**City of Ojai**
**Finance Department Assessment**
**Prepared by Eide Bailly CPAs**
**8/23/24**

## BACKGROUND

Eide Bailly was engaged to perform an initial independent assessment of the Finance Department, focusing in particular on the strengths and weaknesses of:

1. Staff size, organization structure, and abilities
2. Accounting, reporting, budgeting, and forecasting practices
3. Financial policies and procedures
4. Internal controls

We serve as the permanent part-time Finance Director for several special districts and cities similar in size to the City of Ojai, and we provide interim accounting and consulting services on an as needed basis. Our specialty is smaller sized utilities and cities, so we evaluated the City being mindful of its size and unique needs.

We were onsite for approximately 20 hours to interview and gather information from the Accounting/Finance staff. We spent as many hours offsite reviewing City financial information and in correspondence with staff. It should be noted that the scope of work for this assessment effort was limited to a very general overview of the various staffing and financial operations of the City. A more comprehensive and detailed review can be done in the future as needed.

## EXECUTIVE SUMMARY

In our observation of the Finance Department, we documented several processes that could be improved to follow best practices. Most notably, the current accounts payable process is not working efficiently due to the procedures in place for the approval of emailed and paper invoices. This is further hindered by the lack of a formal purchase order process, which could serve to alleviate some of the issues in accounts payable. During our review we scheduled a call with a Springbrook representative who explained in detail the accounts payable and purchase order workflow features available to the City, and also noted these functionalities are already paid for in the City's annual fees.

Beyond accounts payable, we found several other functions relating to journal entries, grant accounting, and other reporting items that are several months behind. This can be partially attributed to the vacancy of the Accounting Manager, a position that is needed to manage the workload of the department. However, prior to the Accounting Manager leaving these processes were still in arrears. In addition, we found several processes in place that accounting staff and leadership would convey as an outdated process that was inherited and not changed to a efficient process.

As with any city, there is some tension between departments. It was apparent that other departments are skeptical of how processes are being carried out in the Finance Department. In our discussion with various departments, it is evident that many of these doubts could be resolved with clearer communication between departments. Some issues however appear to demand clearer guidance from the Finance Department to best resolve the issues at hand. The following findings and recommendations may help to address communications and trust between departments.

# FINDINGS

## STAFF

- We noted that the current Finance Department staff consists of two Accounting Specialists, one Accountant I, the Finance Director, and the vacant Accounting Manager position.

- Staff appears to be very dedicated, responsive, and attentive to detail.  Staff appears to genuinely want to do a good job and improve their skills and processes.

- We noted that that staff appears to be behind on the current workload. It appears that with the vacancy of the Accounting Manager position, the Finance Director must handle high level items such as budget preparation and other compliance reporting, as well as the daily tasks the Accounting Manager used to perform, such as journal entry review, payroll review, and answering staff questions.

- We also noted that under the current workload and staffing level, the Finance Director is unable to dedicate the time needed to train staff. The department has capable staff who are willing to learn, but they need training from upper-level staff.

- We recommend that the City start the recruitment process to fill the vacant Accounting Manager position. In this recruitment the ideal candidate would have experience with Enterprise Resource Planning (ERP) systems (Springbrook a plus), fund accounting, supervising staff, high level Excel skills, and payroll knowledge. The Manager position will help not only with the day-to-day items such as batch approvals and banking functions such as positive pay files, but also assist the Finance Director with the more complex accounting work. This includes deferred revenue entries, transfers of Measure C funding, developer fee tracking, and Schedule of Expenditures of Federal Awards (SEFA) preparation.

- We also recommend that while the Accounting Manager is acclimating to their position, the City consider outsourcing certain non-routine functions. Functions such as 1099 reporting, annual Government Compensation in California (GCC) reporting, and Financial Transaction Report (FTR) preparation could be performed by contractors while the Manager adapts to their role. Outsourcing these functions allows for a contractor to help establish best practices for these activities, as well as train the Manager on the same if needed.

- We noted in discussion with the Finance Director, several outdated processes being followed were inherited from previous Directors.  While this may be acceptable in the first year or two under new leadership, for any longer period of time the Finance Director should take ownership of these files, processes, and strive for improvements rather than maintaining the status quo.  It is the Finance Director's responsibility to ensure best practices are being followed and acceptable processes are put in place.

## PAYROLL/HR

- We noted that the City is utilizing manual timecards for all employees, which are approved by the appropriate Manager then turned into accounting ahead of the payroll process. We also noted that often these timecards are turned in late or delayed for other reasons, which in turn delays accounting staff from being able to process payroll. We recommend the Finance

Department explore the time tracking system options available in Springbrook or in other programs. A system with electronic approvals would allow for better monitoring and accountability for city employees to ensure their timecards are being submitted and approved in a timely manner.

- We also noted that all Personnel Action Forms (PAFs) are prepared by the Human Resources Management Analyst. These forms are then delivered to the Finance Director who enters the personnel changes into Springbrook ahead of payroll processing. We recommend that the Management Analyst enter the changes from the PAFs into the Springbrook system to provide the most effective internal controls. Proper segregation of duties would dictate that Human Resources enter all pay rates, position changes, and other deduction changes. The department that is processing the payroll (Finance) should not have the ability to change pay rates on their own. After Human Resources has entered the rate changes, Finance would then review those changes to ensure they had been entered correctly before processing payroll.

## 457 REPORTING

- We noted per discussion with the Finance Director that 457 payments to employees are remitted to Mission Square monthly. This practice violates Department of Labor ERISA code, which requires the 457 deductions be remitted to the employee's account as soon as administratively possible. The courts have interpreted this be 1-3 days after payroll, no more than a week. We have seen agencies pay significant penalties for doing a similar once a month process rather than each payroll. We recommend correcting this process immediately by issuing payments to Mission Square either the day of or day following payroll processing.

- The Finance Director believes the 457-transmittal process used to be directly after the payroll was processed, and somehow it was switched to once a month to make things easier for the department. We recommend that the Finance Director take more ownership of the activities in the department and prioritize certain processes. There seemed to be a theme of the Finance Director not being able to articulate why certain things are done or not prioritized. We recommend anything involving employee payroll, benefits, compliance, and cash related activities be prioritized.

## POSITIVE PAY

- We noted that over the past several months, there have been ongoing issues with checks issued by the City bouncing due to positive pay exceptions. These issues are affecting not only the City's vendors, but also employee's payroll checks.

- In meetings with the Finance Director, we were informed positive pay exceptions are supposed to be reviewed daily as a part of routine process, which would align with best practices. It is clear though based on ongoing occurrences that this process is not occurring as described. We recommend that the Finance Director or appropriate staff in the Finance Department review positive pay exceptions daily, as well as enable increased notification options from the bank to ensure exceptions are being reviewed and addressed in a prompt manner.

- We were told that one of the bounced checks occurred on an exception that happened on a Saturday. The Finance Director indicated that she could not check the bank over the weekend because she had been ill. We recommend that if the Finance Director cannot complete this

important task, she assign it to someone else who can. It is unacceptable to let properly completed checks bounce because there is no one attending to positive pay.

- There also seemed to be a lot of blame placed on Bank of California and their equipment. We have many clients with Bank of California and have not noted this to be a problem elsewhere. Regardless, even if it is an issue with the bank, it is a known problem that has not being properly addressed by the Finance Director.

## FINANCIAL SOFTWARE

- The City is using Springbrook as its financial software system. The version of Springbrook being used is the most current version available, which includes cloud-hosted access. Springbrook cloud-hosted has two different interface programs that run in parallel to one another: Cirrus and Enterprise. Enterprise is the legacy version of Springbrook, while Cirrus is the newer version where Springbrook is putting all new features and updates. We noted the Finance Department is still utilizing the Enterprise version of Springbrook. While most features are the same between these two interfaces, there are many new tools in Cirrus relating to data entry, reporting, and more that should be explored for potential use by the City.

- Springbrook is a comprehensive ERP program with modules for budgeting, purchase orders, project tracking and much more. Our recommendation is that the City consider making better use of the software capabilities rather than implement a new ERP program at this time.

## ACCOUNTS PAYABLE/PURCHASE ORDERS

- We noted that the Finance Department keeps excellent vendor W-9 records and is very diligent in the process for adding new vendors.

- We noted that the Finance Department staff opens all mail for the City, as a part of their daily processes. Invoices received are logged into an Excel sheet to track all invoice receipts. We recommend that this process, if continued, be performed by a centralized administrative staff in City Hall, which would align more with best practices that dictate proper internal controls and segregation of duties. Auditors generally recommend that someone other than the Finance Department open the mail and distribute accordingly.

- We noted invoices come in via both mail and email to accounting staff and are then distributed to various departments for their approval. Department approvers will stamp, code, and sign the invoices and then either bring the physical invoices back to Finance or upload to a specified location. We also noted that some invoices are not being routed to the accounts payable team, with some vendors sending invoices directly to other department contacts. We recommend requiring all vendors to route all invoices to the proper accounts payable email, so that the Finance Department is aware of all invoices being issued to the City.

- We noted that the City does not have a centralized Purchase Order (PO) process. Purchase orders are manually prepared at vendor's request when required. We would recommend implementing the purchase order module through Springbrook. Our understanding is this module is already paid for under the current Springbrook contract, however the module is not implemented. The Springbrook purchase order module includes an intuitive workflow process to streamline purchase order creation and online approvals. Once a new purchase order has been entered in the Springbrook system, approval for the purchase order can be routed any number

of different ways based on dollar approval thresholds, out of office functions, and more. This would allow for separate departments such as Public Works to create purchase orders that in turn would help the Finance Department be more efficient in their invoice processes.

- We noted that without a proper purchase order process, the City currently has no mechanism for encumbering funds from one year to the next. The above recommendation for implementing Springbrook purchase order module would also provide this functionality.

- We noted that the current invoice approval process can be tedious for the Finance Department and the engaging department. With the sending of invoices via email for approvals, there is little tracking or follow up to make sure these invoices are making it back for entry into accounts payable. We would recommend that in hand with the purchase order module, the City implement Springbrook workflow process for accounts payable. This process would involve accounting staff entering all invoices into an accounts payable batch and attaching each invoice digitally in the Springbrook system. With the implementation of purchase orders, most large invoices would be tied to a P.O., which would generate the proper coding for the accounts payable item(s). After entry, the workflow process would then notify all various invoice approvers of invoices that need their review and approval. The approvers would be able to see the invoices electronically in Springbrook, eliminating any paper process. These individuals could then either approve the invoices or reject invoices that need adjustments to coding or other items. Once all approvals are resolved, accounting staff can commit the invoice batch and continue with their process.

- We do not think implementing Springbrook's P.O. system and workflow would be a heavy lift, and we would be happy to assist the department with this project.

## JOURNAL ENTRIES

- The journal entry process in place at the City is well structured from an internal control standpoint. Most journal entries are prepared by the Accountant I position, who in turn prepares a packet for review consisting of the standard form journal entry, the supporting proof list from the Springbrook system, and any other supporting documents. This packet is then reviewed and approved by either the Accounting Manager or Finance Director.

- In our review of the General Ledger and conversation with staff, we observed that several journal entry processes are not currently being maintained. There are supposed to be quarterly entries prepared for interest allocation, deferred revenue realization, fund transfers for use of Measure C funding, and other specified funding, as well as depreciation entries. Historically all these entries have been maintained by the Accounting Manager.
    o We would recommend that the City fill the Accounting Manager position to assist with preparing these entries in a timely manner. In the interim it could be beneficial to outsource these processes to get the accounting records current.

- We noted that there are several recurring journal entries for transfers of funding sources (as budgeted) and prepaid amortization that occur monthly.
    o We would recommend considering these entries for annual posting in July of each year, or as incurred, rather than monthly posting, to ease the time burden of repetitive monthly posting.

## CASH RECEIPTING/BANK RECONCILIATIONS

- We noted that the overall cash receipting process appears to be in good order, with proper controls being following and good deposit handling procedures in place. We also noted that after a cash receipting batch has been prepared by the Accounting Specialist, the Accountant I performs a detailed review of the batch before committing.

- We noted that as a weekly process, the Accountant will prepare a receipt deposit batch that goes into the bank reconciliation module. As a part of this processes, the Accountant will tie the various deposit batches back to the daily bank activity.

- We noted that the City currently outsources the bank reconciliation preparation process. Our recommendation is that the City should reevaluate the need for these services once the Accounting Manager position has been filled. The most challenging part of the bank reconciliation process for most agencies is reconciling various check, cash, and credit card deposits in the ERP system to the bank activity. However, this aspect of the reconciliation is already being performed by the Accountant I as a part of weekly cash deposit review. Considering this, it seems feasible that the Accounting Manager would be able to complete the bank reconciliations in house.

- We noted that on the Checking account reconciliation that there are outstanding checks dating back to 2021 and prior. Some of these checks were issued by the City's prior bank. We also noted that there is no stale checks policy in place. We recommend that the City implement a stale checks policy that would allow for these checks to be written off and removed from the bank reconciliation after the proper public posting procedure has been followed.

## GRANT REPORTING/ACCOUNTING

- We noted that in the prior fiscal year the City received a single audit finding related to the timeliness of the Schedule of Expenditures of Federal Awards (SEFA).  In our observation, little to no grant tracking work has been done in Fiscal Year 2024 in the Finance Department. While department records appear to be thorough, there is not a routine process in place for reconciling the grant activities of the departments to the general ledger.

- We noted that grant reporting and related tracking is decentralized. Most grant activity for the city is related to Public Works and Transit. Public Works submits their own invoicing on their grants to the granting agency, without review or reconciliation to accounting records. It is unclear who is preparing and billing submissions on the transit related grants. While most these grant funded projects have a related general ledger account, there is not a consistent system in place of reconciling the billings that are being submitted to the grantor agencies back to the City's accounting system. There is also no central location where all grant agreements, invoices, etc. are being stored. There are separate records in both Public Works, Transit, and Finance. This poses an issue when it comes time to prepare the annual SEFA.

- We recommend the City implement Government Finance Officers Association (GFOA) best practices relating to SEFA preparation, which would include a central repository for all grants files as well as a monthly or at least quarterly reconciliation of grant expenditures to the general ledger.  This might involve creating a project for each grant in Springbrook's Project Module that

tracks the revenues and expenditures. A separate fund in Springbrook could also be created for each grant.

- o [https://www.gfoa.org/materials/sefa-preparation](https://www.gfoa.org/materials/sefa-preparation)

## CREDIT CARDS

- We noted in our discussion with City employees that each credit card receipt is individually emailed to finance. Finance then receives the monthly statement and matches each receipt to the statement charges for coding. Often in this process, Finance has to request additional receipts from various departments due to items that are lost in emails or not saved to the proper folder. We would recommend that monthly the credit card statement be sent to each cardholder  who can then provide Finance with a packet including all relevant receipts as well as ensuring all expenditures have been accounted for, rather than sending all individual receipts throughout the month.

- We noted per discussion with City employees that that City does not issue individual gas cards to employees or by vehicle. The process in place is a single gas card that is kept on hand at a local gas station. City employees go to the station, request the card then enter a specified code at the pump to complete their fuel purchase. The receipts are then submitted to the proper Manager to be sent over to Finance. This process makes it very tedious to verify which employee and/or vehicle is related to each fuel purchase. Furthermore, when this single card is misplaced, as occurred recently, it creates a major issue for completing needed fuel purchases. We would recommend adjusting the current credit card process to implement employee specific or vehicle specific cards, which will improve the tracking of fuel purchases for the City.

## BUDGETING

- We noted that the City prepares a comprehensive budget book each year. However, in discussion with staff, the preparation of the budget document is a very cumbersome process. The various excel workbooks, charts, tables and other narrative material are all maintained manually. In turn, a small change to one budget line item or funding source results in a notable amount of effort to update all the various pieces. We recommend the City consider implementing a budget book software that would allow for more seamless integration between the budget figures and all other related material of the budget book. There are various software options available, a few noteworthy options include ClearGov and OpenGov.

## ANNUAL AUDIT/FINANCIAL REPORTS

- We noted that the City completes an annual financial statement audit each fiscal year. However, we recommend to further improve transparency, that the City issue an Annual Comprehensive Financial Report (ACFR).   A regular annual report typically presents only basic financial statements and required supplementary information. The ACFR, by contrast, presents a wider variety of important information intended to help the reader properly understand the operations and financial trends of the City.

- The first year of ACFR preparation is often the most burdensome due to the statistical schedules which require ten years of historical financial and operational data. We recommend the City consider outsourcing assistance with the first year of ACFR schedule preparation, and then maintain these schedules in-house in subsequent years.