

CITY OF EAST PALO ALTO  
EAST PALO ALTO, CALIFORNIA  
AUDIT REPORT ON  
FEDERAL FINANCIAL ASSISTANCE PROGRAMS  
YEARS ENDED JUNE 30, 1987 AND JUNE 30, 1986

MORRIS, DAVIS & COMPANY  
Certified Public Accountants

CITY OF EAST PALO ALTO  
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SUPPLEMENTAL INFORMATION SECTION



# MORRIS·DAVIS & COMPANY

Certified Public Accountants

City Council Members  
City of East Palo Alto, California

We have examined the general purpose financial statements of the City of East Palo Alto, California for the years ended June 30, 1987 and June 30, 1986, and have issued our report thereon dated July 29, 1988. Our examination of such general purpose financial statements was made in accordance with generally accepted auditing standards and the standards for financial and compliance audits contained in the Standards for Audit of Governmental Organizations, Programs, Activities, and Functions, issued by the U.S. General Accounting Office, and accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Our examination was made for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The accompanying Schedule of Federal Financial Assistance is presented for purposes of additional analysis and is not a required part of the general purpose financial statements. The information in that schedule has been subjected to the auditing procedures applied in the examination of the general purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

*Morris, Davis & Company*  
July 29, 1988

CITY OF EAST PALO ALTO  
 SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE  
 FOR THE YEARS ENDED JUNE 30, 1987 AND JUNE 30, 1986

1 9 8 7

<u>Federal Grantor/Pass Through Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Pass-Through Grantor's Number County's Board of Supervisor's Resolution Number</u>	<u>Grant Amount</u>	<u>Cash Accrued or Deferred Beginning of year</u>	<u>Receipts/Revenue Recognized</u>		<u>Total</u>
					<u>Prior year</u>	<u>This Year</u>	
<u>U.S. DEPARTMENT OF HUD</u>							
Passed Through County of San Mateo Community Development Block Grant	14.219						
Acquisition of Ravenswood High School Site (Note 2a)		48687	\$200,000	\$	\$1,000,000	\$ 200,000	\$1,200,000
<u>U.S. DEPARTMENT OF COMMERCE</u>							
Economic Development Administration	11.300	07-06-02885	35,000	4,705	20,295	14,705	35,000
<u>OFFICE OF REVENUE SHARING</u>							
Revenue Sharing	21.300		28,996		-	28,996	28,996
Total			<u>\$263,996</u>	<u>\$4,705</u>	<u>\$1,020,295</u>	<u>\$ 243,701</u>	<u>\$1,263,996</u>

See accompanying notes to supplementary information.

CITY OF EAST PALO ALTO  
 SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE  
 FOR THE YEARS ENDED JUNE 30, 1987 AND JUNE 30, 1986

1 9 8 6

Federal Grantor/Pass Through Grantor/Program Title	CFDA Number	Pass-Through Grantor's Number County's Board of Supervisor's Resolution Number	Grant Amount	Cash Accrued or Deferred Beginning of year	Receipts/Revenue Recognized		Total
					Prior year	This Year	
<u>U.S. DEPARTMENT OF HUD</u>							
Passed Through County of San Mateo Community Development Block Grant	14.219						
Redevelopment Program (Note 10-b)		46936	\$ 25,000	\$ -	\$ 4,600	\$ 19,593	\$ 24,193
East Palo Alto Recreation Center Gymnasium Renovation (Note 10-c)		46632	220,543	-	89,591	130,952	220,543
Acquisition of Ravenswood High School Site (Note 2-a)		47669	1,000,000	-	-	1,000,000	1,000,000
<u>U.S. DEPARTMENT OF COMMERCE</u>							
Economic Development Administration	11.300	07-06-02885	35,000	-	-	25,000	25,000
<u>OFFICE OF REVENUE SHARING</u>							
Revenue Sharing	21.300		55,441	-	-	55,441	55,441
Total			<u>\$1,335,984</u>	<u>\$ -</u>	<u>\$ 94,191</u>	<u>\$1,230,986</u>	<u>\$1,325,177</u>

See accompanying notes to supplementary information.

CITY OF EAST PALO ALTO  
 SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE  
 FOR THE YEARS ENDED JUNE 30, 1987 AND JUNE 30, 1986

1 9 8 7

<u>Federal Grantor/Pass Through Grantor/Program Title</u>	<u>Disbursements/Expenditures</u>			<u>Cash Accrued or Deferred Revenue End of Year</u>	<u>Questioned Costs</u>
	<u>Prior year</u>	<u>This Year</u>	<u>Total</u>		
<u>U.S. DEPARTMENT OF HUD</u>					
Passed Through County of San Mateo Community Development Block Grant					
Acquisition of Ravenswood High School Site (Note 2a)	\$1,000,000	\$ 200,000	\$1,200,000	\$	\$
<u>U.S. DEPARTMENT OF COMMERCE</u>					
Economic Development Administration		14,705	35,000		
<u>OFFICE OF REVENUE SHARING</u>					
Revenue Sharing		28,996	28,996		
Total	<u>\$1,000,000</u>	<u>\$ 243,701</u>	<u>\$1,263,996</u>	<u>\$ -</u>	<u>\$ -</u>

See accompanying notes to supplementary information.

CITY OF EAST PALO ALTO  
 SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE  
 FOR THE YEARS ENDED JUNE 30, 1987 AND JUNE 30, 1986

1 9 8 6

<u>Federal Grantor/Pass Through Grantor/Program Title</u>	<u>Disbursements/Expenditures</u>			<u>Cash Accrued or Deferred Revenue End of Year</u>	<u>Questioned Costs</u>
	<u>Prior year</u>	<u>This Year</u>	<u>Total</u>		
<u>U.S. DEPARTMENT OF HUD</u>					
Passed Through County of San Mateo Community Development Block Grant					
Redevelopment Program (Note 2c)	\$ 4,600	\$ 19,593	\$ 24,193	\$	\$
East Palo Alto Recreation Center Gymnasium Renovation (Note 2b)	89,591	130,952	220,543		
Acquisition of Ravenswood High School Site (Note 2a)	-	1,000,000	1,000,000		
<u>U.S. DEPARTMENT OF COMMERCE</u>					
Economic Development Administration	-	20,295	20,295	4,705	
<u>OFFICE OF REVENUE SHARING</u>					
Revenue Sharing	-	55,441	55,441		
Total	<u>\$ 94,191</u>	<u>\$1,226,281</u>	<u>\$1,320,472</u>	<u>\$4,705</u>	<u>\$ -</u>

See accompanying notes to supplementary information.



CITY OF EAST PALO ALTO  
 NOTES TO SUPPLEMENTAL INFORMATION  
 JUNE 30, 1985

NOTE 1 -SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE

OMB Circular A-128 requires a disclosure of the financial activities of all federally funded programs. To comply with federal requirements, this schedule was prepared.

NOTE 2 - COMMUNITY DEVELOPMENT BLOCK GRANT (CDBG)

a) Community Development Block Grant in the amount of \$1,831,000 was awarded to the City for the purchase of a Ravenswood High School District Site from it's present owner the Sequoia Union High School District.

The purchase price of \$1,831,000 payable in installments as follows was to be paid directly by the county to the Sequoia Union High School District and is to be covered by individual Board of Supervisor's resolutions.

<u>DUE DATE</u>	<u>AMOUNT</u>
December 31, 1985	\$1,000,000
December 31, 1986	200,000
December 31, 1987	200,000
December 31, 1988	200,000
December 31, 1989	231,000
	<u>\$1,831,000</u>

b) County of San Mateo Board of Supervisors Resolution No. 46632 awarded CDBG Funds to the City of East Palo Alto for the renovation of the East Palo Alto Recreation Center Gymnasium.

c) County of San Mateo Board of Supervisors Resolution No. 46936 awarded CDBG Funds to the City for redevelopment program and planning.



# MORRIS·DAVIS & COMPANY

Certified Public Accountants

City Council Members  
City of East Palo Alto, California

We have examined the general purpose financial statements of the City of East Palo Alto, California for the years ended June 30, 1987 and June 30, 1986, and have issued our report thereon dated July 29, 1988. Our examination was made in accordance with generally accepted auditing standards and the standards for financial and compliance audits contained in the Standards for Audit of Governmental Organizations, Programs, Activities, and Functions, issued by the U.S. General Accounting Office, and accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The management of the City of East Palo Alto is responsible for the City's compliance with laws and regulations. In connection with our examination referred to above, we selected and tested transactions and records to determine the City's compliance with laws and regulations noncompliance with which could have a material effect on the general purpose financial statements of the City.

The results of our test indicate that for the transactions tested, the City of East Palo Alto complied with those laws and regulations referred to above, except as described in the findings and recommendation section of this report. Those instances of noncompliance were considered by us in evaluating whether the general purpose financial statements were presented fairly in conformity with generally accepted accounting principles. With respect to the transactions not tested, nothing came to our attention to indicate that the City of East Palo Alto had not complied with laws and regulations other than those laws and regulations for which we noted violations in our testing referred to above.

*Morris, Davis & Company*  
July 29, 1988



# MORRIS·DAVIS & COMPANY

Certified Public Accountants

City Council Members  
City of East Palo Alto, California

We have examined the general purpose financial statements of the City of East Palo Alto for the years ended June 30, 1987 and June 30, 1986, and have issued our report thereon dated July 29, 1988. Our examination was made in accordance with generally accepted auditing standards; the standards for financial and compliance audits contained in the Standards for Audit of Governmental Organizations, Programs, Activities, and Functions, issued by the U.S. General Accounting Office; the Single Audit Act of 1984; and the provisions of OMB Circular A-128, Audits of State and Local Governments and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The management of the City of East Palo Alto is responsible for the City's compliance with laws and regulations. In connection with the examination referred to above, we selected and tested transactions and records from each major federal financial assistance program and certain nonmajor federal financial assistance programs. The purpose of our testing of transactions and records from those federal financial assistance programs was to obtain reasonable assurance that the City of East Palo Alto had, in all material respects, administered major programs, and executed the tested nonmajor program transactions, in compliance with laws and regulations, including those pertaining to financial reports and claims for advances and reimbursements, noncompliance with which we believe could have a material effect on the allowability of program expenditures.

Our testing of transactions and records selected from major federal financial assistance programs disclosed no instance of noncompliance with those laws and regulations.

In our opinion, the City of East Palo Alto, for the year ended June 30, 1987 and June 30, 1986, administered each of its major federal financial assistance programs in compliance, in all material respects, with laws and regulations, including those pertaining to financial reports and claims for advances and reimbursements, noncompliance with which we believe could have a material effect on the allowability of program expenditures.

The results of our testing of transactions and records selected for nonmajor federal financial assistance programs indicate that for the transactions and records tested the City of East

Palo Alto complied with the laws and regulations referred to in the second paragraph of our report except as noted in the findings and recommendations section of this report. Our testing was more limited than would be necessary to express an opinion on whether the City of East Palo Alto administered those programs in compliance in all material respects with those laws and regulations noncompliance with which we believe could have a material effect on the allowability of program expenditures; however, with respect to the transactions and records that were not tested by us, nothing came to our attention to indicate that the City of East Palo Alto had not complied with laws and regulations.

*Morris, Davis & Company*  
July 29, 1988



# MORRIS·DAVIS & COMPANY

Certified Public Accountants

City Council Members  
City of East Palo Alto, California

We have examined the general purpose financial statements of City of East Palo Alto for the years ended June 30, 1987 and June 30, 1986, and have issued our report thereon dated July 29, 1988. As part of our examination, we made a study and evaluation of the internal control systems, including applicable internal administrative controls, used in administering federal financial assistance programs to the extent we considered necessary to evaluate the systems as required by generally accepted auditing standards, the standards for financial and compliance audits contained in the Standards for Audit of Governmental Organizations, Programs, Activities, and Functions, issued by the U.S. General Accounting Office, the Single Audit Act of 1984, and the provisions of OMB Circular A-128, Audits of State and Local Governments. For the purpose of this report, we have classified the significant internal accounting controls used in administering federal financial assistance programs in the following categories:

A. Cycles of the City's Activity

- Revenue/receipts
- Purchases/disbursements
- External financial reporting

B. Financial Statement Captions

- Cash in Bank
- Receivables
- Investments
- Prepaid expenses
- Property and equipment
- Payables and accrued liabilities
- Deferred Revenue
- Fund Balance

C. Accounting Applications

- Billings
- Receivables
- Cash receipts
- Purchasing and receiving
- Accounts payable
- Cash disbursements
- Payroll
- Property and equipment
- General ledger

The management of the City of East Palo Alto is responsible for establishing and maintaining internal control systems used in administering federal financial assistance program. In fulfilling that responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of internal control systems used in administering federal financial assistance programs are to provide management with reasonable, but not absolute, assurance that, with respect to federal financial assistance programs, resource use is consistent with laws, regulations, and policies; resources are safeguarded against waste, loss, and misuse; and reliable data are obtained, maintained, and fairly disclosed in reports.

Because of inherent limitations in any system of internal accounting and administrative controls used in administering federal financial assistance program, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the systems to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

Our study included all of the applicable control categories listed above, except we did not evaluate the accounting controls over the general ledger because the City did not maintain a completed one during the years ended June 30, 1987 and June 30, 1986. During the years ended June 30, 1987 and June 30, 1986, the City of East Palo Alto expended 100% of its total federal financial assistance under major federal financial assistance programs. With respect to internal control systems used in administering major federal financial assistance programs, our study and evaluation included considering the types of errors and irregularities that could occur, determining the internal control procedures that should prevent or detect such errors and irregularities, determining whether the necessary procedures are prescribed and are being followed satisfactorily, and evaluating any weaknesses.

With respect to the internal control systems used solely in administering the nonmajor federal financial assistance programs of the City of East Palo Alto, our study and evaluation was not limited to a preliminary review of the systems to obtain an understanding of the control environment and the flow of transactions through the accounting system. Our study and evaluation of the internal control systems used solely in administering the nonmajor federal financial assistance programs of the City of East Palo Alto was extended beyond this preliminary review phase, whereby factors affecting study and evaluation of controls under major federal financial assistance programs were considered and applied.

Our study and evaluation was more limited than would be necessary to express an opinion on the internal control systems used in administering the federal financial assistance programs of the City of East Palo Alto. Accordingly, we do not express an opinion on the internal control systems used in administering the federal financial assistance programs of the City of East Palo Alto. Further, we do not express an opinion on the internal control systems used in administering the major federal financial assistance programs of the City of East Palo Alto.

Also, our examination, made in accordance with the standards mentioned above, would not necessarily disclose material weaknesses in the internal control systems used solely in administering nonmajor federal financial assistance programs.

However, our study and evaluation and our examination disclosed the following conditions that we believe result in more than a relatively low risk that errors or irregularities in amounts that would be material to a federal financial assistance program may occur and not be detected within a timely period.

- Records maintained by the City did not provide sufficient current financial information to serve as a basis in preparing required fiscal reports and guide the City's administration in formulating management decisions. Also, the accounting method used did not adhere in all cases to generally accepted accounting principles. Furthermore, the City did not maintain an updated and complete general ledger that contain complete records/information on financial activities and year end account balances.
- The City did not maintain a complete listing of equipment purchased during the year. In addition, equipment purchased was not properly tagged for identification/control and complete records were not maintained to show the person or persons accountable for the equipment.
- Inadequacy of internal control system over the use of credit cards issued to City officials.
- The City had no written investment policy and procedures to serve as an authorized basis for investment decisions.
- The cash management system and budgetary process was inadequate.

These conditions were considered in determining the nature, timing, and extent of the audit tests to be applied in (1) our examination and review of the City's general purpose financial statements and (2) our examination of the City's compliance with laws and regulations noncompliance with which we believe could have a material effect on the allowability of program expenditures for each major federal financial assistance program and nonmajor federal financial assistance programs.

This report does not affect our reports on the general purpose financial statements and on the City's compliance with laws and regulations dated July 29, 1988.

This report is intended solely for the use of management and Councilmembers, of the City of East Palo Alto, California and should not be used for any other purposes. This restriction is not intended to limit the distribution of this report which, upon acceptance by the Councilmembers, City of East Palo Alto, California, is a matter of public record.

*Morris, Davis & Company*  
July 29, 1988



FINDINGS AND RECOMMENDATIONS SECTION

CITY OF EAST PALO ALTO  
SUMMARY OF FINDINGS AND RECOMMENDATIONS  
FOR THE FISCAL YEARS ENDED JUNE 30, 1987 AND JUNE 30, 1986

In general during the periods ending June 30, 1987 and June 30, 1986 we found that the City's policies, procedures and records maintained are inadequate and do not provide sufficient information to ensure proper management control over the City's operations and financial activities.

Currently however, the City has adopted various measures and systems that management believed would improve control over the City's fiscal and operational activities.

FINDING I - ACCOUNTING AND RECORDS MANAGEMENT SYSTEM

The records maintained by the City did not provide sufficient current reliable financial information to serve as a basis in preparing the required financial reports and guide the City's administration in formulating management decisions. Also, the method of accounting used did not adhere in all cases to generally accepted accounting principles and the requirement of the National Council of Governmental Accountants Statement 1. Further, the City did not maintain a general ledger that contain complete records/information on year end account balances and financial activities for fiscal years ended June 30, 1987 and 1986.

Governmental Accounting and Financial Reporting Principles - Statement 1, issued by the National Council of Governmental Accounting states:

a. "Accounting and Reporting capabilities;

A governmental accounting system must make it possible both (a) to present fairly and with full disclosure the financial position and results of financial operations of the funds and account groups of the governmental unit in conformity with generally accepted accounting principles; and (b) to determine and demonstrate compliance with finance-related legal and contractual provisions.

b. Generally Accepted Accounting Principles;

Generally accepted accounting principles (GAAP) are uniform minimum standards of and guidelines to financial accounting and reporting. Adherence to GAAP is essential to assuring a reasonable degree of comparability among the financial reports of state, provincial, and local governmental units. Governmental accounting systems thus must provide data that permit reporting on the financial status and operations of a government in conformity with GAAP. This Statement sets forth the application of GAAP to state and local

CITY OF EAST PALO ALTO  
SUMMARY OF FINDINGS AND RECOMMENDATIONS  
FOR THE FISCAL YEARS ENDED JUNE 30, 1987 AND JUNE 30, 1986

governmental units. It establishes standards for both comprehensive annual financial reports and separately issued general purpose financial statements.

An important aspect of GAAP as applied to governments is the recognition of the variety of legal and contractual considerations typical of the government environment.

These considerations underlie and are reflected in the fund structure, basis of accounting, and other principles and methods set forth in the statement and are a major factor distinguishing Governmental accounting from commercial accounting. Governmental accounting systems designed in conformity with these principles can readily satisfy most management control and accountability information needs with respect to both GAAP and legal compliance reporting.

c. Fund Accounting Systems;

Governmental accounting systems should be organized and operated on a fund basis. A fund is defined as a federal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations."

The condition resulted in a long and tedious reconstruction process of the City's books of accounts, delays in audit timing and additional costs to the City. It also created problems which are discussed further in this section.

We recommend that the City implement necessary measures to adopt formal fiscal policies, establish a formal accounting system and prepare a fiscal policies and procedures manual with the required forms and books of accounts to properly record and account for the City's financial transactions in accordance with generally accepted accounting principles as required by the National Council of Governmental Accounting and to strengthen the internal accounting control.

As a measure, the City acquired computer equipment. However, the automated accounting process was started in October, 1986. During the reconstruction process, the equipment was used by the City to assist in accounting and recording fiscal activities for fiscal years 1986/87 and 1985/86.

CITY OF EAST PALO ALTO  
SUMMARY OF FINDINGS AND RECOMMENDATIONS  
FOR THE FISCAL YEARS ENDED JUNE 30, 1987 AND JUNE 30, 1986

FINDING II - CASH MANAGEMENT SYSTEM AND BUDGETARY PROCESS

During the periods under review, we noted the City's inability to adequately manage its cash flow. In addition, the deficient budgetary process and lack of effective planning and instructions contributed to the City's inability to develop a viable cash management system.

The City's obstacles to a sound cash management system were:

- 1) Grossly overstated revenue projections.
- 2) Insufficient detail information in departmental personnel budgets to assure that budgeted personnel costs are adequate to cover authorized positions.
- 3) Lack of control over purchasing of goods and services.

The following is a summary of actual and budgeted revenues and expenditures for the last two years ending June 30, 1987 which shows that actual and budgeted expenditures were greater than the actual and budgeted revenues making it necessary for the City to utilize beginning accumulated fund balances.

<u>REVENUE</u>	<u>Actual</u>	<u>Budgeted</u>	<u>Variance Favorable (Unfavorable)</u>
1985-86	\$5,310,925	\$5,279,871	\$ 31,054
1986-87	4,334,698	4,890,500	( 555,802)
 <u>EXPENDITURES</u>			
1985-86	6,182,751	5,737,189	( 445,562)
1986-87	5,359,054	5,649,273	290,219

In addition, there were unfunded expenditures incurred under the capital project funds which were ultimately covered by the City's general fund. These conditions contributed to a \$239,642 fund deficit under the general fund as of June 30, 1987, computed as follows:

CITY OF EAST PALO ALTO  
SUMMARY OF FINDINGS AND RECOMMENDATIONS  
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FINDING II - CASH MANAGEMENT SYSTEM AND BUDGETARY PROCESS -  
CONTINUED

General Fund

<u>1985-86</u>	<u>Actual</u>	<u>Budgeted</u>	<u>Variance Favorable (Unfavorable)</u>
Revenue	\$2,817,273	\$2,691,211	\$126,062
Expenditures	<u>3,293,842</u>	<u>3,018,386</u>	<u>( 275,456)</u>
Revenue Over (Under) Expenditures	( 476,569)	( 327,175)	( 149,394)
Transfer out to cover unfunded expenses	( 18,341)	-	( 18,341)
Fund Balance, Beginning of Year	<u>1,387,999</u>	<u>1,229,231</u>	<u>158,768</u>
Fund Balance, End of Year - June 30, 1986	<u>\$ 893,089</u>	<u>\$ 902,056</u>	<u>(\$ 8,967)</u>
 <u>1986-87</u>			
Revenue	\$2,998,109	\$3,160,000	(\$161,891)
Expenditures	<u>3,861,033</u>	<u>3,762,000</u>	<u>( 99,033)</u>
Revenue Over (Under) Expenditures	( 862,924)	( 602,000)	( 260,924)
Transfer out to cover unfunded expenses	( 269,807)	-	( 269,807)
Fund Balance, Beginning of Year	<u>893,089</u>	<u>902,056</u>	<u>( 8,967)</u>
Fund Balance (Deficit) End of Year - June 30, 1987	<u>(\$ 239,642)</u>	<u>\$ 300,056</u>	<u>(\$539,698)</u>

CITY OF EAST PALO ALTO  
SUMMARY OF FINDINGS AND RECOMMENDATIONS  
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FINDING II - CASH MANAGEMENT SYSTEM AND BUDGETARY PROCESS -  
CONTINUED

We recommend the City take necessary steps toward eliminating fund deficits and development and implementation of a viable cash management system and budgetary process. Improvement of records and policies should be effected to ensure that sufficient information and procedures are available to effect the development and implementation of improvements in the area of cash management and budget systems.

FINDING III - WRITTEN INVESTMENT POLICY

The City did not have written investment policies and procedures to serve as an authorized basis and to assist management on investment decisions.

City management indicated that only short term investments are maintained, however they agree that written policies and procedures should be developed. Management stated that a formal investment policies and procedures will be developed.

FINDING IV - PAYROLL AND EMPLOYEE FRINGE BENEFITS

During the fiscal years 1985 and 1986 the City did not maintain a system to properly record payroll expenses and employee fringe benefits. The condition resulted in unrecorded payroll costs and improperly classified employee fringe benefits.

The City maintained the services of an outside agency to prepare it's payroll until November, 1986 when the City adopted it's own automated payroll system. The system corrected the problem which automatically distributes payroll costs among the City's funds and projects into the general ledger reports including that of fringe benefit expenses.

FINDING V - PROPERTY AND EQUIPMENT ACCOUNTING

The City did not maintain a complete listing of equipment purchased during the year. In addition, equipment purchased were not properly tagged for identification/ control and complete records were not maintained to show equipment location and persons accountable for the equipment. This was apparently due to the lack of an accountant/fiscal officer to account for and record these transactions.

CITY OF EAST PALO ALTO  
SUMMARY OF FINDINGS AND RECOMMENDATIONS  
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FINDING V - PROPERTY AND EQUIPMENT ACCOUNTING - CONTINUED

Sound management practices requires that there be proper control and accountability of the City's fixed assets. The manual on Accounting for General Fixed Assets issued by the California Committee on Municipal Accounting states the following for purposes and accountability of fixed assets and equipment.

"The purpose of recording general fixed assets are primarily stewardship needs to provide for physical and dollar value control and secondarily for an accountability for general government capital expenditures over the years. Thus, fixed asset accounting is recommended for the following reasons.

1. To safeguard a sizable investment.
2. To fix responsibility for the custody of equipment.
3. To assist in the formulation of acquisition and retirement policies through accumulation of data regarding prices, sources of supply, and useful life.
4. To provide record support for reimbursement of depreciation under grants and intragovernmental service program.
5. To provide data for financial reporting.
6. To account for depreciation in enterprise funds.
7. To provide information for insurance purposes."

City management indicated that they plan to conduct a comprehensive inventory of all property and equipment, however, because of staff reductions such plan was not immediately carried out. Management, however indicated that they intend to carry out the plan in the immediate future.

We recommend that the City take necessary steps to adopt a system for complete recording and accounting of property and equipment in accordance with the aforementioned manual.

FINDING VI - INTERFUND ACCOUNTS

The City did not maintain a system to properly record and reconcile interfund transactions between the various funds the City maintained during the fiscal years ending June 30, 1986 and 1987. This resulted in unrecorded interfund accounts.

CITY OF EAST PALO ALTO  
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FINDING VI - INTERFUND ACCOUNTS - CONTINUED

The National Council for Governmental Accounting Statement I requires that interfund accounts be properly recorded in accordance with the nature of the interfund transactions. The system of proper recordation of interfund transactions is essential throughout the budgeting, accounting and reporting processes. The system would also ensure proper charging of expenditures and revenues to the appropriate fund accounts.

The City should adopt a system to properly record interfund transactions in accordance with the requirement of the National Council of Governmental Accounting.

FINDING VII - CREDIT CARDS

The City's system was inadequate to control the use of credit cards issued to City officials beginning October 1, 1986. The condition might result in uncontrolled and abusive use of these cards.

During July, 1987, the City recalled, cancelled, and discontinued the use and issuance of credit cards to its officials.

FINDING VII - ANNUAL REPORT OF FINANCIAL TRANSACTIONS

The Annual Report of Financial Transactions submitted by the City to the State did not agree with available records maintained by the City as of June 30, 1987 and June 30, 1986. This was mainly due to inadequate accounting and records management system maintained by the City during the year.

National Council for Governmental Accounting, Statement I, on Governmental Accounting and Financial Reporting Principles states:

"A governmental accounting system must make it possible both: (a) to present fairly and with full disclosure the financial position and results of financial operations of the funds and account groups of the governmental unit in conformity with generally accepted principles . . . "

Accordingly, sound fiscal management system dictates that financial reports should be current, accurate and are linkable to records or worksheets maintained by the reporting entity.



CITY OF EAST PALO ALTO  
SUMMARY OF FINDINGS AND RECOMMENDATIONS  
FOR THE FISCAL YEARS ENDED JUNE 30, 1987 AND JUNE 30, 1986

FINDING VII - ANNUAL REPORT OF FINANCIAL TRANSACTIONS -  
CONTINUED

We recommend that the City establish and implement systems to ensure that reported financial statements are accurate, current and linked to their records or worksheet maintained by the City. This will involve establishment of sound accounting and record keeping systems.

In October, 1986, the City had started to maintain a formal book of accounts to record its financial activities through a combination of computerized and manual process. The implementation of this accounting should correct the records keeping problem and cost distribution system.