CITY OF ST. HELENA
Accountants’ Agreed Upon
Procedures Report

Finance Department Review
August 26, 2016
To the Director of Finance  
City of St. Helena  
St. Helena, California

Independent Accountants’ Report on Applying Agreed-Upon Procedures

We have performed the procedures enumerated below, which were agreed to by the City of St. Helena (“the City”), solely to assist you in identifying whether processes and procedures in the Finance Department are sufficiently designed and implemented. This agreed-upon procedures engagement was performed in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

In order to achieve our objectives, we conducted interviews of various City personnel and reviewed City policies over the following control areas:

A. Accounting  
B. Accounts Payable  
C. Record Retention  
D. Purchasing  
E. Contract Management  
F. Grant Management  
G. Cash Management, Banking and Reconciliations  
H. Fraud Prevention

The results of our engagement indicated several procedural deficiencies in both the design and in the implementation of the system of internal controls, as described in further detail in this report. However, our work was limited to the records that were available and provided to us by City personnel, and may not represent the complete sum of all records or documentation.

We were not engaged to and did not conduct an audit, the objective of which would be the expression of an opinion on the information. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the use of management of the City of St. Helena, and is not intended to be, and should not be, used by anyone other than these specified parties.

Murrieta, California  
August 26, 2016
A. ACCOUNTING

Summary

The City receives a significant amount of resources from taxes, a system in which there is no direct relationship between the amounts a taxpayer pays and the services that taxpayer receives, or from transfers from other levels of government, with no expectation of repayment or of economic benefit proportionate to the resources provided. By contrast, private-sector companies derive most of their revenues from essentially voluntary payments from customers in approximate proportion to the amount of goods or services the customer receives. The primary objective of most of the City's activities is service to the public, not profit. The City has a duty to demonstrate that it has complied with budgetary and other legal restrictions on the use of its resources. This duty is referred to as fiscal accountability, and is built through a comprehensive framework of internal controls.

According to the Government Finance Officers Association, communication is an essential component of a comprehensive framework of internal controls. One method of communication that is particularly effective for controls over accounting and financial reporting is the formal documentation of accounting policies and procedures. A well-designed and properly maintained system of documenting accounting policies and procedures enhances both accountability and consistency. The resulting documentation can also serve as a useful training tool for staff.

Accounting Policies and Procedures

The City does not have a formal accounting policy and procedure manual. Instead, the City follows an informal set of procedures to accomplish the daily accounting functions and delineate responsibility between employees.

Journal Entry Procedures

The City does not currently have a formal policy or procedure for journal entry procedures. All employees within the Finance Department have the ability to initiate journal entries in the City's accounting software, Springbrook. The Finance Director, or designee, is responsible for reviewing and posting all journal entries. In instances where the Finance Director initiates a journal entry, the entry is reviewed and committed by the Finance Manager or the Administrative Service Manager within the Finance Department. Only the Finance Director, Finance Manager, and the Administrative Services Manager have the ability to commit journal entries. Backup is kept on file for all journal entries.

Year-end Closing Procedures

The City does not have a formal written policy with responsibilities, timelines, and due dates for the year-end closing process. However, the City does have a working draft of the year-end schedule. It is imperative for the City to follow a strict timeline in the year-end closing process to ensure that all accounts are closed accurately and timely. The City is working on establishing a year-end checklist with responsible parties and due dates.

Travel and Conference Policy

The City has a travel and conference policy described in the Employee Handbook, which was last updated in November, 2000. All travel at the City’s expense must be approved by the City Manager, City Council, or Department Head. The policy does not clearly define approval guidelines or dictate what is required to be approved by the City Manager versus City Council, although, per the Director of Fiscal Services, only out-of-state travel is required to be approved by City Council. A “Travel Expense Statement” is required to be filled out and signed by the employee, their Supervisor and the Finance Director. The form is then turned in to the Finance Department, and the Accounting Assistant is responsible for reconciling the receipts to the approved form. If an employee uses a City credit card for meals during travel, there is no maximum amount regulated, and per diem rates do not apply. Cash advances are rarely used, but, if deemed necessary, an application must be approved one week in advance by the Finance Director. If the advance is over $25, the advance must be approved by the City Manager. The City is in the process of updating the Employee Handbook and expects the handbook to be available before the end of the 2016 calendar year.
Findings and Recommendations

A. 1. We recommend that the City adopt an accounting policies and procedures manual, which delineates the authority and responsibilities of each employee, including detailed job descriptions.

A. 2. We recommend that the City establish a journal entry procedure. This procedure should include the appropriate levels of review based on dollar thresholds or type of entry.

A. 3. We recommend that the City create and implement a formal year-end closing calendar with clear roles and responsibilities to ensure accurate and timely closing of the books.

A. 4. We recommend the City update the travel and reimbursement policy, as planned. The policy should clearly define the approval process and applicable thresholds.

A. 5. We recommend that the Accounting Assistant review each receipt for prohibited or unreasonable purchases once these are defined in the updated policy. Furthermore, we recommend establishing guidelines over credit card use (discussed further in Section F. Cash Management, Banking and Reconciliations).

A. 6. We recommend evaluating policies annually, and updating policies no less than every three years.

B. ACCOUNTS PAYABLE

Summary

Accounts payable refers to the process by which vendors are paid for the goods and services provided to the City. Accounts payable is tracked within the Springbrook accounting software. There is one Accounting Assistant who is responsible for the accounts payable duties. Although the City does not have a written policy, the normal process for accounts payable is as follows:

1. The Accounting Assistant receives all invoices, date stamps each invoice and scans each invoice prior to sending to the appropriate department for approval to pay.

2. The respective department head, or responsible manager or supervisor, is responsible for reviewing and assigning an account code for each invoice received. In addition, all invoices must be signed for proof of approval. Invoices are then returned to the Finance Department.

3. The Accounting Assistant is then responsible for entering all invoices into the Springbrook accounts payable module. The accounting software will alert the user if a duplicate invoice number is entered or if the GL account is over budget. If the GL account is over budget, the invoice is returned to the Department.

4. The Finance Director, or designee, reviews the check batch for accuracy and posts the check batch. The check batch is compared to the invoices to ensure information is accurate, such as invoice number, invoice amount and vendor name. In addition, account coding and verification of approval signatures are reviewed.

5. After the check batch has been reviewed and committed, the Accounting Assistant processes accounts payable and initiates the check run. The Accounting Assistant must log the beginning and ending check number, the total number of checks processed, and the process date, in addition to signing the check log as the initiator of the check run.

6. The Finance Director, or designee, retrieves the printed checks from the printer and verifies the check numbers with the committed batch. In addition, the Finance Director, or designee, must sign as a witness, asserting that all checks listed by the Accounting Assistant were printed and accounted for.
7. The check stock is kept in the safe and is pre-numbered. At the time checks are printed at the City, digital signatures are printed on the checks, therefore, checks are not physically signed by the signers. The signers on the Account include the City Manager, the Finance Director, and the Human Resources/IT Director.

8. The Accounting Technician is responsible for mailing the checks.

Findings and Recommendations

B. 1. We recommend that the City adopt a formal written policy over accounts payable. This policy should cover all payment methods, including wire transfers.

B. 2. We recommend that the ability to add new vendors to Springbrook be removed from the Accounting Assistant. This represents a lack of segregation of duties, as the individual responsible for processing payments may also add vendors into the system.

C. RECORD RETENTION

Summary

The purpose of a record retention policy is to ensure that appropriate records are kept as long as legally and operationally required. In 2002, the City approved and implemented the first retention schedule. On September 8, 2015, the City updated the record retention policy. The policy defines the management, preservation, and protection of the City’s records. The policy also includes a retention schedule for each type of record and the number of years required to be maintained for each record. The policy is as follows:

Ownership
Records and information created or received in the course or conduct of the City’s business are the exclusive property of the City. Therefore, such records and information are subject to compliance with this Policy, the associated Retention Schedule and City procedures. Employees are to have no expectation of privacy for any record or writing created during the performance of City business or while using a system for managing the City’s records and information. Requests for such records can be made through the California Public Records Act.

Authenticity
The City is committed to creating and maintaining complete, accurate, and trustworthy records and information in support of its business activities. Deliberately creating false or misleading records or information regarding the City’s activities is strictly prohibited. Records and information are potentially discoverable in litigation, regardless of storage medium and regardless of physical location. Records and information should not contain language that is misleading, incomplete, inaccurate, fraudulent, harassing, embarrassing, sexually explicit, profane, obscene, intimidating, abusive, libelous, defamatory, or that violates any applicable law or regulation.

Classification
Each department shall maintain records according to records management best practices suited to the particular needs of the department. Records and information will be created, stored and managed with the appropriate classification that enables their protection as well as necessary access for future use.

Retention Requirements
Records and information are to be retained in accordance with the City’s approved Retention Schedule. When records or information exceed their applicable retention period, regardless of the format, they shall be deleted, erased, or destroyed in compliance with City procedures.
**Suspending Retention Requirements**
Records and information relevant to litigation, an investigation, or an audit and subject to a Legal Hold are to be retained and preserved until further notice from the City Attorney regardless of the retention period set forth in the Retention Schedule. Records and information subject to a Legal Hold or an audit that are no longer required for business purposes may be transferred to offsite storage facilities for preservation in coordination with the City Attorney.

**Storage and Protection**
Records and information, whether active or inactive, are to be appropriately stored and protected.

Records and information no longer considered active may be transferred to designated offsite storage facilities to fulfill retention requirements. Records and Information transferred to offsite storage are to be indexed for future access.

**Availability**
Records and information must be available for future business, litigation, and investigations as necessary, regardless of storage location.

Records and information that are deemed "public" are to be made available for the public in accordance with applicable laws and regulations.

**Exiting Employees and Contractors**
When an employee or a contractor leaves the City, the employee's/contractor's supervisor or manager is responsible for complying with the requirements of this Policy and any supporting procedures for retaining and managing the records and information of the exiting employee or contractor.

**Vital Information**
Records and information designated as "vital" are to be protected in a manner that establishes the priority of recovery of the data in a timely manner following a disaster or system disruption. Vital Records are those records or information that are needed to recover from a disaster or resume business operations. Vital Records should be protected in accordance with City procedures and standards.

**Recovery Backup Media**
Disaster recovery backup media are exact copies of an operating system, associated application and data created for the sole purpose of recovering data in the event of a disaster and are not subject to the requirements of the Retention Schedule because they contain duplicate information to be used for data recovery in the event of a disaster. Backups serve as a level of protection for electronic systems and the data that is stored on those systems only.

**Historical Information**
Historical artifacts, documents, events, memorabilia and collections, as defined on the Retention Schedule, are valuable in documenting the City's history and providing information for researchers. Historical Records are to be permanently preserved so as to assure their ongoing availability and access.

**Findings and Recommendations**

C. 1. We recommend that the City review the policy annually and update the policy at least every three years. In our comparison of the record retention policy to the GFOA best practices, we did not note any instances of record policies which fell below the minimum identified by the GFOA.

C. 2. We recommend that the City establish and identify special retention periods that align with any future grants, contracts or agreements with outside entities. This will ensure that the City does not risk the
potential loss of funding due to non-compliance with grant or contract terms due to an inability to locate appropriate supporting documentation.

C. 3. We recommend that City investigate the ability and perform a cost benefit analysis of storing all records electronically.

C. 4. We recommend that the City establish a standardized indexing system to ease the burden of locating documents for audit or internal use. This will assist the City in ensuring documents can be easily located, even if employees who performed the work are no longer employed by the City.

D. PURCHASING

Summary

Purchasing and contract management refers to the City’s process for procuring goods and services from vendors. The City has updated its purchasing policies as of January, 2016. The City’s purchasing procedures are defined below for supplies, general services and equipment.

Departmental Purchase Procedures

A department may, independently of the purchase officer, purchase specified and limited supplies, equipment, special equipment/supplies and general services not included in a construction contract or bid specification for a public work, as follows:

A. Purchases of five hundred dollars or less: requestor receives a verbal/written approval from supervisor, keeps a record of such purchases and exercises reasonable prudence in seeking price quotes and purchasing such items. All purchases shall be made with funds in an unencumbered appropriation.

B. Purchases greater than five hundred dollars, but less than one thousand five hundred dollars: requestor receives a verbal/written approval from supervisor, attempt to obtain at least three oral or written bids or quotes, requires requisition approved by supervisor, department keeps a record of such purchases and exercises reasonable prudence in seeking price quotes and purchasing such items. All such purchases shall be made with funds in an unencumbered appropriation.

Informal Bid Procedures

The purchase of supplies, equipment, special equipment/supplies and general services not included in a construction contract or bid specification for a public work with the estimated value greater than one thousand five hundred dollars, but not exceeding twenty-five thousand dollars, shall be made by a purchase order. Said purchases, subject to the department head’s discretion, based upon a small amount, or urgent need and timeliness, may be let without the formal bidding procedures. In such case, the following procedures shall be followed:

A. Solicitation of Bids. If it is determined that the request is of a sufficient size and time allows, the purchasing officer or designee, before issuing the purchase order to a specific contractor/vendor, shall: for purchases greater than one thousand five hundred dollars to five thousand dollars must obtain at least three oral or written bids or price quotes; for purchases greater than five thousand dollars to twenty-five thousand dollars shall obtain at least three written bids or price quotes. The purchasing officer or designee may negotiate to obtain the lowest possible contract amount from any vendor contacted who can provide supplies, general service, or equipment within the time constraints of the department’s request. The purchasing officer or designee may solicit or determine bids of prospective vendors by written request, telephone, or may base award recommendations upon current catalogs or advertisements.
B. Local Preference. Quality and service being equal, a local preference of one percent shall be given to local bidders located within the city, the difference being the sales tax the city would receive on the sale in the case of vendors.

C. Maintenance of Records. After placing the order, a written record of the contract, bids, quotes or advertisements used or received shall be open public records and maintained by the purchasing officer or the department for a period of two years.

D. Award. The purchasing officer or designee shall award the contract to the lowest responsive and responsible bidder, vendor or offeror whose quote, bid, or proposal fulfills the purpose intended, provided the amount is within the unencumbered appropriation for that item, or reject such bids or proposals, or negotiate further for terms more favorable to the City.

**Formal Bid Procedures**

For supplies, equipment, special equipment/supplies and general services not included in a construction contract or bid specification for a public work with an estimated value in excess of twenty-five thousand dollars, purchases shall be made in accordance with the following formal written bid procedures:

A. Published Notices. A notice inviting bids shall be published at least ten (10) calendar days before the date of the opening of bids. The notice shall be published at least once in a newspaper of general circulation printed and published in the city, and also in appropriate trade publications, if any, circulated within the general area. Such other notice as the purchasing officer or designee deems appropriate shall be made.

B. Notices Inviting Bids. Notices inviting bids shall include a general description of the goods, articles, services or equipment to be purchased, any required bidder's security or performance bonds, state where bid blanks and specifications may be secured and the time and place for the opening of bids.

C. Bidder's List. The purchasing officer or designee shall maintain a list of responsible bidders for various categories of supplies, equipment, and general services. A solicitation for a bid shall be sent to all responsible prospective contractors or suppliers whose names are on the bidder's list for the category of equipment, supplies or general services subject to the bid request.

D. Bidder's Security/Failure to Sign Contract. If the city requires a bidder's bond or other form of security, the bidder's security shall be prescribed in the notice inviting bids in an amount equal to ten percent (10%) of the bid amount. Bidder's security shall be either a cash deposit with the city, a cashier's or certified check payable to the city, or a bidder's bond. Unsuccessful bidders shall be entitled to the return of bid security within sixty (60) days of the date of the award. However, the lowest responsive and responsible bidder shall forfeit all or part of its bid security, as may be determined by the city council, upon the bidder's refusal or failure to execute the contract within ten (10) days after the date of the award of the contract. On the refusal or failure of the lowest responsive and responsible bidder to execute the contract, the council may award the contract to the next lowest responsive, responsible bidder.

E. Bid Opening Procedure. Sealed bids shall be submitted to the city clerk's office and shall be identified as to bidder, project, and "Bid" on the envelope. Bids shall be opened by city staff in public at the time and place stated and as described in the notice inviting bids. A written record and tabulation shall be made at that time of all bids received, and shall be open for public inspection during regular business hours for a period of two years after the bid opening.

F. Local Preference. Quality and service being equal, a local preference of one percent shall be given to local bidders located within the city, the difference being the sales tax the city would receive on the sale in the case of vendors.

G. Bid Evaluation Procedures. All bids and bidders shall be analyzed by purchasing officer or designee and the responsible department for bidder's qualifications and compliance with bid specifications. The purchasing officer or designee shall prepare a recommendation to the department for award or rejection; the department shall then prepare a recommendation for award or rejection to the city council.

H. Rejection of Bids. In its discretion, the city council may reject all bids and re-advertise. If no bids are received, the city council may proceed with the procurement without further complying and using whatever method it deems appropriate, such as rebid, abandon acquisition, or negotiate a contract.
I. Award of Contracts. Contracts shall be awarded by the city council to the lowest responsive and responsible bidder whose bid fulfills the purpose intended according to criteria designated in the solicitation, provided the award amount is within the unencumbered appropriation for that item. The city council may waive any minor bid irregularities. Council may accept either bid or accept the lowest bid made by negotiation with the tied bidders.

J. Tie Bids. If two or more bids received are for the same total amount or unit price, quality and service being equal, and if the public interest will not permit the delay of re-advertising for bids, the council may accept either bid or accept the lowest bid made by negotiation with the tied bidders.

K. Performance Bonds. The city may require a performance bond in such amount as it shall find reasonably necessary to protect the public interest. If the city requires a performance bond, the form and amount of the bond shall be described in the notice inviting bids.

Findings and Recommendations

D. 1. We recommend implementing a formal requisition or purchase order process to ensure that all expenditures are pre-approved. Currently, requisitions are not tracked in the Springbrook system and are the responsibility of the department to track.

D. 2. We recommend investigating the potential capability of Springbrook to route and track purchase approvals electronically.

D. 3. We recommend adjusting the retention period stated within this policy (informal bid procedure, C) to four years instead of two years, to coincide with the City’s current retention policy/schedule.

E. CONTRACT MANAGEMENT

Summary

In 2001, the City opted, through formal City Council action, to participate in the cost accounting procedures set forth in the Cost Accounting Policies and Procedures Manual by the California Uniform Construction Cost Accounting Commission. Public Works projects must go out to bid if the cost exceeds $175,000. The City’s bidding procedures are described below. The City Manager is authorized to approve all contracts under $25,000. All contracts over $25,000 require City Council approval.

Informal Bidding Procedures

For those projects which qualify for informal bidding, the following procedures shall be used:

A. The city shall maintain a list of qualified contractors, identified according to categories of work. Minimum criteria for development and maintenance of the contractors’ list shall be consistent with the Uniform Public Construction Cost Accounting Act rules.

B. The city clerk shall prepare a notice inviting bids.

1. The notice inviting bids shall include a general description of the services and/or articles to be purchased, where bid blanks and specifications may be obtained, the time and place for bid openings, and whether bid deposit or bond and faithful performance bond will be required.

2. Unless the product or service is proprietary, all contractors on the city’s list for the category of work being bid shall be mailed a notice inviting informal bids, or an announcement/advertisement shall be placed in all construction trade journals, or both such mailing and advertising. The trade journals shall be those identified by the California Uniform Construction Cost Accounting Commission as appropriate for this area, in accordance with California Public Contract Code Section 22036.
3. Notices inviting informal bids shall be posted at the city hall and mailed at least ten (10) calendar days before the due date of submission of bids to all firms or suppliers on the bidder’s list for the category of equipment, supplies, or general services being bid and to such other vendors as the Public Works Director deems appropriate.

4. If the product or service is proprietary in nature such that it can be obtained only from a certain contractor or contractors, the notice inviting bids may be sent exclusively to such contractor or contractors.

C. The city council shall award the contract to the lowest responsive and responsible bidder whose bid or proposal fulfills the purpose intended according to criteria designated in the solicitation. The council may waive any minor bid irregularities.

D. If all bids received are in excess of one hundred seventy-five thousand dollars, the city council may, by passage of a resolution by a four-fifths vote, award the contract up to one hundred eighty-seven thousand five hundred dollars to the lowest responsible bidder if it determines the cost estimate of the city was reasonable.

**Formal Bidding Procedures**

For those projects which qualify for formal bidding, the following procedures shall be used:

A. Prior to soliciting bids, the city council shall approve and adopt the plans, specifications and working details, and authorize the bid request for all public work projects in excess of one hundred seventy-five thousand dollars.

B. The city clerk shall prepare a notice inviting bids.

1. The notice inviting bids shall state the time and place for the receiving and opening of sealed bids and distinctly describe the project.

2. The notice shall be published at least once fourteen (14) calendar days before the date of opening the bids in a newspaper of general circulation, which is circulated within the jurisdiction of the city.

3. The notice inviting formal bids shall also be sent electronically, if available, by either facsimile or electronic mail and mailed to all construction trade journals specified by the California Uniform Construction Cost Accounting Commission as appropriate for the area. The notice shall be mailed at least fifteen (15) calendar days before the date of opening the bids.

4. In addition to notice required by this section, the city may give other notice as it deems proper.

C. Sealed bids shall be submitted to the city clerk’s office and shall be identified as to bidder, project and bid on the envelope. Bids shall be opened by the city clerk’s staff in public at the time and place stated and as described in the notice inviting bids. A written record and tabulation shall be made at that time of all bids received, and shall be open for public inspection during regular business hours for a period of two years after the bid opening. The Public Works Director shall make an analysis of the bids for compliance with bid specifications and thereafter make a recommendation for award or rejection.

D. Contracts shall be awarded by the city council to the lowest responsive and responsible bidder whose bid fulfills the purpose intended, according to criteria designated in the solicitation. The council may waive minor bid irregularities.

**Findings and Recommendations**

E. 1. When we reviewed the California State Controller’s Office website (last updated July 22, 2016) for the list of agencies participating under the requirements of the Uniform Public Construction Cost Accounting Act, we noted that the City was not listed. We recommend that the City file a copy of the resolution with the State Controller’s Office as required by Public Contract Code 22030.
E. Through inquiry we discovered that the City does not maintain a list of qualified bidders as required under the Uniform Public Construction Cost Accounting Act. We recommend that the City establish a list of qualified bidders.

F. **GRANT MANAGEMENT**

**Summary**

Local governments often receive significant grants from other governments and organizations to support their programs and activities. Often, grants come with specialized requirements that can apply to the general operations of the grant, specific compliance rules, monitoring of other parties that may receive resources from the grants, and specialized reporting requirements. There are typically negative consequences for failing to meet these requirements. Further, grants may, either as a condition of the grant itself or politically, commit a government to financially maintain a program or asset after the expiration of the grant. Accordingly, the City should develop a grants policy that requires certain steps to be taken before applying for or accepting grants to maximize the benefits of grants while minimizing their risks.

The City first implemented the Grant Application and Management Policy on March 23, 2016. The policy is presented below:

**Roles and Responsibilities**

1. **City Council:**
   a. The City Council will approve all grant and loan agreements and all substantive contract amendments such as a change in grant award amount or project scope. Council will delegate contract execution to the City Manager, unless a grant agreement requires otherwise.
   b. Council will also approve all agreements, Memoranda of Understanding, letters, Joint Powers Agreements and similar documents with local agencies where the City is receiving pass-through funds.

2. **City Manager:**
   a. The City Manager executes all contract related documents, unless the grant agreement requires another position. Staff Reports and Resolutions must mention by title, not an individual’s name.

3. **Grants Manager:**
   a. Develops, recommends and maintains grant management policies with approval from City Council, City Manager or Finance Director as applicable.
   b. Provide technical assistance to Operating Departments in preparing grant applications, submitting reports, maintaining records and responding to any audit or information requests from granting agencies.
   c. All reports, requests for reimbursements and similar documents prepared by the Grants Manager will be approved by the Department Head where the project exists, the Finance Director, or the City Manager. When such documents and requests are prepared by Operating Department Staff, the Grants Manager will approve before submittal. All reports, requests for reimbursement and similar documents must be submitted for approval at least seven (7) days before the due date.
   d. Coordinates preparation of the Single Audit Report with the Finance Director and is responsible for the distribution of single audit reports.
   e. Maintains a master file of all grant award documents
   f. Prepares list of State, Federal and Pass-through Grants to prepare for annual Schedule of Expenditures of Federal Awards (SEFA). Operating Departments will assist with information gathering.
g. As needed, monitors and assists Operating Departments on grant-related tasks:
   i. Maintains financial and other records in accordance with grant requirements
   ii. Monitors grant expenditures and receipt of revenues:
       1. All income, including Program Income, resulting from a grant funded project or program shall be managed and maintained per the terms of the award letter, grant agreement, contract or other document from the granting agency.
       2. Cash on hand from a funder shall be used first before requesting additional funds unless permitted under the terms of the grant agreement.
       3. Review advances and disbursements no less than annually to determine interest earned. Disbursement of interest must be made to the granting agency unless otherwise stated in the agreement.
       4. All grant receivables will be reconciled quarterly by the Grants Manager and approved by the Finance Director.
       5. Unless otherwise prohibited by the grant agreement, cash on hand shall be invested in an interest bearing account until required for disbursement.

h. Submits required reports, including requests for funds, whether prepared by Finance or Operating Departments staff.
   i. Coordinates on-site management reviews by the grantor agency during the grant term.
   j. Ensures compliance with grant requirements, paying special attention to those areas where the grantor’s administrative procedures are different than the City’s.
   k. Provides a quarterly report to the City Council outlining all grant activity such as applications, awards, closeouts and audit findings.

4. Operating Departments:
   a. Support Grants Manager with subject matter technical assistance in preparing grant applications, submitting reports, maintaining records and responding to any audit or information requests from granting agencies.
   b. When grant applications are written by Operating Department Staff, they must be approved by the Grants Manager prior to submittal.
   c. Monitors and assists Grant Manager, as needed, on grant-related tasks:
      i. Completes “Grant Information Form” for all grant awards
      ii. Maintains financial and other records in accordance with grant requirements
      iii. Monitors grant expenditures and receipt of revenues
          1. All income, including Program Income, resulting from a grant funded project or program shall be managed and maintained per the terms of the award letter, grant agreement, contract or other document from the granting agency.
          2. Cash on hand from a funder shall be used first before requesting additional funds unless permitted under the terms of the grant agreement.
          3. Unless otherwise prohibited by the grant agreement, cash on hand shall be invested in an interest bearing account until required for disbursement.
      iv. Prepares required reports, including requests for funds, which are approved by the Grants Manager. All reports, requests for reimbursement and similar documents must be submitted for approval at least seven (7) days before the due date.
      v. Ensures compliance with grant requirements, paying special attention to those areas where the grantor’s administrative procedures are different than the City’s.
vi. Information gathering for annual Schedule of Expenditures of Federal Awards (SEFA).

Grants Process
1. Grant Evaluation: Staff will evaluate benefits and costs of specific grant programs on a case-by-case basis based on the following:
   a. Purpose of the grant program and its compatibility with identified City goals and objectives such as: (1) Council directed goals, (2) approved Capital Improvement Plan or similar plan such as a bicycle or pedestrian master plan, (3) a State or Federal mandate, or (4) items listed in an approved Budget or similar document.
   b. Additional staffing, office space, facilities, supplies or equipment that will be required if the grant is awarded.
   c. Ongoing impacts of the grant program after it is completed.
   d. Responsibilities of other departments and impacts on them in preparing the grant application or performing work scope if the grant is approved.
   e. Total program or project costs, including portion funded through grant revenues and any required City contribution, both through a cash or in-kind match.
   f. Source of funding for any required City share. All match commitments over $5,000 must be pre-approved in writing by the Grants Manager or the Finance Director prior to application submittal.
   g. Compliance and audit requirements, paying special attention to those areas where the grantor’s administrative procedures are different than the City’s.

2. Letters of Support
   a. All Council issued letters of support for a City-submitted grant must be approved by a majority of the City Council.
   b. All Council issued letters of support for an outside agency must be approved by a majority of the City Council. Any commitment of match funds, either cash or in-kind, must be explicitly stated in the letter with anticipated Fiscal Year(s) of the appropriations.

3. Grant Application:
   a. Grants Manager or Operating Department staff work with grantor agency in identifying special program requirements and developing strategies for preparing a successful grant application.
   b. Staff completes grant application documents, which are signed by the City Manager unless the grant requirements stipulate otherwise. A copy of the grant application is placed in the Master File located in the Finance Department.
   c. Grant writer coordinates with affected departments as necessary
   d. Grant applications only need City Council approval prior to submittal when:
      i. It is required by the application instructions;
      ii. The application adds new regular staffing;
      iii. It creates a new ongoing operational expense such as salaries after the grant period is over;
      iv. It creates a new operational program that is likely to want to be continued after the grant is complete;
      v. The matching funds will be requested from General Fund Assigned or Unassigned Reserves;
      vi. At the conclusion of the grant, there is an ongoing commitment or obligation to continue the program; or
      vii. The purpose of the grant is outside the City’s current plans, policies and goals.

4. Grant Administration
   a. For all grants, staff prepares a City Council Staff Report and Resolution accepting the grant award. Unless otherwise indicated in the grant guidelines, the City Manager is the authorized
representative and signer. The Staff Report must include the agreement for execution and as necessary, a budget request form.

b. For all grants, staff prepares a “Grant Information Form” and submits to Grants Manager for the Master File.

c. Following City Council acceptance of the grant award, the Grants Manager will coordinate the execution of grant documents by the City Manager and return the executed documents to the grantor agency.

d. In all cases for grant and loan administration, there will be a secondary approval on all documents, requests, reports, close outs, etc. submitted to a grantor agency in accordance with grant best practices.

e. All items created by Operating Department Staff will be approved by the Grants Manager. Documents prepared by the Grants Manager will be approved by the Department Head or Supervisor in charge of the project management.

f. Operating Department Staff or the Grants Manager maintains financial and other records on accordance with grant requirements. Some of this information may be duplicates to the Master File maintained by the Finance Department.

g. Operating Department Staff will coordinate with Grants Manager on account coding and financial documentation.

h. Operating Department Staff or the Grants Manager completes and submits the required reports, including requests for funds. Operating Department staff must submit any document to the Grants Manager at least seven (7) days prior to the submittal for approval. The Grants Manager must submit any document to the Department Head at least seven (7) days prior to submittal for approval.

i. Project and Grant staff monitors grant expenditures and receipt of revenues and ensures all costs are charged to the grant.

j. Grants Manager coordinates on-site management reviews and/or audits by the grantor agency during the grant term.

k. Project and Grant staff ensures compliance with grant requirements, paying special attention to those areas where the grantor’s administrative procedures are different than the City’s.

l. Operating Department staff performs the grant work scope.

m. Grant Manager will review grant status quarterly with Finance Director.

n. Each grant will be assigned a grant project number by the Grants Manager, which must be included on all internal correspondence.

5. Grant Closeout & Audit:

a. Operating Department staff completes the grant work scope.

b. Operating Department staff notifies the affected departments that the project is completed and schedules a “closeout” meeting if necessary to resolve any final procedural issues.

c. Operating Department works with Grants Manager to “Zero out” budget accounts for grant revenues and expenditures, complete a budget adjustment form and justification as necessary.

d. Grants Manager ensures final receipt of any required grant closeout documents.

e. Grants Manager reviews Master File for completeness which retains all necessary program and financial records for the period of time required by the City’s Records Retention Policy or the grantor agency, whichever is longer.

f. Grants Manager coordinates any on-site management reviews or audits after the grant is completed. All audit findings are included in the Grant Manager’s Quarterly Report to City Council. Operating Department Staff will notify the Grants Manager of an expected audit no later than five (5) calendar days following the receipt of such information from the granting entity. The Grants Manager or designee from the Finance Department will participate in the audit.

g. Grants Manager resolves any audit findings.

h. Grants Manager ensures files are compliant for City’s Annual Audit or for the Federal Single Audit Act.
6. Fixed Assets Funded by Federal Grants:
   This section will be updated when the City’s Fixed Asset Policy is established.

Findings and Recommendations

F. 1. Through review and inquiry of grant controls and procedures, we noted that there is no clear way to track grants individually in the Springbrook accounting software. We recommend assigning a unique “resource” code to each grant in order to accurately track revenues and expenditures. Similar to a unique Fund code, the resource code should comprise a self-balancing set of accounts. Further, because such revenues are frequently not fully expended within a fiscal year and related liabilities are not completely liquidated, the resource code can also be used to reflect restrictions and special reporting obligations on balance sheet accounts. Additionally, use of a resource code to identify expenditures related to a specific grant can help staff identify which employee should be responsible for reviewing expenditures to ensure that they meet specific grant requirements and that only allowable expenditures are charged against the grant.

F. 2. We recommend that the City develop appropriate cash management procedures for drawdown and receipt of funds.

F. 3. For reporting requirements, we recommend maintaining a comprehensive list of reporting requirements and a reminder system for meeting the reporting deadlines.

F. 4. We recommend updating the Fixed Assets Funded by Federal Grants section since the Fixed Asset Policy was established and adopted on October 28, 2014.

F. 5. We recommend that the City review its Grant Application and Management Policy to ensure it aligns with the requirements in the Office of Management and Budget’s Uniform Guidance for all federal awards.

G. CASH MANAGEMENT, BANKING, AND RECONCILIATIONS

Summary

Cash management policies should include procedures and responsibilities related to cash collections, cash reconciliations, cash security, and banking. The City does not have a formal cash management policy in place, but does follow a set of informal procedures.

The City maintains a checking account, money market account, Local Agency Investment Fund (LAIF) account, California Asset Management Program (CAMP) account, and two mutual fund accounts. Bank statements for the checking and savings accounts are available online. The Finance Director, City Manager, Administrative Services Manager, Accounting Technician, and Accounting Assistant, have access to view and download the monthly statements. Reconciliations are completed by the Accounting Technician and reviewed by the Finance Director or designee in their absence. A Check Register Reconciliation Sheet is kept on file which logs all deposits, printed checks and voided checks. This sheet is kept on a shared drive that the Finance Department has access to and this sheet is used to reconcile the bank account. During the reconciliation process, the check sequence is verified.

Cash and checks awaiting deposit, petty cash, credit cards and check stock are kept in the safe. It was determined that the safe is kept unlocked during the day. Voided checks are kept on file and stamped void and the signature line is kept intact.

The City keeps petty cash on hand in amounts that range from $200-400 and amounts are kept in the safe. A petty cash form must be filled out, signed by employee’s supervisor and turned in before use. The maximum
amount that can be disbursed is $25. Receipts are required to be turned in after each purchase. The petty cash is reconciled monthly by an Accounting Assistant. A check is then processed to reimburse the petty cash.

All Department heads and designated managers are issued credit cards ("Cal Cards") and are responsible for safekeeping. Holders of Cal Cards are given monthly statements to review and to reconcile receipts. The Accounting Assistant is responsible for reviewing the monthly statement and ensuring all receipts were received. There are two generic credit cards which are required to be checked out by the user. Before use, a credit card use form must state the name of the person checking out the card, the vendor being used, date, amount, description and supervisors’ approval.

Findings and Recommendations

G. 1. As of the date of this report, the City is approximately four months behind on completing the bank reconciliations. In the City’s 2014-15 audit it was noted that there was a large number of outstanding checks which have not been cancelled and through inquiry we determined that this has not been resolved. We recommend that the City complete all bank reconciliations within two weeks of the statement date.

G. 2. The City is still in the process of creating and updating policies and procedures. We noted specifically that there is no credit card policy, and that the employee handbook has not been updated since 2000, which includes policies such as travel and reimbursements. We recommend the City continue updating all necessary policies and procedures as soon as possible. This policy should include a statement on prohibited purchases, limits, and the requirements and responsibilities of users. Additionally, the policy should identify the escalation process for users who do not follow City policy. Once new policies and procedures have been adopted, we also recommend ensuring that all employees are properly trained on new policies and procedures. Last, we recommend the City continue evaluating policies, at least annually, and updating policies no less than every three years to ensure they meet operational needs.

G. 3. We recommend the Accounting Technician perform monthly bank reconciliations within two weeks of receiving the bank statement. Additionally, the Finance Director should review the bank reconciliation and initial and date the bank statement and reconciliation as evidence they were reviewed.

G. 4. We also noted that the safe is not kept locked during the day. We recommend the safe be kept locked at all times, and minimize who has access to the safe to ensure that assets are properly safeguarded.

G. 5. Through our inquiries, it was noted that the City maintains checks on file with the signature line still intact. If a mistake is made on a check, the employee should mark the check void, void the check in the system, and issue another. Additionally, the signature lines, whether the check is signed or not, should be cut out and mutilated so that it cannot later be negotiated. The check should remain on file in a secure location as supporting documentation for the voided transaction.

G. 6. We noted that checks are written to either "petty cash" or to the “City of Saint Helena”. Although petty cash activity is only about $25 per month, this could be a problem because it is difficult to keep track of who is actually receiving the funds being withdrawn from the account when the check is simply made out to “cash” and not the name of an actual person. It also provides an opportunity for someone to embezzle funds from the account. We recommend that the City begin making the checks payable to the name of the person who is cashing the check and receiving the funds.
H. FRAUD PREVENTION

Summary

According to the Association of Certified Fraud Examiner’s 2016 Report to the Nations, the typical organization loses approximately five percent of its annual revenues to fraud. Government entities are among the top three industries victimized by fraud.

Fraud is a pervasive risk to the City, and often times through the falsification of records or collusion of employees, can be very difficult to detect. The City can implement various internal control mechanisms and detections measures to assist in reducing fraud risk. One cost effective measure to reduce the risk of fraud, is the establishment of a strong system of internal controls. An important aspect of a strong system of internal controls is written policies and procedures dictating the expected behavior of employees. Additionally, the City should establish a culture that promotes ethical behavior of employees.

The City does not currently have a formal code of conduct or ethics policy.

Findings and Recommendations

H. 1. We recommend establishing policies and procedures to encourage ethical behavior and facilitate the reporting of fraud or abuse and questionable accounting practices.

H. 2. We recommend the implementation of an anonymous fraud hotline, and that the City begin conducting employee training on fraud prevention, detection and reporting.

H. 3. We recommend that the City conduct a fraud risk “check-up” either internally or through the use of an external consultant.