

LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

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DATE : **SEPTEMBER 11, 2019**

FROM: **MICHAEL TUERPE, Project Manager** 

TO: **LOCAL AGENCY FORMATION COMMISSION**

SUBJECT: AGENDA ITEM 9: Update on Sustainability of the City of Adelanto, related to LAFCO 3232 - Sphere of Influence Amendment for the City of Adelanto

RECOMMENDATION:

Staff recommends that the Commission:

1. Receive and file this report.
2. Schedule an update for the City for the March 2020 hearing.

BACKGROUND:

As an outgrowth from LAFCO's 2017 Countywide Service Review for Water (LAFCO 3187) and its 2018 Countywide Service Review for Wastewater (LAFCO 3190), the Commission initiated a sphere of influence amendment for the City of Adelanto to determine the appropriate sphere of influence for the City.

At its April 2019 hearing, the Commission:

- Reduced the sphere for the City of Adelanto by approximately 8.4 square miles, and
- Directed staff to return with an update on the City's sustainability at the Commission's September 2019 hearing.

SEPTEMBER 2019 UPDATE:

For this update, LAFCO staff requested City responses to four items. The City provided its response, dated September 9, 2019 (see the Attachment to this report). LAFCO's questions with a summary of the City's responses are below:

1. Schedule of completing outstanding audits for the City and APUA

The auditors have completed the FY14/15 City audit, which was presented to the City Council on July 10, 2019. The auditors have provided the City with the following tentative schedule to complete the outstanding audits:

Audit	Dates	Description
FY15/16	08-05-19 to 08-08-19	Year End Fieldwork
	08-12-19 to 08-15-19, 08-19-19	Year End Fieldwork
	09-23-19	Draft Reports
	10-07-19	Finalize Reports
FY16/17	09-09-19 to 09-13-19	Interim/Year End Fieldwork
	09-16-19 to 09-19-19	Year End Fieldwork
	10-07-19	Draft Reports
	10-21-19	Finalize Reports
FY17/18	10-28-19 to 10-31-19	Interim Fieldwork
	11-04-19 to 11-07-19	Year End Fieldwork
	11-25-19	Draft Reports
	12-09-19	Finalize Reports
FY18/19 (City & APUA)	12-09-19 to 12-12-19	Interim Fieldwork
	12-16-19 to 12-19-19	Interim/Year End Fieldwork
	01-06-20 to 01-09-20	Year End Fieldwork
	01-20-20	Draft Reports
	02-03-20	Finalize Reports

2. The purpose of hiring and/or contracting of risk management and additional human resources personnel

The City is currently recruiting for a Senior Human Resources / Risk Analyst who will oversee the Human Resource and Risk Management functions within the City. The City recognizes the need for a full-time, seasoned and experienced HR professional who can provide the high-level oversight on a full-time basis and ensure that the City utilizes best practices. It is hoped that the addition of this position will help ensure that sustainable staffing and compensation levels are developed and maintained, and that unbiased, ethical standards are used in dealing with employees.

3. Obtaining insurance

Early this year, the insurance pool Board advised the City that because of an upsurge in employment related claims, it was cancelling the City's employment practices liability coverage. In May 2019, the City presented its application to a different insurance pool which voted unanimously to accept the City as a member effective July 1, 2019.

4. Status of the items identified in the Corrective Action Plan from the 2015 City audit

In conjunction with the FY14/15 financial statements, the City's auditors issued an internal control report finding three material weaknesses and six significant deficiencies. The City prepared a Corrective Action Plan in response to the findings and is actively working towards implementing the necessary changes. A summary of the finding, the City's action, and the status are provided in the attachment.

The City's letter closes with the following:

"Given the progress and commitment that the City has demonstrated by addressing these issues in a very short period of time, we respectfully request that the LAFCO Commission consider no further reductions in the City's Sphere of Influence ("SOI") and reconsider the SOI reduction of Area A, which was approved by the LAFCO Commission via Resolution No. 3285 at its April 17, 2019 meeting."

It is LAFCO staff's position that the City is making strides to come into compliance. Therefore, at this time, staff is not recommending any additional sphere of influence amendments. As for the City's request that the Commission reconsider the sphere reduction that the Commission approved in April 2019, this matter cannot be considered today since such a consideration would require a formal initiation/application, noticing, and public hearing.

Staff recommends that the Commission schedule another update for the City for the March 2020 hearing.

Attachment

MT/



September 9, 2019

Samuel Martinez, Executive Director
Local Agency Formation Commission
1170 West 3rd Street, Unit 150
San Bernardino, CA 92415-0490

Gabriel Reyes
Mayor

Gerardo Hernandez
Mayor Pro Tem

Ed Camargo
Council Member

Steevonna Evans
Council Member

Joy Jeannette
Council Member

Jessie Flores
City Manager

RE: Status Update on City of Adelanto

Dear Mr. Martinez:

The purpose of this letter is to respond to your letter dated August 30, 2019, and to provide you with an update regarding the City of Adelanto in anticipation of the LAFCO Commission meeting scheduled for September 18, 2019.

You have requested updates regarding the following:

1. Schedule of completing outstanding audits for the City and APUA

Response:

Since the City's last update to LAFCO in January of 2019, City staff and the City's audit firm of Teaman, Ramirez & Smith, Inc. ("TRS"), and the Adelanto Public Utility Authority's ("APUA") audit firm of The Pun Group, LLP ("Pun Group"), have been actively working to prepare the City's financial records in order to complete the outstanding audits.

The Pun Group conducted on site fieldwork for the APUA Fiscal Year (FY) 17/18 audit from January 28, 2019 through January 31, 2019. Since then, both City and Pun Group staff have been working to resolve outstanding accounting items and to prepare adjusting journal entries. At this time, the draft of the audit has been completed and is awaiting final review by the City and the Pun Group. It is anticipated that the final audit report will be presented to the City Council before the end of October.

Regarding the City audits, over the last nine months TRS has had three to four staff members on site at the City for a total of 25 days. During that time, the auditors have been conducting fieldwork for the FY14/15, FY15/16, FY16/17, and FY17/18 audits.

The auditors have completed the FY14/15 City audit, which was presented to the City Council to receive and file on July 10, 2019.

The TRS auditors have provided the City with the following tentative schedule to complete the outstanding audits:

Audit	Dates	Description
FY15/16	08-05-19 to 08-08-19	Year End Fieldwork
	08-12-19 to 08-15-19, 08-19-19	Year End Fieldwork
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	10-07-19	Finalize Reports
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	01-06-20 to 01-09-20	Year End Fieldwork
	01-20-20	Draft Reports
	02-03-20	Finalize Reports

It should be noted that the above schedule is tentative and assumes that there will be no anomalies in the accounting data. If such issues are encountered, then the schedule will be adjusted accordingly.

2. The purpose of hiring and/or contracting of risk management and additional human resources personnel

Response:

The City is currently recruiting for a Senior Human Resources / Risk Analyst who will oversee the Human Resource and Risk Management functions within the City.

The City’s Human Resources responsibilities are currently handled in-house by one full-time clerical level HR Technician who receives direction from the City’s Finance Director and the City Clerk. The City recently contracted with Regional Government Services (“RGS”) to provide higher-level Human Resources and Risk Management consulting services. The City recognizes the need for a full-time, seasoned and experienced HR professional who can provide the high-level oversight on a full-time

basis and ensure that the City utilizes best practices. By implementing best practices, the City will experience reduced exposure from employment liability claims. This is essential for the financial sustainability of the City.

The soon to be hired Senior Analyst will work closely with Directors and Division heads on matters relating to recruitment and staffing, compensation and benefits, employee relations as well as overseeing the City's risk management program. Priorities will include the revision and adoption of the City's Personnel Rules and Administrative Policies as well as evaluating the City's organizational structure and its classification and compensation plan.

It is hoped that the addition of this position will help ensure that sustainable staffing and compensation levels are developed and maintained, and that unbiased, ethical standards are used in dealing with employees.

3. Obtaining insurance

Response:

The City of Adelanto had been a member of Public Entity Risk Management Authority ("PERMA"), a Joint Powers Authority insurance pool, since 1993. Through PERMA, the City purchased its liability, workers' compensation and property insurances. PERMA also allowed the City to participate in the Employment Risk Management Authority ("ERMA"), which is a risk pool designed to provide separate coverage for employment practices liability claims. Early this year, the ERMA Board of Directors advised the City that because of an upsurge in employment related claims, the Board was cancelling the City's employment practices liability coverage but would reconsider their position if the City adopted a Performance Improvement Plan ("PIP"). The City and the ERMA Board of Directors met and agreed on the PIP, the PIP was approved and adopted by the Board on February 8, 2019, and adopted by the City through a Council resolution on March 5, 2019.

The PIP required that within 30 days of being adopted that the City complete training for the City Council, City Manager, and Management staff; identify a mentor for the City Manager; retain a recommended employment attorney from the ERMA defense panel; and the City Manager meet with ERMA staff monthly via telephone. The City has initiated or completed each of these steps; however, ERMA did not commit to maintaining the City's coverage. Thus, the City began seeking a viable alternative.

The City reviewed its options and identified Independent Cities Risk Management Association ("ICRMA") as its most viable option. ICRMA was established for the purpose of operating and maintaining a cooperative program of self-insurance and risk management. Consisting of 18 cities primarily in Orange and Los Angeles Counties, ICRMA offers pooled liability, workers' compensation, and property insurance programs. In addition to excess insurance coverage, the pool offers its members a wide range of services including risk management, cost containment, training, and loss control services.

The Pool is governed by a board consisting of one representative from all of the member cities.

In May 2019, the City presented its application to the ICRMA Board which voted unanimously to accept the City of Adelanto as a member effective July 1, 2019. The City Council adopted the necessary resolution to authorize participation in the various ICRMA self-insurance and excess insurance programs. City staff has consulted with ICRMA staff on a number of issues and as a result, they have developed a strong working relationship.

4. Status of the items identified in the Corrective Action Plan from the 2015 City audit

Response:

In conjunction with the FY14/15 financial statements, the City’s auditors issued an internal control report finding three material weaknesses and six significant deficiencies. The City prepared a Corrective Action Plan in response to the findings and is actively working towards implementing the necessary changes. A summary of the finding, the City’s action, and the status are provided in the following tables:

Finding:	2015-001 - Financial Close and Reporting Process
Condition:	The City’s financial close and reporting process has been behind in preparing year-end reconciliations and adjustments to adequately close the most current fiscal year-end accounting records.
Action:	The Finance Department will use outside accounting consultants in order to work towards timely year-end closings. At such time that the year-end closings are current, the process will be transitioned to City staff.
Status:	The corrective action is ongoing. As each audit is completed, the fiscal year is being closed in the accounting system. Year-end closing reconciliations and adjusting entries for FY18/19 are currently being prepared. This finding will be resolved with the completion of the FY18/19 audit in early 2020.

Finding:	2015-002 - Formal Written Payroll and Accounting Policies and Procedures Manual
Condition:	There is no formal written payroll and accounting policies and procedures manual.
Action:	The Finance and Department is in the process of developing and implementing formal written payroll and accounting policies as well as a procedures manual.
Status:	The corrective action is ongoing. Five policies have been completed including: cash handling, accounts payable, bank reconciliation, revenue recordation, and unclaimed funds. The

	policies were presented to the City Council at its August 28, 2019 meeting. Additional policies are currently being drafted. This finding will be resolved with the completion of the FY18/19 audit in early 2020.
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Finding:	2015-003 - Outstanding Checks
Condition:	For the Adelanto Water Authority checking account, the amount of outstanding checks was estimated and there was no detail listing of the outstanding checks on the bank reconciliation.
Action:	The Finance Department is reviewing its bank reconciliation to apply the unclaimed funds policy on outstanding and uncashed checks.
Status:	The corrective action is ongoing. The unclaimed funds policy has been implemented. Finance department staff are currently reviewing the outstanding checks and are applying the unclaimed funds policy as appropriate. This finding will be resolved with the completion of the FY18/19 audit in early 2020.

Finding:	2015-004 - Cash Disbursement and Purchasing Policies
Condition:	The current cash disbursements and purchasing practices of the City do not follow the limits set forth under the City of Adelanto's municipal code.
Action:	The Finance Department is reviewing the outdated cash disbursement and purchasing policies in the municipal code in order to recommend changes that are in line with those used in our software system and present these recommendations to City Council as replacement for the outdated codes.
Status:	The corrective action is ongoing. The cash handling and accounts payable policies have been implemented. The City's purchasing rules, as set forth in the municipal code, are being adhered to. This finding has been resolved; however, it will remain open until the completion of the FY18/19 audit in early 2020.

Finding:	2015-005 - Bank Reconciliations
Condition:	Bank reconciliations were completed several months after the close of each month.
Action:	The City hired an accountant and outside accounting staff to perform all bank account reconciliation and are now current.
Status:	This finding has been resolved; however, it will remain open until the completion of the FY18/19 audit in early 2020.

Finding:	2015-006 - Payroll Rate Approvals
Condition:	During our test of payroll controls, there were several personnel action forms that had missing approval signatures.
Action:	The Finance and Human Resource Departments are reviewing payroll policies to ensure payroll rate approvals are properly approved and documented.
Status:	The corrective action is ongoing. Policies and procedures have been implemented along with a revised payroll approval form. City staff are conducting an internal audit of all payroll transactions dating back to calendar year 2012. Corrections are being made as necessary. This finding will be resolved with the completion of the FY18/19 audit in early 2020.

Finding:	2015-007 - Accounts Payable Reconciliations
Condition:	The City implemented a new accounting software which had various new reports and options. The reports that were used to reconcile accounts payable did not reflect all the invoices that had been accrued as of June 30, 2015.
Action:	The Finance Department has identified the correct accounts payable aging report in order to properly perform reconciliations of accounts payable.
Status:	This finding has been resolved; however, it will remain open until the completion of the FY18/19 audit in early 2020.

Finding:	2015-008 - Construction Recycling Deposits
Condition:	The City has construction recycling deposits but there are no formal tracking procedures that keep an updated listing and verification of outstanding deposits.
Action:	The Finance Department is in the process of developing and implementing formal written policies and procedures to monitor construction recycling deposits as well as the reconciliation of those deposits.
Status:	The corrective action is ongoing. The Finance Department is working with the land use departments to develop policies and procedures to track outstanding deposits. It is anticipated that this finding will be resolved with the completion of the FY18/19 audit in early 2020.

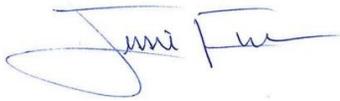
Finding:	2015-009 - Cash Management
Condition:	There were several adjustments made at the end of the fiscal year to reimburse the General Fund for expenditures from prior years.
Action:	The Finance Department has reviewed its cash management procedures and is in the process of updating those procedures to ensure timely transfer reimbursements between funds.

Status:	The corrective action is ongoing. The cash handling and accounts payable policies have been implemented. Other policies will be implemented outlining the timeframes for proper recordation of transactions. Once the City is current on its audits, procedures will be implemented in order to close prior fiscal years such that additional transactions cannot be recorded. It is anticipated that this finding will be resolved with the completion of the FY18/19 audit in early 2020.
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Given the progress and commitment that the City has demonstrated by addressing these issues in a very short period of time, we respectfully request that the LAFCO Commission consider no further reductions in the City's Sphere of Influence ("SOI") and reconsider the SOI reduction of Area A, which was approved by the LAFCO Commission via Resolution No. 3285 at its April 17, 2019 meeting.

We welcome any questions the LAFCO Commission may have and look forward to continuing to build a positive working relationship.

Sincerely,



Jessie Flores
City Manager