

**CITY OF FORT BRAGG**  
**MANAGEMENT REPORT**  
**AND**  
**AUDITOR'S COMMUNICATION LETTER**

**June 30, 2014**

**CITY OF FORT BRAGG**  
June 30, 2014

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MOSS, LEVY & HARTZHEIM LLP

CERTIFIED PUBLIC ACCOUNTANTS

**PARTNERS**

RONALD A LEVY, CPA  
CRAIG A HARTZHEIM, CPA  
HADLEY Y HUI, CPA  
ALEXANDER C HOM, CPA  
ADAM V GUISE, CPA  
TRAVIS J HOLE, CPA

**COMMERCIAL ACCOUNTING & TAX SERVICES**

433 N. CAMDEN DR., SUITE 730  
BEVERLY HILLS, CA 90210  
TEL: 310.273.2745  
FAX: 310.670.1689  
[www.mlhcpas.com](http://www.mlhcpas.com)

**GOVERNMENTAL AUDIT SERVICES**

5800 HANNUM AVE., SUITE E  
CULVER CITY, CA 90230  
TEL: 310.670.2745  
FAX: 310.670.1689  
[www.mlhcpas.com](http://www.mlhcpas.com)

February 11, 2015

Members of the City Council  
City of Fort Bragg  
416 N. Franklin Street  
Fort Bragg, CA 95437

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Fort Bragg, California (City), as of and for the fiscal year ended June 30, 2014, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all such deficiencies have been identified. As discussed below, we identified a significant deficiency and other matters related to internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency presented in the current year recommendations section as Finding 2014-01 to be a significant deficiency in internal control.

During our audit we also noted certain other matters involving internal controls and their operations, and are submitting, for your consideration, related recommendations designed to help the City make improvements and achieve operational efficiencies. These recommendations are described in the current year recommendations section as Findings 2014-02 through 2014-05. Our comments reflect our desire to be of continuing assistance to the City.

We would be pleased to discuss the recommendations in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing these recommendations.

We have included in this letter a summary of communication with the City Council as required by professional auditing standards. We would like to thank the City's management and staff for the courtesy and cooperation extended to us during the course of our engagement.

The accompanying communications and recommendations are intended solely for the information and use of management, the City Council, and others within the organization, and is not intended to be and should not be used by anyone other these specified parties.

*Moss, Levy & Hartzheim*

MOSS, LEVY & HARTZHEIM, LLP  
Culver City, California



# MOSS, LEVY & HARTZHEIM LLP

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February 11, 2015

Members of the City Council  
City of Fort Bragg  
416 N. Franklin Street  
Fort Bragg, CA 95437

We have audited the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Fort Bragg (City) for the fiscal year ended June 30, 2014. Professional standards require that we provide you with the information about our responsibilities under auditing standards generally accepted in the United States of America, *Government Auditing Standards*, and OMB Circular A-133, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated July 14, 2014. Professional standards also require that we communicate to you the following information related to our audit.

### Significant Audit Findings

#### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City are described in Note 1 to the basic financial statements. As discussed in Note 1 of the notes to the basic financial statements, four new accounting policies were adopted during the fiscal year. The new policies are Governmental Accounting Standards Board (GASB) Statement Nos. 65, 66, 67, and 70. Only GASB Statement No. 65 had an effect on the financial statements. See Note I.G.6 and IV.J for the effect on the financial statements. We noted no transactions entered into by the City during the fiscal year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

Management's estimates included the funding progress of CalPERS, the estimated historical cost and useful lives of capital assets, the allowance for uncollectible receivables, and the assumptions used for estimating the other postemployment benefits liability. These estimates are based on CalPERS' actuarial estimates, historical data and industry guidelines for capital assets, current economic and historical data for the allowance for uncollectible receivables, and consultant's estimates for postemployment benefits payable. We evaluated the key factors and assumptions used to develop the estimates above in determining that they are reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

#### *Difficulties Encountered in Performing the Audit*

We encountered no difficulties in dealing with management in performing and completing our audit.

#### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, three of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole. The adjustments were for loss on refunding of debt, debt issuance costs (as required by GASB Statement No. 65), and loans receivable.

#### *Disagreements with Management*

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

#### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated February 11, 2015.

#### *Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

#### *Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

#### Other Matters

We applied certain limited procedures to the Management's Discussion and Analysis, the Schedule of Funding Progress – Other Postemployment Benefits, and the Budgetary Comparison Schedules of the General Fund, Community Development Block Grant Program Income Special Revenue Fund, Housing Successor Agency Special Revenue Fund, and Special Sales Tax – Street Repair Special Revenue Fund, which is required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to provide an “in relation to” report on the Budgetary Comparison Schedules for the major Capital Projects Funds and the Nonmajor Governmental Funds and the Combining Financial Statements for the Nonmajor Governmental Funds, which accompany the financial statements, but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statement or to the financial statements themselves.

We were not engaged to report on the Introductory Section or the Statistical Section, which accompany the financial statements, but are not RSI. We did not audit or perform other procedures on this other information and we do not express an opinion or provide any assurance on it.

Restriction on Use

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

Very truly yours,



MOSS, LEVY & HARTZHEIM, LLP  
Culver City, CA

## CURRENT YEAR RECOMMENDATIONS

### Significant Deficiencies

#### 2014-01 Finding – Deficiencies in internal control over cash receipts:

During our audit of the City's cash receipt system, we noted deficiencies in the following departments:

- a) The finance cash register is not assigned to one employee, there are numerous employees who can access the register, and there is no way to track which employee is responsible for each transaction; and
- b) In the Police Department, there are two employees who can access the cash register and there is no way to track which employee is responsible for each transaction. Also, two police receipts were held over 7 days from the date of receipt until the time of deposit (#184849 and #204438).

#### Effect:

Lack of controls over handling of cash registers can increase the risk of a misappropriation of funds. Also, lack of timeliness in depositing cash receipts results in lost investment income and could result in the receipts being misplaced or a misappropriation of funds occurring.

#### Recommendation:

We recommend that the City implement policies and procedures to ensure that a proper cash receipts system is in place. Each person who has access to the cash register should have his/her own cash register drawer, which is reconciled by a different employee. We also recommend that all receipts be deposited on a daily basis.

#### Management's Response:

As noted in the previous four years' Management Report responses, individual cash drawers are not practical due to the limited number of employees in the Finance Department and in the front office of the Police Department. Cash procedures include verification of all cash transactions by at least two employees then all transactions, summaries, and deposits are verified by the Finance Director and the Assistant City Manager.

### Other Matters

#### 2014-02 Finding – Deficiencies at the Corporation Yard:

During our visit to the Corporation Yard, we noted the following deficiencies:

- a) There were numerous miscellaneous personal and obsolete items being stored.
- b) Video cameras at the corporation yard are not recording to monitor activity.
- c) There is no formal tracking of inventory items being received or requisitioned out.

#### Effect:

Idle and obsolete items are of no benefit to the City and could be sold to generate additional revenue. Also, idle and obsolete items are more likely to be absconded and go undetected. Video surveillance helps reduce the risk of theft and also enables the City to investigate any occurrence of fraud or crime. In addition, inventory is not being tracked as it is received or used. This lack of tracking does not allow for proper safeguarding of City assets.

## CURRENT YEAR RECOMMENDATIONS

### Other Matters (Continued)

#### Recommendation:

We recommend the City sell/dispose of all personal and obsolete items at the Corporation Yard. We also recommend the City ensure that the video cameras operate and record properly. In addition, we recommend the City implement a system to track and account for all inventory received/used. This would include one custodian being responsible for the inventory and utilizing formal requisitions for all inventory items.

#### Management's Response:

The recommendations are acknowledged. The Public Works Department has been through a period of transition with retirements and significant other job turnover leading to some staffing shortages. Work to clean up the Corporation Yard to dispose of unnecessary items as well as better inventory tracking will be underway shortly. The video surveillance system will be reviewed and operational shortcomings corrected.

#### 2014-03 Finding – Stale dated checks on June 2014 bank reconciliation:

During our audit of cash, we noted as of June 30, 2014, there are outstanding checks over one year old on the bank reconciliation, totaling \$183.39.

#### Effect:

Bank reconciliations that contain stale dated checks may have incorrect balances since the stale dated checks have not been investigated. When the City does not resolve reconciling items timely, there is an increased risk of errors and irregularities going undetected.

#### Recommendation:

We recommend that the City research these outstanding stale dated checks to determine if they need to be reissued or sent to the State of California as escheat property.

#### Management's Response:

All outstanding checks over one year old have been researched and either reissued or will be published in the newspaper at the proper time.

#### 2014-04 Finding – Bank reconciliation not prepared properly:

During our review of the June 2014 bank reconciliation, we noted that the outstanding check list does not reconcile to the bank reconciliation and the bank reconciliation does not reconcile to the general ledger.

#### Effect:

Without adequate oversight over the bank reconciliation, it increases the risk that errors and irregularities may occur and go undetected, which can lead to a misappropriation of funds.

#### Recommendation:

We recommend that all bank reconciliations be reviewed for accuracy.

#### Management's Response:

Due to use of inconsistent procedures when clearing stale dated checks, a minor discrepancy developed between the Springbrook software outstanding check balance and the bank statement outstanding check balance. The amount proved to be irreconcilable and was written off in FY 2014-15 and the outstanding check listing has been in balance since that time. In FY 2014-15 a Policy and Procedure was implemented for disposition of stale dated checks.

## CURRENT YEAR RECOMMENDATIONS

### Other Matters (Continued)

2014-05 Finding – Approval of credit card purchases:

During our review of credit card purchases, we noted that two credit card statements were approved by the cardholder.

Effect:

A misappropriation of funds could occur when the same person using the card is also the one who approves the charges.

Recommendation:

We recommend that the City implement a policy that all credit card purchases be approved by a responsible employee who has no access to the credit card.

Management's Response:

Credit card purchases are subject to approval by the City Manager, according to Administrative Regulations C-3 and P-4. The Finance Department will review all credit card statements prior to recording to ensure appropriate approvals are obtained.

## STATUS OF PRIOR YEAR RECOMMENDATIONS

### Significant Deficiencies

#### 2013-01 Finding – Deficiencies in internal control over cash registers:

During our audit of the City's cash receipt system, we noted that the finance cash register is not assigned to one employee; and there are numerous employees who can access the register. Also, in the police department, there are two employees who can access the cash register.

#### Effect:

Lack of controls over handling of cash registers can increase the risk of a misappropriation of funds.

#### Recommendation:

We recommend that the City implement policies and procedures to ensure that a proper cash receipts system is in place. Each person who has access to the cash register should have his/her own cash register drawer, which is reconciled by a different employee.

#### Status:

Not Implemented, see Finding #2014-01.

#### 2013-02 Finding – Lack of disaster recovery plan:

During our review of internal control, we noted that the City lacks a disaster recovery plan.

#### Effect:

Important data may be lost during natural disasters or other catastrophic events.

#### Recommendation:

We recommend that the City implement a disaster recovery plan as soon as possible, to prevent the loss of important information.

#### Status:

Implemented.

#### 2013-03 Finding – Deficiencies in internal control over cash receipts:

During our test of cash receipts, we noted the following:

- a) One business license was unpaid, yet the business was still operating.
- b) Four bank deposits were not deposited on a timely basis.
- c) Numerous planning payments for building permit related fees did not have the application and other supporting documentation retained in the property file.

#### Effect:

Deficiencies in the internal control over cash receipts can increase the risk that errors and irregularities occur and go undetected. It adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably, which can lead to a misappropriation of funds. Also, businesses that are operating without a business license are not in compliance with the City's Municipal Code.

## STATUS OF PRIOR YEAR RECOMMENDATIONS

### Significant Deficiencies (Continued)

Recommendation:

We recommend that the City implement stronger controls over business license payments to ensure that all businesses have paid licenses on file. We also recommend that receipts be processed and deposited on a timely basis, and the Planning Department should retain all supporting documents for building permit related payments, for future verification.

Status:

Partially implemented, see Finding #2014-01.

### Other Matters

2013-04 Finding – Lack of written fraud reporting policy:

During our review of policies and procedures, we noted that there was no formal written fraud reporting policy.

Effect:

Without a formal fraud reporting policy, employees are less likely to report suspected fraud.

Recommendation:

We recommend the City draft and implement a formal written fraud reporting policy.

Status:

Implemented.

2013-05 Finding – Disposal of obsolete items at the corporation yard:

During our visit to the corporation yard, we noted that that there were numerous miscellaneous and obsolete items being stored, including golf clubs, furniture, automobile wheels, old electronics, and road supplies.

Effect:

Idle and obsolete items are of no benefit to the City and could be sold to generate additional revenue. Also, idle and obsolete items are more likely to be absconded and go undetected.

Recommendation:

We recommend the City sell/dispose of all personal and obsolete items at the corporation yard.

Status:

Not Implemented, see Finding #2014-02.

2013-06 Finding – Deficiency in journal entry approval:

During our test of adjusting journal entries, we noted that one adjusting journal entry was prepared and approved by the same employee.

## STATUS OF PRIOR YEAR RECOMMENDATIONS

### Other Matters (Continued)

Effect:

By having the same employee prepare and approve adjusting journal entries, it exposes the City to an increased risk of fraud and a misappropriation of funds.

Recommendation:

We recommend that the City have different employees prepare and approve adjusting journal entries

Status:

Implemented.

2013-07 Finding – No written policy on reversal of late fees:

During our review of accounting policies, we noted that there is no policy for reversal of late fees on utility customer accounts.

Effect:

The lack of a policy for reversal of late fees can lead to the inconsistent application of internal policies.

Recommendation:

We recommend the City to establish a policy for reversal of late fees.

Status:

Implemented.

2013-08 Finding – Lack of “Notice to Proceed” for a construction project:

During our audit fieldwork, we noted that there was no “Notice to Proceed” issued for the 2013 Street Resurfacing Project #2013-01 to Intermountain Slurry Seal, Inc.

Effect:

Without a “Notice to Proceed” there is no official notification to the contractor to state the project or official notice that the construction contract was awarded.

Recommendation:

We recommend that the City issue a notice to proceed prior to the start of each construction project.

Status:

Implemented.

## STATUS OF PRIOR YEAR RECOMMENDATIONS

### Other Matters (Continued)

#### 2013-09 Finding – Deficiencies in internal control over cash disbursements:

During our test of cash disbursements, we noted the following:

- a) Three receiving reports were not obtained/retained (Check #s 68797, 69424, and 69470)
- b) One voided check did not have the signature portion removed (Check # 70075)
- c) One invoice was not stamped “paid” (Check #69424)

#### Effect:

A deficiency in internal control increases the risk that errors and irregularities may occur and go undetected. It adversely affects the City’s ability to initiate, authorize, record, process, or report financial data reliably, which can lead to a misappropriation of funds. Also, the lack of receiving reports allows for the possibility of paying for materials not received or not received in satisfactory condition. Without the signature portion of a voided check being removed, there is a possibility that the voided check could be re-used. In addition, a lack of a “paid” stamp noted on a paid invoice increases the chances that the invoice could be paid more than once.

#### Recommendation:

We recommend the following:

- a. The City should obtain/retain receiving reports for all disbursements for goods
- b. The City should ensure that the signature portion be removed from all voided checks.
- c. All paid invoices be stamped “paid”.

#### Status:

Implemented.

#### 2013-10 Finding – Stale dated checks on June 2013 bank reconciliation:

During our audit of cash, we noted that as of June 30, 2013, there are outstanding checks over one year old on the bank reconciliation, totaling \$1,325.46.

#### Effect:

Bank reconciliations that contain stale dated checks may have incorrect balances since the stale dated checks have not been investigated. When the City does not resolve reconciling items timely, there is an increased risk of errors and irregularities going undetected.

#### Recommendation:

We recommend that the City research these outstanding stale dated checks to determine if they need to be reissued or sent to the State of California as escheat property.

#### Status:

Not implemented, see Finding #2014-03.

#### 2013-11 Finding – Lack of clarity regarding vacation accruals in Memorandum of Understanding:

During our review of compensated absences, we noted that the Memorandum of Understanding (MOU) is unclear in regards to the accrual of vacation hours based on years of employment.

## STATUS OF PRIOR YEAR RECOMMENDATIONS

### Other Matters (Continued)

Effect:

Unclear wording in MOUs could lead to incorrect vacation accrual balances and payout of such hours, which results in over/under payments to employees.

Recommendation:

We recommend the City update the MOU to clarify the accrual of vacation hours based on years of employment.

Management's Response:

As the MOUs come up for negotiation, the vacation accrual language will be discussed and clarified.

Status:

Implemented.