco.ca.gov.

Sincerely,



CAROLYN BAEZ, Chief
Financial Audits Bureau
Division of Audits

Attachment

cc: State Funding Agencies
Mayer Hoffinan McCann P.C.

RESOLUTION SIGN-OFF FORM

DEPARTMENT: City Attorney

RESOLUTION TITLE: COUNCIL RECEIPT AND FILE - AUDIT FINDINGS FROM CPA FIRM MACIAS GINI & O’CONNELL LLP REGARDING CLAIMS OF WASTE, FRAUD AND ABUSE DURING 2010-2011 FISCAL YEAR.

Ruth Rugley
DEPARTMENT MANAGER’S SIGNATURE

5/8/2013 10:19:57 PM
DATE

REVIEW / APPROVAL

<LegalName>
CITY ATTORNEY

<LegalDate>
DATE

Stephen Ajobiewe
CITY CONTROLLER

5/9/2013 8:40:31 AM
DATE

G. Harold Duffey
CITY MANAGER

5/9/2013 7:44:33 AM
DATE

Use when:	
Public Works:	When contracting for Engineering Services.
City Attorney:	When contracting for legal services; contracts that require City Attorney’s review.
Controller/Budget Officer:	Amending Budget; appropriating and/or transferring funds; adding and/or deleting positions; any resolution having account numbers.
Asst. City Manager/OAS:	All personnel actions.

May 14, 2013

TO: MAYOR AND COUNCIL MEMBERS

FROM: GLEN W. C. KAU, P.E., INTERIM DIRECTOR OF PUBLIC WORKS/MUNICIPAL UTILITIES

SUBJECT: A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF COMPTON AUTHORIZING THE CITY MANAGER TO SPRINGBROOK SOFTWARE COMPANY TO PAY FOR CUSTOM UPGRADES TO THE UTILITY BILLING SOFTWARE

SUMMARY

This resolution authorizes the City Manager to issue a purchase order to the Springbrook Software Company, in the amount of \$34,030.14 (Thirty-Four Thousand, Thirty Dollars and Fourteen Cents) for updates/upgrades to the utility billing software.

BACKGROUND

The Water Department utilizes the services of Springbrook Software Company for the maintenance and technical support of the hardware and software for the utility billing system. To insure accurate and timely utility billing, regular system maintenance, service and updates/upgrades are required to achieve this.

Recent enhancements to the utility billing system included an upgrade to Version 7, which improved payment options, the cashiering system and to the work order system. This upgrade also provided for a better interface with the Controller's By-tech Accounting System. After the upgrades were completed, some of the user-specific features of the software had to be re-written to accommodate the department's needs.

STATEMENT OF THE ISSUE

The Department has invoices that need to be paid for the FY 2012-13. Invoices #0022588 thru #0023326 total to the amount of \$34,030.14 (Thirty-Four Thousand, Thirty Dollars and Fourteen Cents) for utility billing software upgrades and need to be paid.

ALTERNATIVE

If this resolution is not approved, the vendor (Springbrook) will cease to continue service and upgrades to the utility billing system. This will cause operational problems for the department to provide utility billings in an accurate and timely manner.

#3.

Springbrook Software

May 14, 2013

Page 2

FISCAL IMPACT

Adequate funds are available in the approved FY 2012-13 budget in account # 5000-890-000-4222 (Computer Software).

RECOMMENDATIONS

It is recommended that the Mayor and City Council authorize the City Manager to execute a purchase order to Springbrook in the amount of \$34,030.14 (Thirty-Four Thousand, Thirty Dollars and Fourteen Cents) for updates/upgrades to the utility billing software.

GLEN W. C. KAU, P.E.

INTERIM DIRECTOR OF PUBLIC WORKS/MUNICIPAL UTILITIES

APPROVED FOR FORWARDING:

G. HAROLD DUFFEY

CITY MANAGER

RESOLUTION NO. _____

**A RESOLUTION OF THE CITY COUNCIL OF THE
CITY OF COMPTON AUTHORIZING THE CITY
MANAGER TO ISSUE A PURCHASE ORDER TO
SPRINGBROOK SOFTWARE COMPANY TO PAY FOR
CUSTOM UPGRADES TO THE UTILITY BILLING
SOFTWARE**

WHEREAS, The Water Department utilizes the services of Springbrook Software Company for the maintenance and technical support of the software of the department’s utility billing system, and

WHEREAS, The continued effectiveness of the computer system depends on regular service, maintenance and support of the system software upgrades, and

WHEREAS, The Municipal Water Department has implemented the IVR system which allows customers to check their bill amount and pay their bills via the telephone; and

WHEREAS, The Municipal Water Department upgraded the Springbrook software to Version 7 in July 2012 which improved the payment options, cashiering system, work order system and provides better interface with the Controller’s By-tech Accounting System; and

WHEREAS, After the upgrades were completed, some of the user-specific features of the software had to be re-written to accommodate the department’s needs; and

WHEREAS, The Municipal Water Department has invoices that needs to paid for the custom re-writes and these invoices total the amount of \$34,030.14 (Thirty-Four Thousand, Thirty Dollars and Fourteen Cents); and

WHEREAS, Adequate funds for these expenditures are available in account 5000-890-000-4222 (Computer Software).

NOW, THEREFORE, THE CITY COUNCIL OF THE CITY OF COMPTON DOES HEREBY RESOLVE AS FOLLOWS:

SECTION 1. That the City Manager is authorizes to issue a purchase order to Springbrook Software Company in the amount of \$34,030.14 (Thirty-Four Thousand, Thirty Dollars and Fourteen Cents) to pay for Invoices #0022588 thru #0023326.

SECTION 2. That a copy of this resolution shall be filed in the offices of the City Manager, City Controller, City Clerk and Municipal Water Department.

SECTION 3. That the Mayor shall sign and the City Clerk shall attest to the adoption of this resolution.

ADOPTED this _____ day of _____, 2013.

MAYOR OF THE CITY OF COMPTON

RESOLUTION NO. _____
PAGE 2

ATTEST:

CITY CLERK OF THE CITY OF COMPTON

STATE OF CALIFORNIA
COUNTY OF LOS ANGELES
CITY OF COMPTON

I, Alita Godwin, City Clerk of the City of Compton, hereby certify that the foregoing resolution was adopted by the City Council, signed by the Mayor and attested by the City Clerk at a regular meeting thereof held on the _____ day of _____ 2013.

That said resolution was adopted by the following vote to wit:

AYES: COUNCIL MEMBERS-
NOES: COUNCIL MEMBERS-
ABSENT: COUNCIL MEMBERS-
ABSTAIN: COUNCIL MEMBERS-

CITY CLERK OF THE CITY OF COMPTON

RESOLUTION SIGN-OFF FORM

DEPARTMENT: Water Department

RESOLUTION TITLE: A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF COMPTON AUTHORIZING THE CITY MANAGER TO ISSUE A PURCHASE ORDER TO SPRINGBROOK SOFTWARE COMPANY TO PAY FOR CUSTOM UPGRADES TO THE UTILITY BILLING SOFTWARE

Tana McCoy
DEPARTMENT MANAGER’S SIGNATURE

4/24/2013 10:05:35 AM
DATE

REVIEW / APPROVAL

Craig Cornwell
CITY ATTORNEY

5/1/2013 7:29:29 PM
DATE

Stephen Ajobiewe
CITY CONTROLLER

5/1/2013 3:42:26 PM
DATE

G. Harold Duffey
CITY MANAGER

5/1/2013 2:47:13 PM
DATE

Use when:	
Public Works:	When contracting for Engineering Services.
City Attorney:	When contracting for legal services; contracts that require City Attorney’s review.
Controller/Budget Officer:	Amending Budget; appropriating and/or transferring funds; adding and/or deleting positions; any resolution having account numbers.
Asst. City Manager/OAS:	All personnel actions.

May 14, 2013

TO: HONORABLE MAYOR AND COUNCIL MEMBERS

FROM: CITY MANAGER

**RE: A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF COMPTON
AUTHORIZING THE CITY MANAGER TO ENTER INTO A CONTRACT
WITH THE CPA FIRM MACIAS GINI & O'CONNELL TO PROVIDE
INDEPENDENT CITY-WIDE AUDIT SERVICES FOR FISCAL YEAR 2011-
2012.**

SUMMARY

This Resolution will authorize the City Manager to enter into a contract with Macias Gini & O'Connell, a qualified CPA firm, to provide independent city-wide audit services for Fiscal Year 2011-2012.

BACKGROUND

The City hired Mayer Hoffman McCann P.C. to provide audit services for Fiscal Years 2009-2010, 2010-2011 and 2011-2012. During the 2010-2011 audit services, Mayer Hoffman McCann P.C.; based on an allegation of fraud, waste and abuse by the Mayor; issued a "disclaimer of opinion." The audit firm thereby refrained from issuing an audit opinion on all the City's financial statements, including reports and bond compliance certificates, and forwarded a letter to the City terminating its auditing contract with the City effective July 13, 2012.

The services of Macias, Gini & O'Connell LLP (MGO) were procured by the City Council on November 6, 2012, to address the accusation of waste, fraud and abuse of public monies. MGO determined that there was no evidence of waste, fraud and abuse and furthermore dispelled all allegations of impropriety within the alleged areas of concern. In all, 5 subject matter audits were completed by MGO to supplement the 2010/11 audit performed by Mayer Hoffman McCann. The City needs to complete its 2011/12 independent citywide audit, which is past due.

Staff Report – Authorize Contract with Macias Gini O’Connell
Independent City-wide Audit Services Fiscal Year 2011-2012
May 14, 2013, page 2

STATEMENT OF ISSUE

The Fiscal Year 2010-2011 audit was completed by Mayer Hoffman McCann in June 2012 and included a disclaimer of unanswered questions regarding waste, fraud and abuse. The City has answered those questions with the completion of the MGO audit. The City Manager’s office issued the Mayer Hoffman McCann report to City bond holders. The State Controller’s Office determined that the Mayer Hoffman McCann Audit (although it had a disclaimer) met all State and Federal Auditing guidelines.

It is imperative that the City re-engage MGO to conduct the Fiscal Year 2011-2012 independent citywide audit, which should have been completed approximately 6 months ago. The City should actually be preparing for the Fiscal Year 2012/13 independent citywide audit, as we approach the end of 2012/13 fiscal year.

FISCAL IMPACT

MGO’s proposal for this independent city-wide audit is for a sum not to exceed \$218,950.00. Funds for this general fund expenditure are available in the fiscal year 2012/2013 budget as follows:

<u>Account Number</u>	<u>Amount</u>
1001-650-000-4262	\$219,000.00
TOTAL	\$219,000.00

RECOMMENDATION

Staff recommends that the City Council adopt the attached Resolution.

G. HAROLD DUFFEY
CITY MANAGER

RESOLUTION NO. _____

**A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF COMPTON
AUTHORIZING THE CITY MANAGER TO ENTER INTO A CONTRACT WITH
THE CPA FIRM MACIAS GINI & O'CONNELL TO PROVIDE INDEPENDENT
CITY-WIDE AUDIT SERVICES FOR FISCAL YEAR 2011-2012.**

WHEREAS, Section 1419 of the City Charter of the City of Compton provides for employment of a qualified accountant at the beginning of each fiscal year, who at such time or times as may be specified by the City Council shall examine the books, records, inventories and reports of all offices and employees who receive, handle or disburse public funds and of such other offices, employees and departments as the City Council may direct; and

WHEREAS, an annual audit is also required to satisfy Federal legislation, state regulations, grants requirements, bonds covenants and other applicable regulations; and

WHEREAS, the City hired Mayer Hoffman McCann P.C. to provide audit services for Fiscal Years 2009-2010, 2010-2011 and 2011-2012, however during the 2010-2011 audit services, Mayer Hoffman McCann P.C.; based on an allegation of fraud, waste and abuse by the Mayor; issued a "disclaimer of opinion" and forwarded a letter to the City terminating its auditing contract with the City; and

WHEREAS, the services of Macias, Gini & O'Connell LLP (MGO) were procured by the City Council on November 6, 2012, to address the accusation of waste, fraud and abuse of public monies and MGO determined that there was no evidence of waste, fraud and abuse and furthermore dispelled all allegations of impropriety within the alleged areas of concern; and

WHEREAS, the City needs to complete its 2011/12 independent citywide audit, which is past due; and

WHEREAS, it is imperative that the City re-engage MGO to conduct the Fiscal Year 2011-2012 independent citywide audit, which should have been completed approximately 6 months ago; and

WHEREAS, MGO, a California certified public accounting firm has agreed to provide auditing services for the City of Compton to complete the Fiscal Year 2011-2012 independent citywide audit for a fee not to exceed \$218,950.00.

**NOW THEREFORE, THE CITY COUNCIL OF THE CITY OF COMPTON DOES
HEREBY RESOLVE AS FOLLOWS:**

SECTION 1. That the City Manager is hereby authorized to enter into an agreement with Certified Accounting Firm of Macias Gini O'Connell to provide independent citywide audit services for Fiscal Year 2011-2012 for a fee not-to-exceed \$219,000.00.

SECTION 2. That the term of the agreement shall be for a period of at least five (5) months.

Resolution No. _____
Page 2

SECTION 3. That funds are available in the fiscal year 2012/2013 budget as follows:

Account Number	Amount
1001-650-000-4262	\$219,000.00
TOTAL	\$219,000.00

SECTION 3. That a duly certified copy of the Resolution shall be filed with the offices of the City Manager, City Clerk, City Attorney and the City Controller.

SECTION 4. That the Mayor shall sign and the City Clerk shall attest to the adoption of this Resolution.

ADOPTED this ____ day of _____, 2013.

MAYOR OF THE CITY OF COMPTON

ATTEST:

CITY CLERK OF THE CITY OF COMPTON

STATE OF CALIFORNIA
COUNTY OF LOS ANGELES
CITY OF COMPTON: ss

I, Alita Godwin, City Clerk of the City of Compton, hereby certify that the foregoing Resolution was adopted by the City Council, signed by the Mayor, and attested by the City Clerk at a regular meeting thereof held on the ____ day of _____, 2013.

That said Resolution was adopted by the following vote:

AYES: COUNCIL MEMBERS -
NOES: COUNCIL MEMBERS -
ABSENT: COUNCIL MEMBERS -
ABSTAINS: COUNCIL MEMBERS -

CITY CLERK OF THE CITY OF COMPTON

RESOLUTION SIGN-OFF FORM

DEPARTMENT: City Attorney

RESOLUTION TITLE: A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF COMPTON AUTHORIZING THE CITY MANAGER TO ENTER INTO A CONTRACT WITH THE CPA FIRM MACIAS GINI & O’CONNELL TO PROVIDE INDEPENDENT CITY-WIDE AUDIT SERVICES FOR FISCAL YEAR 2011-2012

Ruth Rugley
DEPARTMENT MANAGER’S SIGNATURE

5/8/2013 10:20:10 PM
DATE

REVIEW / APPROVAL

Ruth Rugley
CITY ATTORNEY

5/9/2013 9:35:20 AM
DATE

Stephen Ajobiewe
CITY CONTROLLER

5/9/2013 8:55:03 AM
DATE

G. Harold Duffey
CITY MANAGER

5/9/2013 7:45:02 AM
DATE

Use when:	
Public Works:	When contracting for Engineering Services.
City Attorney:	When contracting for legal services; contracts that require City Attorney’s review.
Controller/Budget Officer:	Amending Budget; appropriating and/or transferring funds; adding and/or deleting positions; any resolution having account numbers.
Asst. City Manager/OAS:	All personnel actions.



Taking Pride in Our Communities

INVOICE

Urban Graffiti Enterprises Inc.

P.O. Box 2383 Covina, CA 91722

PH (626) 815-4900 FX (626) 815-4499

siannahs@urbangraffiti.com

TO: City of Compton
Attn: Harold Duffey
205 S. Willowbrook Ave.
Compton, CA. 90220

INVOICE DATE	P.O. NUMBER	PAYMENT TERMS	INVOICE #
03/30/2013		NET/30	COM1304

DESCRIPTION	QTY	UNIT PRICE	LINE TOTAL
Graffiti removal services various locations			
4/01/13 - 4/05/13 1 crew 1 weekly service day	1	\$425.00	\$425.00
4/08/13 - 4/12/13 1 crew 3 weekly service days	3	\$425.00	\$1,275.00
4/15/13 - 4/19/13 1 crew 3 weekly service days	3	\$425.00	\$1,275.00
4/22/13 - 4/26/13 1 crew 3 weekly service days	3	\$425.00	\$1,275.00
4/29/13 1 crew 1 weekly service days	1	\$425.00	\$425.00
		Total	\$4,675.00

Okay To Pay

Make all checks payable to Urban Graffiti Enterprises Inc.

Thank you for your business

Paid By	
V#	10004345
P.O. #	001243 F
A/C #	1061680000269
A/C #	

