



Financial Policies Gap Analysis
CITY OF OJAI, CALIFORNIA

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FINANCIAL POLICIES GAP ANALYSIS

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EXECUTIVE SUMMARY

This report has been prepared at the request of the City of Ojai to catalog existing financial policies in place, to make high level recommendations regarding a prioritized plan to modify and strengthen existing policies, to illuminate gaps where policy should exist, and to recommend new policies that are appropriate as a best practice. The work was predicated on the American Institute of Certified Public Accountants' Statement on Standards for Consulting Services framework and adapted to include the experience and perspectives of the engagement team. That experience includes serving as municipal Finance Directors and Budget Managers for multiple California cities, including in complex, full-service cities, experience as consultants to cities and other local governments in multiple states assessing financial condition and financial management practices, and experience teaching graduate courses and industry trainings in public financial management.

Scope of Services. The scope of services included:

- Conduct a high level review of the City's existing financial policies.
- Provide a list of identified gaps in policy content.
- Provide a list of identified missing policies.
- Prioritize a work plan for implementing the recommended changes.

 **Highlights of Observations.** The majority of the City's existing policy language is found in the City's Statement of Financial Principles document, which combines a number of different areas of policy into a single document. Stand-alone policy documents are limited and include policies covering expense reimbursement and unclaimed funds as well as the draft Grant Administration Policy recently prepared by Eide Bailly. We recommend that the City develop a library of financial policies that would incorporate most of the language now found in the Statement of Financial Principles document as well as the three existing stand-alone policies and elements of the Ojai Municipal Code governing procurement. These policies would follow a standard format, be approved by the City Council, and would be reviewed and updated on a regular basis by an assigned responsible party for each policy.

In the remainder of this document, we have listed the financial policies that we recommend for clients' consideration. In many cases, our recommendations are not urgent and can be addressed as time permits or as deemed appropriate by the City. However, we have assessed the following policies as they currently exist (or do not exist) to be of high or medium risk:





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| • High Risk: Cash Management (does not exist) | • Medium Risk: Budget Admin. (deficient) |
| • High Risk: Credit Card Usage (deficient) | • Medium Risk: Capital Assets (does not exist) |
| • High Risk: Procurement (deficient) | • Medium Risk: Debt Management (deficient) |
| | • Medium Risk: Travel and Expenses (deficient) |

As highlighted above, our services in this engagement consisted of consulting services and do not constitute an audit, examination, review, or compilation of historical financial information conducted in accordance with generally accepted auditing standards or with other standards established by the American Institute of Certified Public Accountants (AICPA). Accordingly, we are unable to express an opinion or any other form of assurance with respect to any historical financial information. Our engagement was not designed and cannot be relied upon to disclose errors, fraud, or illegal acts that may exist. Other matters of possible interest to the City might not be specifically addressed in this report.

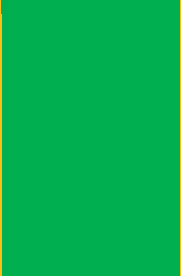
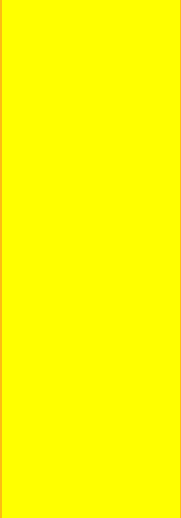
FINANCIAL POLICIES GAP ANALYSIS

As discussed in the Executive Summary, the purpose of this engagement was to identify gaps in the City's existing framework of financial policies. The table below highlights the identified gaps, whether in reference to existing City policies or in reference to policies that are recommended but currently not in place. Each policy has been categorized by risk level reflecting our assessment of the risk associated with an effort to implement or modify each policy as follows:

Risk Level

-  Adequate – The City's existing policy is, in our assessment, adequate as currently written.
-  Low risk – Optional policy or minor updates needed – address as time permits, if appropriate.
-  Medium risk – Address as soon as possible.
-  High risk – Address immediately.

It is worth noting that there are related procedures for many of these policies that are also a best practice, which will provide additional guidance for certain activities such as cash management or accounts payable. As a later step in this process, we recommend that the City consider developing complementary written procedures to facilitate long-term continuity of operations and an easier transfer of information when there is staff turnover.

NO.	POLICY	LOCATION ¹	PRIORITY	COMMENTS
1	Accounting and Financial Reporting	SOFP Section 11		Although there could be additions to the items included in the City's policy, our assessment is that the content currently included is adequate for a city of Ojai's size and complexity. We recommend that the existing language be moved to a stand-alone policy document as part of a new policy library.
2	Accounts Receivable and Collections	N/A		As a best practice, agencies implement accounts receivable and collections policies that outline the permissible processes by which delinquent accounts receivable amounts are written off and/or when collection efforts are initiated, either in-house or externally. The City does not currently have such a policy, and depending on the frequency and dollar amount of delinquent accounts receivable, such a policy may or may not be appropriate for the City. We recommend that the City evaluate whether such a policy would be beneficial, and if appropriate draft a stand-alone policy document as part of a new policy library.

NO.	POLICY	LOCATION ¹	PRIORITY	COMMENTS
3	Budget Administration	SOFP Sections 3, 4, and 5		<p>A comprehensive budget administration policy typically includes more detail than currently exists covering additional topics, including:</p> <ul style="list-style-type: none"> • The City does not currently have a written process for authorizing budget transfers. • The City's current process for managing encumbrances and carryovers is unclear. • The process to handle unspent funds appropriated for capital projects at the end of a fiscal year is not discussed. • The budget approval process is not discussed. • The City's definition of a balanced budget is not discussed. <p>We recommend that the City draft a stand-alone policy document as part of a new policy library that incorporates these and any other appropriate additional related topics.</p>
4	Budget Reserves	SOFP Section 12		<p>The City's existing budget reserve policy is limited in scope and does not cover several important topics, including:</p> <ul style="list-style-type: none"> • Appropriate reserve levels for enterprise or any other critical funds are not discussed. • It may be appropriate to discuss specifically what uses are appropriate for excess reserves. • The City may wish to consider differentiating between reserve set aside for natural disasters or other emergencies versus for economic downturns. <p>We recommend that the City draft a stand-alone policy document as part of a new policy library that incorporates these and any other appropriate additional related topics.</p>

NO.	POLICY	LOCATION ¹	PRIORITY	COMMENTS
5	Capital Assets	N/A		As a best practice, agencies implement capital asset policies that outline the processes for capitalizing, managing, and disposing of capital assets such as land, facilities, and equipment. Such a policy would set a framework established by the City Council within which these activities can occur and determine what elements of capital asset management are appropriate for administration by staff versus those that should be reserved for action by the City Council. We recommend that the City draft a stand-alone policy document as part of a new policy library. Elements of such a policy have been included in the City's draft Grant Administration Policy and can be relocated to this new document.
6	Capital Improvement Program	SOFP Section 6		Although there could be additions to the items included in the City's policy, our assessment is that the current content is adequate for a city of Ojai's size and complexity. We recommend that the existing language be moved to a stand-alone policy document as part of a new policy library.
7	Cash Management	N/A		As a best practice, agencies implement cash management policies that discuss the processes by which cash is managed and handled throughout the organization. This includes processes for collecting, counting, transferring, and storing cash and the related controls that are necessary to ensure that no theft or error occurs. Related issues such as the acceptance of credit cards and the management of wire transfers can also be included. We recommend that the City draft a stand-alone policy document as part of a new policy library. Elements of such a policy have been included in the City's draft Grant Administration Policy and can be relocated to this new document.

NO.	POLICY	LOCATION ¹	PRIORITY	COMMENTS
8	Conflict of Interest	SOFP Section 3		The City's existing conflict of interest language combined with the language included in the City's draft Grant Administration Policy can be relocated to a new stand-alone policy document as part of a new policy library.
9	Credit Card Usage	Expense and Use of Public Resources Policy Statement		<p>The City's current policy appears to date from 2006 and is limited to a brief paragraph covering credit card usage. Eide Bailly noted the following areas for the City's consideration:</p> <ul style="list-style-type: none"> • The policy does not indicate how credit cards are to be used for travel versus other expenses and how that usage should comply with the purchasing and travel policies. • There is no discussion of the process for obtaining a card or who should have one. • There is no discussion of the consequences of inappropriate use. • There is no indication if cardholders sign written agreements documenting appropriate use and other related items. • The policy does not document the approval process for expenses. <p>We recommend that the City draft a stand-alone comprehensive policy document as part of a new policy library that incorporates these and any other appropriate additional related topics.</p>

NO.	POLICY	LOCATION ¹	PRIORITY	COMMENTS
10	Debt Management	SOFP Section 7		<p>A comprehensive Debt Management Policy is often significantly more detailed and covers additional topics, including:</p> <ul style="list-style-type: none"> • Types of permissible debt. • Responsibilities for debt management activities. • Debt-related internal controls. • Debt capacity. • Revenue adequacy considerations. • Post-issuance compliance. • Arbitrage compliance. <p>We recommend that the City draft a stand-alone comprehensive policy document as part of a new policy library that incorporates these and any other appropriate additional related topics.</p>
11	Enterprise Funds Rates	N/A		<p>Given that the City's only enterprise operations are cemetery and transit functions rather than utilities, we do not believe this policy is necessary for the City.</p>
12	Fund Balance	N/A		<p>The City does not currently have a fund balance policy discussing the process by which fund balance may be committed or assigned in compliance with GASB Statement No. 54. As a best practice, a fund balance policy should be developed to:</p> <ul style="list-style-type: none"> • Illustrate the City's categories of fund balance. • Establish a process by which fund balance is committed. • Establish a process by which fund balance is assigned. <p>We recommend that the City draft a stand-alone comprehensive policy document as part of a new policy library that incorporates these topics.</p>

CITY OF OJAI, CALIFORNIA

NO.	POLICY	LOCATION ¹	PRIORITY	COMMENTS
13	Grant Administration	Grant Administration Policy		Eide Bailly has prepared a draft policy for the City's consideration that is currently in review.
14	Interfund Loans	SOFP Section 7		<p>Policy guidance for interfund loans can be included in the City's proposed Debt Management Policy or in a stand-alone policy. In addition to the City's existing language, we recommend that the City consider the following additional elements for this policy:</p> <ul style="list-style-type: none"> • Loan term limitations. • Interest rate requirements. • Funding source limitations. • Approval requirements.
15	Inventory Management	N/A		We do not believe that the City currently has any inventory that would be subject to an Inventory Management Policy. Such a policy is therefore not required.
16	Investments	SOFP Section 8, Resolution No. 24-20		The City has an investment policy that has been certified by the California Municipal Treasurers Association, which suggests compliance with California-specific requirements and best practices.
17	Long-Term Financial Planning	SOFP Section 3		The City currently has a brief reference to setting aside resources for the replacement of equipment and technology. As a best practice, similar policy language would be appropriate covering facilities and infrastructure major maintenance and infrastructure. Additionally, a Long-Term Financial Planning Policy would outline requirements for preparing periodic long-term financial projections for the City's General Fund and any other critical funds. We recommend that the City draft a stand-alone policy document as part of a new policy library that incorporates these and any other appropriate additional related topics.

NO.	POLICY	LOCATION ¹	PRIORITY	COMMENTS
18	Pension and OPEB Liability	SOFP Section 11		<p>Although there could be additions to the items listed in this policy, our assessment is that the content currently included is adequate for a city of Ojai's size and complexity. We recommend that the existing language be moved to a stand-alone policy document as part of a new policy library.</p>
19	Purchasing	Title 8, Chapter 4 of the Ojai Municipal Code		<p>The City does not currently have a written procurement policy. Rather, the procurement regulations are codified in two sections of the City's Municipal Code. As a best practice, a written procurement policy should articulate the requirements of applicable California laws and the Municipal Code in an easy to use format to assist City staff with conducting procurements in compliance with the policy and address other issues not currently covered in the Municipal Code.</p> <p>Eide Bailly noted the following areas for the City's consideration in developing this policy:</p> <ul style="list-style-type: none"> • Inconsistencies in the dollar thresholds contained in the Municipal Code were noted. • Exceptions to competitive procurement are not discussed. • Change order and amendment management is not discussed. • Contract management is not discussed. • Inconsistencies in the references to the California Uniform Construction Cost Accounting Act were noted. • Inconsistencies between the City's practices and the Federal Uniform Guidance are not addressed. <p>We recommend that the City draft a stand-alone comprehensive policy document as part of a new policy library that incorporates these and any other appropriate additional related topics.</p>

CITY OF OJAI, CALIFORNIA

NO.	POLICY	LOCATION ¹	PRIORITY	COMMENTS
20	Risk Management	N/A		Given that the city has limited exposure to insured risks without public safety services or utilities and does not have any self-insurance-related internal service funds, we do not believe this policy is necessary for the City.
21	Timekeeping	N/A		We recommend that the City draft a stand-alone policy document as part of a new policy library. The major elements of such a policy have been included in the City's draft Grant Administration Policy and can be relocated to this new document.
22	Travel and Expenses	Expense and Use of Public Resources Policy Statement		<p>The City's current policy appears to date from 2006 and includes many elements that meet best practice standards. Eide Bailly noted the following areas for the City's consideration:</p> <ul style="list-style-type: none"> • The 2006 per diem and mileage rates shown in the policy should be updated or refer to the IRS rate and the GSA rates for the travel destination. • The policy should clarify that it applies to all City employees. • References are made to outdated travel programs that are no longer functioning. • Updates to reflect current technology and practices such as ride sharing would be appropriate. • It would be appropriate to indicate when reimbursements are and are not appropriate in more detail, such as when conferences provide meals. • Elements of the policy deal with routine, recurring reimbursements such as cellular telephone bills. These costs might be more appropriately discussed in the resolution or other document governing employee benefits. <p>We recommend that the City revise this policy to address these issues.</p>

NO.	POLICY	LOCATION ¹	PRIORITY	COMMENTS
23	Unclaimed Funds	Stand-Alone Policy		The City has an existing policy governing unclaimed funds that we believe to be generally adequate. Several minor updates may be appropriate, including allowing for funds forfeited to the City to be transferred to the General Fund.
24	User Fees and Charges	SOFP Sections 4 and 5		<p>The City's existing user fee policy language includes many elements that meet best practice standards. Eide Bailly noted the following areas for the City's consideration:</p> <ul style="list-style-type: none"> • Appropriate levels of cost recovery for different types of fees should be discussed. • The policy suggests that fees should be updated annually, but it is unclear if this is happening in total or for subsets of fees. • The policy should discuss fee updates between studies, such as by CPI. <p>We recommend that the City draft a stand-alone comprehensive policy document as part of a new policy library that incorporates these and any other appropriate additional related topics.</p>
25	Other Comments	SOFP Section 9		Section 9 of the City's Statement of Financial Principles discusses interfund transfer policies. This information can be included in a budget administration policy referenced in item no. 3 above. The reference to OMB Circular A-87 should be changed to refer to 2 CFR 200 (The Uniform Guidance), which superseded Circular A-87 in 2013.
26	Other Comments	SOFP Section 10		Section 10 of the City's Statement of Financial Principles discusses special revenue fund policies. This information can be included in a budget administration policy referenced in item no. 3 above.

¹ SOFP refers to the City's Statement of Financial Principles for Fiscal Year 2024/25.