

REQUEST FOR PROPOSALS

RFP # 1570

Notice is hereby given that sealed proposals will be received by the City of Culver City, California, for furnishing the following:

INTERNAL AUDITING SERVICES

in strict accordance with the Specifications on file in the office of the CULVER CITY PURCHASING DIVISION, 4343 Duquesne Avenue, Culver City, California, 90232. Copies of specifications and proposal documents may be obtained from the City's website at www.culvercity.org/Services/BidNotices.aspx.

One original, one electronic, and three copies of the proposal must be submitted to the CITY CLERK in a sealed envelope at CITY HALL, 9770 Culver Boulevard, Culver City, California, 90232, not later than **3:00** p.m. on **Thursday, August 13, 2015**, at which time they will be publicly opened in the Council Chambers on the first floor of City Hall. Facsimile proposals will not be accepted. Any proposer may withdraw his proposal, without obligation, at any time prior to the scheduled closing time for receipt of proposals. A withdrawal will not be effective unless made personally or by telephonic notification received prior to the closing date. Proposals may later be referred to the City Council for appropriate action. The City reserves the right to reject any or all proposals as the best interests of the City may dictate.

By: _____
Martin Cole, City Clerk

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Culver
CITY



REQUEST FOR PROPOSALS

for

INTERNAL AUDITING SERVICES

RFP #1570

July 2015

City of Culver City

FINANCE DEPARTMENT

9770 Culver Boulevard

Culver City, CA 90232-0507

(310) 253-5600

INTERNAL AUDITING SERVICES

RFP #1570

I. REQUEST SUMMARY

The City of Culver City is seeking proposals for internal audit services to be performed in place of an internal audit function in accordance with applicable industry standards including, but not limited to, those established by the Institute of Internal Auditors (IIA), and the American Institute of CPAs (AICPA) and utilizing the appropriate audit management software as well as other applicable resources. These services will take the place of an in-house internal audit function, and provide continuity and efficiencies to the process while maintaining an independent and objective approach that will add value and improve the City's operations.

II. INTRODUCTION

A. Community Profile

The City of Culver City (City) is a charter city incorporated in 1917. The City is governed by a five-member City Council whose members are elected at large and operates under a Council/City Manager form of government.

Culver City is a full-service city located in the western area of Los Angeles County, generally situated north of Los Angeles International Airport, southeast of Santa Monica, south of Beverly Hills and southwest of West Hollywood. The City is approximately five square miles with a residential population of approximately 40,000. The total adopted budget for FY 2015-16 is approximately \$224 million, of which \$107 million is General Fund.

The City's audited financial statements as of June 30, 2014, including the Comprehensive Annual Financial Report, Single Audit and Municipal Bus Line statements are available online at <http://www.culvercity.org/en/Government/Finance/FinancialReports.aspx>. The City's Management Letter for the fiscal year ended June 30, 2014 is attached as "Exhibit B".

B. Background

The City has many internal controls in place in each department that seek to impact the daily conduct of our business, protect our employees/customers/clients, safeguard our assets, mitigate our risks, and allow for accurate financial reporting (including financial projections) to help ensure a viable, sustainable government that is able to serve its citizens both now and in the future.

Over the years, the City Finance Department has performed a limited amount of monitoring of these internal controls. This effort has focused primarily on reviewing the cash receipting process in place in City departments that take in monies over the counter to ensure that the monies are properly received, safeguarded, deposited and recorded in a timely way in the City's financial system. This work has been done on a rotating basis each year with one or more such departments' cash handling processes being reviewed.

The City Council has requested that the City begin in a greater way to review our internal controls. Given that sufficient staff time and expertise are not available for this work to be done in-house, it was recommended that a request for proposal (RFP) be done to solicit bids from qualified firms to perform this work as directed by City management.

It is anticipated that this work would begin with a review of the entity-wide controls in place to enable the auditor to better understand our governing and operating structure and also to assess the "tone at the top," since this is often the foundation for all of the other components of internal control.

This would most likely be followed by a risk assessment of each department to identify the areas of highest risk so that these could be reviewed first. It is anticipated that a multi-year internal audit schedule could then be developed. Departments would be reviewed on a rotating schedule over perhaps a 3-5 year time period, depending on the availability of monies to pay for this work.

The purpose of this RFP is to solicit proposals from qualified firms to provide **internal auditing services** for the City of Culver City for a period of five years with the possibility of two one-year extensions if agreed upon by both parties. This would be subject to the annual review and recommendation of the City Manager, the satisfactory negotiation of terms (including a price acceptable to both the City and the selected firm(s)), the concurrence of the City Council and the annual availability of an appropriation.

These services are to be performed in accordance with generally accepted auditing standards issued by the American Institute of Certified Public Accountants (AICPA) and the Standards for The Professional Practice of Internal Auditing issued by the Institute of Internal Auditors (IIA).

C. General RFP Submittal Information

The City's designated staff will evaluate proposals received.

During the review process, the City reserves the right, where it may serve the City's best interest, to request additional information or clarification from those that submit proposals, or allow corrections of errors or omissions. Any and all changes in the RFP will be made by written addendum, which shall be issued by the City to all prospective Proposers who have been issued or obtained copies of the RFP from the City's website.

The City reserves the right to retain all proposals submitted. Submission of a proposal indicates the Proposer's acceptance of the conditions contained in this RFP, unless

clearly and specifically noted in the proposal submitted and confirmed in the contract between the City and the Proposer selected.

The preparation of the proposal will be at the total expense of the Proposer. There is no expressed or implied obligation for the City to reimburse responding Proposers for any expense incurred in the preparation of proposals in response to this request. All proposals submitted to the City shall become properties of the City and will not be returned.

The City reserves the right to reject any or all proposals, in whole or part, to waive any informality in any proposal, and to accept the proposal which, in its discretion, is in the best interest of the City.

To be considered, Proposers must send one original, one electronic, and three (3) hard copies of their proposal in a sealed envelope with the name of the company submitting the proposal and the title of "Internal Auditing Services" to:

**City of Culver City
City Clerk
9770 Culver Blvd.
Culver City, CA 90232**

For a complete list of the City's RFP submittal terms and conditions, legal statements, and insurance requirements, please refer to "Exhibit A" attached hereto.

D. RFP Questions

Questions with regard to this RFP should be submitted by e-mail to Jeff Muir, Chief Financial Officer, at jeff.muir@culvercity.org by July 21, 2015. All firms sending questions will receive responses to all questions and any other addenda that may be released via e-mail by July 28, 2015.

E. Schedule

The City reserves the right to make changes to the below schedule, but plans to adhere to the implementation of this bid process as follows:

RFP released:	July 9, 2015
Deadline for receiving questions:	July 21, 2015
Response to questions:	July 28, 2015
Proposals due:	August 13, 2015 @ 3:00pm (PST)
Finalists selected:	August 20, 2015
Presentations/Interviews (if necessary):	Week of August 31, 2015
Vendor selected:	September 14, 2015

III. SCOPE OF SERVICES

1. Perform a review of the entity-wide internal control environment in place at the City. This includes evaluating the adequacy of segregation of duties, transfers of accountability, supervisory reviews and approvals, reconciliations, physical safeguards over cash, checks and critical forms (such as handwritten receipts, permits and licenses), and existence of written procedures. These should include the following financial processes at the City:
 - Cash Receipts
 - Accounts Receivable and Collections
 - Cash Disbursements / Accounts Payable
 - Revolving Funds
 - Procurement
 - Payroll
 - Trust Funds and Agency Funds
 - Budgeting
2. In conjunction with key City staff, perform a risk assessment of City operations in order to prioritize the areas for internal audit work to be performed. From this prioritization, develop a multi-year internal audit schedule encompassing all City departments. Review the risk assessment and the internal audit schedule annually with City management and adjust accordingly to reflect any changes in the internal or external environment that affect the risks the City is facing.
3. Perform internal audits of several departments each year according to the prioritized schedule developed above. Analyze the data obtained for evidence of deficiencies in controls, duplicative effort, wasteful or unnecessary spending, fraud, lack of compliance with federal, state or local laws/regulations or failure to follow management policies/procedures.
4. Assist the City in establishing a tip line (fraud hotline) where employees could anonymously report areas of concern to them.
5. Review other areas as deemed necessary or as requested by City administration or the City Council.
6. Provide recommendations for strengthening internal controls in order to lower identified risks to the City and improve fraud detection and prevention.
7. Submit audit findings/reports to City management and the City Council at regularly scheduled meetings. Monitor compliance with recommendations where necessary.

IV. PROPOSAL OUTLINE TO BE SUBMITTED

The proposal shall be organized and submitted with the following elements:

A. Cover page

B. Table of contents

C. Executive summary

Provide a brief summary describing the proposer's ability to perform the work requested, a history of the proposer's background and experience providing services, the qualifications of the proposer's personnel to be assigned to this project, any subcontractor, sub consultants, and/or suppliers and a brief history of their background and experience, and any other information called for by this request for proposal which the proposer deems relevant, including restating any exceptions to this request for proposal. This summary should be brief and concise to apprise the reader of the basic services offered, experience and qualifications of the proposer, staff, subcontractors, and/or suppliers.

D. Questionnaire/Response to Scope of Services

Proposer shall provide responses and information to fully satisfy each item in the Questionnaire. Each question item should be presented before the proposer's response.

E. Attachments

V. QUESTIONNAIRE

A. Company and General Information

1. Company name and address.
2. Letter of transmittal signed by an individual authorized to bind the respondent, stating that the respondent has read and will comply with all terms and conditions of the RFP.
3. General information about the primary contact who would be able to answer questions about the proposal. Include name, title, telephone number and email address of the individual.

B. Qualifications and Experience of the Firm

1. A brief history of your organization, full corporate name and affiliate organizations, a review of ownership, current location and territory attended to, number of employees, number of years of experience providing internal audit services and anticipated changes to the existing size and location of your business.

-
2. The services your firm offers which may distinguish it from other firms.
 3. A profile of the type of accounts and clients for which your firm presently provides internal auditing services.
 4. Provide your firm's audit and internal controls philosophy, in particular with respect to assets and controls of governmental organizations.

C. Qualifications and Experience of Proposed Project Team

1. A biography of the primary staff that will be responsible for the work to be performed for the City.
2. A brief biography of principals of the Firm.
3. An organizational chart for the individuals assigned to our account.

D. Questions/Response to Scope of Services

1. Describe your firm's experience in providing internal auditing services to local governments as well as other organizations. Describe the unique qualifications of your firm to provide internal auditing services to the City.
2. Describe your firm's experience in auditing Electronic Data Processing (EDP) systems, to include, but not limited to, accounting software systems, PC based software applications, local area networks, etc.
3. Describe how you will ensure that the audit team assigned will have the necessary knowledge and experience in City government internal controls.
4. The proposal should include a pricing structure (estimated hours and blended hourly rate) for the entity-wide review of internal control and the risk assessment work to be performed. Describe how you would approach risk assessment at the City and how you would develop an internal audit schedule for period review of internal controls in City departments based upon the risk assessment.
5. Based upon internal audit work performed by your firm for entities similar to the City provide (if possible) an estimate of the hours and yearly cost to review internal controls in City departments such that each department could be reviewed once every 5 years as determined through the risk assessment process.
6. Provide a cost estimate for assisting the City to establish a tip line (fraud hotline) where employees could anonymously report areas of concern to them.
7. Describe your firm's professional and technical resources which are available to support the internal audit work.

E. Reporting

Detail proposed meeting availability for phone calls and face to face meetings. Presence at City Council meetings may be needed from time to time.

Provide a sample internal audit report and discuss the type(s) of reports and related audit information that is provided to the client.

F. Fees

1. Provide your fees for the proposed service. Fee quotes should be detailed by service.
2. Outline billing and payment expectations, including timing and method of payment.
3. Describe any remaining fees not already detailed above.

G. Exceptions to Specifications

Although the specifications in the requirements section represent the City's anticipated needs, there may be instances in which it is in the City's best interest to permit exceptions to specifications and accept alternatives.

It is extremely important that Firms make very clear where an exception is taken to the specifications and how alternatives will be provided. Therefore, exceptions, conditions, or qualifications to the provisions of the City's specifications must be clearly identified as such, together with the reasons, and inserted in this section of the proposal. If the Firm does not make it clear that an exception is taken, the City will assume the proposal is responding to and will meet the specification as written.

H. References

Please provide the name, contact person, and phone number of three existing internal audit clients, preferably local governments, whom we may contact for references. Indicate the length of time for the engagement.

I. Certificate(s) of Insurance

The City will require the successful proposer to provide Certificates of Insurance evidencing required coverage types and the minimum limits. See Exhibit A for more information on the City's insurance requirements.

VI. EVALUATION OF PROPOSALS

Proposals will be judged on the Proposer's ability to provide services that meet the requirements set forth in this document. The City reserves the right to make such investigations as it deems necessary to determine the ability of the Proposer to provide

services meeting a satisfactory level of performance in accordance with the City's requirements. Interviews and presentations by one, several, or all of the Proposers may be requested by evaluators if deemed necessary to fully understand and compare the Proposer's capabilities and qualifications. The adequacy, depth, and clarity of the proposal will influence, to a considerable degree, its evaluation.

The criteria upon which evaluation of the proposals will be based include, but are not limited to the following:

1. The ability of the Firm to provide excellent internal auditing services to the City.
2. References from persons knowledgeable of the Firm's ability to fulfill the terms of the contract.
3. Economic feasibility and justification of all costs.
4. General and financial stability of the company and years in business.
5. Firm willingness and ability to negotiate a contract acceptable to the City.
6. Quality of the proposal and presentations (if required).
7. Ability for the Firm to provide quality advice and documentation.

EXHIBIT A

SUPPLEMENTAL TERMS AND CONDITIONS, LEGAL STATEMENTS, AND INSURANCE REQUIREMENTS

SUPPLEMENTAL TERMS AND CONDITIONS

- I. Submission of a proposal shall be deemed a binding offer to enter into a contract with the City. Any proposed modifications to the agreement shall be signed by the successful proposer and returned, together with the certificate of insurance required pursuant to said Section of the Agreement within ten (10) days after the Notice of Award.
- II. All proposers shall be presumed to understand all of the terms, conditions and requirements of the agreement as stated in the specifications and to be thoroughly familiar with the project.
- III. The selected vendor shall be required to obtain all applicable Culver City permits and business licenses. The Business Licensing Division may be reached at (310) 253-5888. The cost of these items shall be included in the total proposal price.
- IV. Reserved.
- V. Reserved.
- VI. The City reserves the right to seek supplemental information from any proposer at any time between the dates of proposal submission and the RFP award. Such information will be limited to clarification or amplification of questions asked in the original proposal. Any proposer may be subject to personal interview and inspection of their business premises prior to award.
- VII. The City reserves the right to reject any or all proposals and to waive informalities and minor irregularities in proposals received and to accept any portion of proposal or all items of proposal if deemed in the best interest of the City. In addition, the City reserves the right to do any, or all, of the following:
 - a. Reject any or all proposals or make no award;
 - b. Issue subsequent RFP;
 - c. Cancel the RFP;
 - d. Remedy technical errors in the request for proposals;

EXHIBIT A

- e. Modify any requirements contained within the RFP and request revised submittals from Proposers determined to be within the competitive range;
 - f. Award a contract to one or more proposers;
 - g. Accept the written proposal as an offer, without negotiation and issue a notice to proceed, if applicable.
- VIII. The City reserves the right to contract with any of the firms responding to this RFP based solely upon its judgment of the qualifications and capabilities of that firm.
- IX. All materials submitted regarding this RFP become the property of the City. Responses may be reviewed by any person at proposal opening time and thereafter. The City has the right to use any or all collection ideas presented in reply to this request, subject to the limitations outlined in *Proprietary Information* below. Disqualification of a proposer does not eliminate this right.
- a. *Proprietary Information* – Any restrictions on the use of data contained within a proposal must be clearly stated in the proposal itself. Proprietary information submitted in response to this RFP will be handled in accordance with applicable City Procurement Regulations and the California Public Records Act.
- X. The City is not liable for any cost incurred by proposer prior to issuance of an agreement, contract, or purchase order.

LEGAL STATEMENTS

All proposers must meet the following contractual and legal requirements in order to enter into a contractual agreement with the City:

I. PROHIBITED INTERESTS

- a. Contractor/Consultant warrants that it has not employed or retained any company or person, other than a bonafide employee working solely for Contractor/Consultant, to solicit or secure this contract and that it has not paid or agreed to pay any company or person, other than a bonafide employee working solely for Contractor/Consultant, any fee, percentage, brokerage fee, gifts or any other consideration, contingent upon or resulting from the award or making of this contract. For violation of this warranty, the City shall have the right to annul this contract without liability;

EXHIBIT A

- b. Contractor/Consultant agrees that, for the term of this Contract no member, officer, or employee of the City, or of a local public body during his/her employment for one (1) year thereafter, shall have any interest, direct or indirect, in this contract, or to any benefit arising thereof ;
- c. The employment by Contractor/Consultant of personnel on the City's payroll will not be permitted in the execution of this contract, even though such employment may be outside of the employee's regular working hours or on Saturdays, holidays, or vacation time; further, the employment by the Contractor/Consultant of personnel who have been on the City's payroll within one (1) year prior to the date of contract award, where such employment is caused by and/or dependent upon Contractor/Consultant securing this or related contract with the City, is also prohibited.

II. ANTI-LOBBYING PROVISION

- a. During the period between proposal / sealed bid submission date and the contract award, proposers, including their agents and representatives, shall not directly discuss or promote their proposal with any member of the City of Culver City City Council or City staff except in the course of City-Sponsored inquiries, briefings, interviews, or presentations, unless requested by the City;
- b. This provision is not meant to preclude offerors from discussing other matters with City Council members or City staff. This policy is intended to create a level playing field for all potential offerors, assure that contract decisions are made in public, and to protect the integrity of the RFP / Bid Evaluation process. Violation of this provision may result in rejection of the offeror's proposal.

- III. **NON-DISCRIMINATION REQUIREMENTS:** In addition to any other obligations set forth in the specifications, Contractor shall not discriminate against any employee or applicant for employment because of gender, gender identity, gender expression, sexual orientation, sex, age, disability, medical condition, genetic information, marital status, race, color, religion, ancestry, or national origin. Contractor shall take affirmative action to ensure that employees are treated during employment without regard to their gender, gender identity, gender expression, sexual orientation sex, age, disability, medical condition, genetic information, marital status, race, color, religion, ancestry, or national origin. Such affirmative action shall include, but not be limited to, the advertising, layoff or termination, rates of pay or other forms of compensation, and selection for training, including

EXHIBIT A

apprenticeship. Contractor shall post in a conspicuous place available to all employees and applicants for employment notices setting forth the provisions of this fair employment practices paragraph.

- IV. **COMPLIANCE WITH LAW:** The Contractor/Consultant shall familiarize itself with and perform the service required under this contract in conformity with requirements and standards of the City, municipal and public agencies, public and private utilities, special districts, and railroad agencies whose facilities and services may be affected by service under this contract. The Contractor/Consultant shall also comply with all Federal, OSHA, state, and local laws and ordinances applicable to any of the service involved in this Contract. The Contractor/Consultant shall indemnify and save harmless the City against any claim arising from the violation of any such laws, ordinances and regulations whether by the Contractor/Consultant or his employees.
- V. **PROTECTION OF RESIDENT WORKERS:** Protection of Resident Workers: The City of Culver City actively supports the Immigration and Nationality Act (INA) which includes provisions addressing employment eligibility, employment verification, and nondiscrimination. Under the INA, employers may hire only persons who may legally work in the United States (i.e., citizens and nationals of the U.S.) and aliens authorized to work in the U.S. The employer must verify the identity and employment eligibility of anyone to be hired, which includes completing the Employment Eligibility Verification Form (I-9). The Contractor /Consultant shall establish appropriate procedures and controls so no services or products under the Contract Documents will be performed or manufactured by any worker who is not legally eligible to perform such services or employment.
- VI. **INDEMNITY:** To the fullest extent permitted by law, Contractor/Consultant shall indemnify, defend (at Contractor/Consultant's sole expense, with legal counsel approved by City) and hold harmless the City of Culver City, members of its City Council, its boards and commissions, officers, agents, and employees (hereinafter, "Indemnitees"), from and against all loss, damage, cost, expense, liability, claims, demands, suits, attorneys' fees and judgments arising directly or indirectly from, or in any manner connected to Contractor/Consultant's agreement with the City. This indemnity and obligation to hold harmless shall apply regardless of whether or not City prepared, supplied, or approved plans or specifications or inspected any of the work or improvements installed or constructed pursuant to the contract.

EXHIBIT A

Notwithstanding the foregoing, nothing herein shall be construed to require Contractor/Consultant to indemnify an Indemnitee from any claim arising from the sole negligence or willful misconduct of that Indemnitee.

INSURANCE REQUIREMENTS

All bidders must meet the following insurance requirements in order to enter into a contractual agreement with the City:

- I. Contractor/Consultant shall submit duly executed certificates of insurance, with declarations page and endorsement list, which shall be provided to the City through the department administering the contract, and approved by the City Attorney, for the following:

- a. An occurrence based Commercial General Liability ("CGL") policy, at least as broad as ISO Form CG 0001, in the minimum amount of One Million Dollars (\$1,000,000) each occurrence, with not less than Two Million Dollars (\$2,000,000) in annual aggregate coverage.

The CGL Policy shall have the following requirements:

1. The policy shall provide coverage for personal injury, bodily injury, death, accident and property damage and advertising injury, as those terms are understood in the context of a CGL policy. The coverage shall not be excess or contributing with respect to City's self-insurance or any pooled risk arrangements;
2. The policy shall provide \$1,000,000 combined single limit coverage for owned, hired and non-owned automobile liability;
3. The policy shall include coverage for liability undertaken by contract covering, to the maximum extent permitted by law, Contractor/Consultant's obligation to indemnify the Indemnitees as required under the Indemnity provisions of the Contract;
4. The Policy shall not exclude coverage for Completed Operations or Hazards; and
5. **The City of Culver City, members of its City Council, its boards and commissions, officers, agents, and employees will be named as an additional insured** in an endorsement to the policy.

- b. Reserved.

EXHIBIT A

- c. Workers' Compensation limits as required by the Labor Code of the State of California with Employers' Liability limits of One Million Dollars (\$1,000,000.00) per accident, if the Agreement will have Contractor/Consultant employees working within the City limits.
 - d. Professional/Negligent Acts, Errors and Omissions Insurance (where applicable) in the minimum amount of One Million Dollars (\$1,000,000) per claim, and shall include coverage for separate "personal injury" alleged to have been committed in the course of rendering professional services, unless such coverage is provided by the CGL policy listed above.
- II. WAIVER BY THE CITY: City may waive one or more of the coverages listed in Section I above. This waiver must be express and in writing, and will only be made upon a showing by the Contractor/Consultant that its operations in and with respect to City are not such as to impose liability within the scope of that particular coverage.
- III. ADDITIONAL INSURANCE REQUIREMENTS:
- a. All insurance listed in Paragraph A shall be issued by companies licensed to do business in the State of California, with a claims paying ability rating of "BBB" or better by S&P (and the equivalent by any other Rating Agency) and a rating of A:VII or better in the current Best's Insurance Reports;
 - b. Contractor/Consultant shall provide City with at least thirty (30) days prior written notice of any modification, reduction or cancellation of any of the Policies required in Paragraph A, or a minimum of ten (10) days' notice for cancellation due to non-payment;
 - c. City may increase the scope or dollar amount of coverage required under any of the policies described above, or may require different or additional coverages, upon prior written notice Contractor/Consultant.
 - d. If your insurance carrier charges an additional fee, you must include that amount in your project costs.

EXHIBIT B

CITY OF CULVER CITY
MANAGEMENT REPORT AND
AUDITOR'S COMMUNICATION LETTER

June 30, 2014

CITY OF CULVER CITY
June 30, 2014

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MOSS, LEVY & HARTZHEIM LLP

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To the Honorable Mayor and Members
of the City Council of the City of Culver City
Culver City, California

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 Culver City (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 audit procedures that are appropriate in the circumstances 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. However, as discussed below, we identified certain 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 entity'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.

During our audit we 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 2014-1 through 2014-5. Our comments reflect our desire to be of continuing assistance to the City.

The City's written responses to the findings identified in our audit are described in the current year recommendations section. We did not audit the City's responses and, accordingly, we express no opinion on them. In addition, 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 communications with the members of 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 members of the City Council, and others within the City, and is not intended to be, and should not be, used by anyone other than these specified parties.

Moss, Levy & Hartzheim

MOSS, LEVY & HARTZHEIM, LLP
Culver City, CA
March 27, 2015



MOSS, LEVY & HARTZHEIM LLP

CERTIFIED PUBLIC ACCOUNTANTS

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To the Honorable Mayor and Members
of the City Council of the City of Culver City
Culver City, California

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Culver City (City) for the fiscal year ended June 30, 2014, and have issued our report thereon dated December 22, 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 dated April 23, 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 of the notes to the basic financial statements. As discussed in Note 1 of the notes to the basic financial statements, effective July 1, 2013, the City adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 65 – *Items Previously Reported as Assets and Liabilities*, GASB Statement No. 66 – *Technical Correction - 2012*, GASB Statement No. 67 – *Financial Reporting for Pension Plans*, and GASB Statement No. 70 – *Accounting and Financial Reporting for Non-exchange Financial Guarantees*. Only GASB Statement No. 65 had an effect on the financial statements (see Note 1p of the notes to the basic 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 the estimated historical cost and useful lives of certain capital assets, the funding progress of the CalPERS pension plan, and the collectability of receivables. Management's estimates of the estimated historical cost and useful lives of certain capital assets are based on historical data and industry guidelines, while the funding progress of the CalPERS pension plan and are based on consultants' estimates. Management's estimates of the net realized value of land held for resale is determined based on current prices for land in recent comparable sales transactions and other relevant factors. The amount of estimated collectability of receivables is based on historical data. We evaluated the key factors and assumptions used to develop these estimates and determined that they are reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

The estimates Defined Benefit Pension Plan in Note 13 and Other Postemployment Benefits in Note 14 in the footnotes to the financial statements.

We evaluated the key factors and assumptions used to develop these estimates and determined 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, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as 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 December 22, 2014.

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

With respect to the supplementary information accompanying the financial statements, 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 statements or to the financial statements themselves.

Restriction on Use

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

Moss, Levy & Hartzheim

MOSS, LEVY & HARTZHEIM, LLP
Culver City, California
March 27, 2015

CURRENT YEAR RECOMMENDATIONS

Other Matters

2014-1 Finding – Deficiencies in controls over cash receipts at the Police Department:

During our test of cash receipts and internal control at the Police Department, we noted that the same individual collects cash transactions, inputs cash transactions to the cash receipting software, independently investigates cash transaction discrepancies, performs daily cash reconciliations, and prepares deposits sent to City Hall.

Effect:

Without proper segregation of duties over cash receipts, there is an increased risk that errors or irregularities in cash may occur and go undetected, which could lead to a greater risk of misappropriation of cash.

Recommendation:

We recommend that an appropriate independent member of management or someone from the City accounting department review cash reconciliations, receivable discrepancies, and authorize receivable adjustments.

Management's Response:

The Police Lieutenant is responsible for managing and reviewing the cash transaction process. The City will continue to monitor the cash receipting process.

2014-2 Finding – Deficiencies in controls over cash receipts at the Veteran's Hall:

During our test of cash receipts and internal control at the Veteran's Hall, we noted that cash receipts received on the weekends or at night are not properly secured as they are left in the manager's office on her desk until the manager comes into work. Receipts on nights and weekends are not secured because the Veteran's Hall does not own a security vault.

Effect:

Without proper securing of cash receipts, there is an increased risk that cash receipts will be lost or misappropriated.

Recommendation:

We recommend that the Veteran's Hall obtain a security vault with a slot to secure cash receipts.

Management's Response:

Management will purchase a security vault with an overnight slot to properly secure cash receipts received at night and on weekends.

CURRENT YEAR RECOMMENDATIONS (CONTINUED)

Other Matters (Continued)

2014-3 Finding – Deficiencies in controls over bank reconciliations:

During our audit we noted that bank reconciliations had not been kept up to date for several months.

Effect:

By not maintaining current bank reconciliations the risk of not knowing the current cash position, verification of cash account postings, and the time to investigate any questionable cash activity is lessened with financial institutions.

Recommendation:

We recommend that bank reconciliations are maintained on a current basis to increase safeguarding of cash activity, shorten the time frame for verification of cash account postings, and to provide increased time to investigate any questionable cash activity.

Management's Response:

Management acknowledges there was a period during the Fiscal Year 2013-14 where bank reconciliations were behind. The primary cause was changes in some of the underlying detail transaction reports that required some modifications to the reconciliations methodology. However, this has been addressed and bank reconciliations are being completed in a timely manner once again. Management will monitor the process to ensure the reconciliations continue to be completed in a timely manner.

CFDA: 20.507 U.S. Department of Transportation – Federal Transit Capital and Operating Assistance Formula Grants

2014-4 Finding – Deficiencies in controls over Federal Financial Report inputs:

During our test of controls over quarterly Federal Financial Report (FFR) forms, we noted that one (1) out of 16 FFR forms tested overstated expenditures by \$4,000 due to clerical error. The dollar amount of the error is immaterial.

Effect:

The FFR report submitted to the Department of Transportation was not accurately reported.

Recommendation:

We recommend that a second person review or “spot check” entries to the FFR report to ensure accuracy, and that the next available report be amended to correct the error.

Management's Response:

Management will continue to monitor the input into the system of the FFR forms for propriety and believe this is an immaterial amount and an isolated instance.

CURRENT YEAR RECOMMENDATIONS (CONTINUED)

Other Matters (Continued)

2014-5 Finding – Deficiencies in controls over inventory dollar amounts charged to the Transit Department at the Fleet Operation:

During our test of controls over internal inventory amounts charged for preventative maintenance to the Transit Department, we noted the following:

- 1) Two (2) out of three (3) inventory overhead calculations tested were charged an overhead rate greater than the City's stated overhead rate.
- 2) We were unable to recalculate the average inventory rates with the information available, and we noted that the City does not test the accuracy of the average inventory calculations calculated by the Third Party inventory software (AssetWorks). Reliance was placed on the software computations.

Effect:

- 1) The inventory portion of preventative maintenance charges charged to the Transit Department was overstated, albeit, by an immaterial amount.
- 2) Without verification of the calculation of AssetWorks' cost calculation, there is an increased risk that inventory rates are not being charged at the proper rate.

Recommendation:

- 1) We recommend that the City ensure that AssetWorks charges the correct overhead amount for inventory items.
- 2) We recommend that the City have its Information Technology Department verify the accuracy of the average inventory calculation on at least a yearly basis.

Management's Response:

Management will investigate the AssetWorks system and correct the items mentioned above. We will also monitor the overhead rates and inventory calculation on an interim basis.

STATUS OF PRIOR YEAR RECOMMENDATION

2013-1 Finding – Permit Fees Calculated Incorrectly:

When performing tests of the City's permitting system in the City's Public Works Department, the Acela computer module did not always compute certain permit fees correctly. If the permits required by the customer were in excess of one permit, the fees would usually calculate incorrectly. This was due to the system not being set up correctly to calculate certain fee calculations in excess of one permit.

Effect:

Certain fees were computed incorrectly based on the incorrect programming for which the calculated effect was not significant to the City's financial statements.

Recommendation:

We recommend when there are changes to permits, fees and when new software upgrades and modules are installed that they be thoroughly tested as to all fees to ensure the systems calculate the proper fees. Also, all software programming should be tested to ensure new computer modules and at year end all significant accounts and agreements be reviewed for adjustments and such significant activity be recorded timely in the books and records.

Current Status:

Implemented.