

**BROWN
ARMSTRONG**

**CERTIFIED
PUBLIC
ACCOUNTANTS**

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Certified Public Accountants

**AGREED UPON CONDITIONS REPORT DESIGNED TO INCREASE
EFFICIENCY, INTERNAL CONTROLS, AND/OR FINANCIAL REPORTING
(MANAGEMENT LETTER)**

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

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In planning and performing our audit of the financial statements of the City of Bakersfield, California (the City), for the year ended June 30, 2020, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control structure over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion 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.

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 a 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.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. In addition, because of the inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. Given these limitations during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

However, during our audit, we became aware of certain matters that are opportunities for strengthening internal controls and operating efficiencies. The recommendations listed in this report summarize our comments and suggestions regarding these matters.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with various personnel of the City, and we will be pleased to discuss these matters in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Current Year Agreed Upon Conditions and Responses

Condition Number 1 – Lack of Segregation in Cash Disbursements

During our cash disbursement walkthrough, we noted an Accounts Payable Account Clerk II has the ability to add new vendors, process invoices, and record in the general ledger (GL).

Recommendation

In order to mitigate the risk of the possibility to create a fictitious vendor, we recommend the City implement a process to review the new vendors periodically and/or remove the Account Clerk II's ability to enter new vendors.

Management Response and Planned Correction Action

There should be no instances where an account clerk can post transactions to the GL without review by supervisors or management. The division has one Accounts Payable clerk who can create vendors and also is responsible for posting some vendor payments but all groups are reviewed with invoices verified as valid by the AP supervisor. Due to staffing issues, the creation of new vendors could not be segregated to other individuals. The Finance department will examine current processes so that all new vendors created are reviewed by an Accountant or Supervisor to verify accuracy and necessity.

Condition Number 2 - Lack of Formal Policy over Proper Time Card Procedures in the HOME and CDBG Programs

During our test of controls over payroll for the federal grants HOME and CDBG programs, we noted that several time cards were missing employee signatures and department approval signatures. The City's directive to all City departments is that time cards should be signed by the individual and department. Due to the actual formal written policy not yet finalized, these departments have not implemented the informal process to require employees and supervisors to sign the time cards.

Recommendation

We recommend that the City reinforce to all departments the policy requiring all time cards be authorized by employees and department supervisors.

Management Response and Planned Correction Action

The City had begun a transition to an electronic timecard system called Executime in 2018 and is still in the midst of completion of the process in some departments. The City policy document has been in process since implementation began but has not been expected to finalize until all departments have completed that changeover. The Finance and Human Resources departments will finalize the document and insure that the requirement that all time cards are properly reviewed and approved applicable supervisors is included. In the interim, while awaiting the final document, the department in question has been reminded of this requirement and has agreed to emphasize the need with their staff.

Status of Prior Year Recommendations

Agreed-Upon Condition 2019-1 – Business Process Improvement Observations (IT Controls Only): There is No IT Strategic Plan in Place (2017-2019).

Although the City has developed a draft Technology Services Strategic Plan during the audit period, the plan was not finalized and was not complete as of the close of the audit period. Failure to develop an IT strategic plan increases the risk that the City's IT initiatives do not align with the City's strategic goals.

Recommendation

It is recommended that the Technology Services department finalize its Technology Services Strategic Plan as soon as possible. The plan should include, at a minimum, the following areas:

- Identification and prioritization of IT initiatives
- Alignment with the goals and objectives of the City as a whole

- Provisions for periodic review by management and key stakeholders and periodic updates for continued relevance to strategic initiatives
- Provisions for periodic reporting to the City Council and the City Manager on progress made towards the initiatives

Management Response

A Technology Services (IT) Strategic Plan has been written, reviewed, and is currently being revised. The City's Technology Services intends to present the revised Strategic Plan to the City Manager during the fiscal year 2019-2020 (July 1, 2019 - June 30, 2020).

Current Year Status

Implemented.

BROWN ARMSTRONG
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Bakersfield, California
January 25, 2021