

City of Beaumont

Beaumont, California

Single Audit and Independent Auditors' Reports

For the Year Ended June 30, 2018



City of Beaumont
Single Audit Reports
For the Year Ended June 30, 2018

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Independent Auditors' Report

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Beaumont, California (the "City"), as of and for the year ended June 30, 2018, and the related notes to the basic financial statements which collectively comprise the City's basic financial statements and have issued our report thereon dated March 26, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements of the of the City, 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 of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. In addition, because of 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. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2018-001 through 2018-005 to be material weaknesses.

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. We did identify certain deficiencies described in the accompanying schedule of findings and questioned costs as items 2018-006 and 2018-007 to be significant deficiencies.

To the Honorable Mayor and Members of City Council
of the City of Beaumont
Beaumont, California
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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

City's Responses to Findings

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "The Per Group, LLP". The signature is written in a cursive, flowing style.

Santa Ana, California
March 26, 2019



**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM,
ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE,
AND ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

Independent Auditors' Report

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

Report on Compliance for Each Major Federal Program

We have audited the City of Beaumont, California's (the "City") compliance with the types of compliance requirements described in the OMB Compliance Supplement that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2018. The City's major federal programs are identified in the summary of the auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

Report on Internal Control over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City's internal control over compliance.

A *deficiency* in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

To the Honorable Mayor and Members of City Council
of the City of Beaumont
Beaumont, California
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Schedule of Expenditures of Federal Awards

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 as of and for the year ended June 30, 2018, and have issued our report thereon dated March 21, 2019 which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming our opinion on the City's financial statements. The accompanying Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain other procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

The PwC Group, LLP

Santa Ana, California
March 26, 2019

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City of Beaumont
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2018

Federal Grantor/Passed through Grantor Program Title	CFDA Number	Grant Award Number	Federal Expenditures
U.S. Department of Housing and Urban Development:			
Community Development Block Grant - Entitlement Cluster:			
<i>Passed through Riverside County Economic Development Agency:</i>			
Community Development Block Grant	14.218	B-17-UC-06-0506	\$ 218,742
Total Community Development Block Grant - Entitlement Cluster			<u>218,742</u>
Total U.S. Department of Housing and Urban Development			<u>218,742</u>
U.S. Department of Transportation:			
Highway Planning and Construction Cluster:			
<i>Passed Through State of California Department of Transportation:</i>			
Potrero Interchange Project	20.205	DEM10L-5209(008)	7,113,384
8th Street Project	20.205	STPL-5209(009)	<u>209,162</u>
Total Highway Planning and Construction Cluster			<u>7,322,546</u>
Total U.S. Department of Transportation			<u>7,322,546</u>
Total Expenditures of Federal Awards			<u>\$ 7,541,288</u>

See accompanying Notes to the Schedule of Expenditures of Federal Awards

City of Beaumont
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2018

Note 1 – Reporting Entity

The financial reporting entity consists of the primary government, City of Beaumont (the “City”), organizations for which the primary government is financially accountable, and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity’s financial statements to be misleading or incomplete.

Note 2 – Basis of Accounting

The various grant programs have been recorded within the general fund and special revenue funds of the City. The City utilizes the modified accrual method of accounting for the general fund and special revenue funds. The accompanying Schedule of Expenditures of Federal Awards (“Schedule”) is presented in accordance with the requirements of Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in the schedule may differ from amounts presented in, or used in, the preparation of the City’s basic financial statements.

Note 3 – Schedule of Expenditures of Federal Awards

The accompanying Schedule presents the activity of all federal financial assistance programs of the City. Federal financial assistance received directly from federal agencies as well as federal financial assistance passed through the State of California and Riverside County are included in the Schedule. The Schedule was prepared from only the accounts of various grant programs and, therefore, does not present the financial position, change in fund balance, or results of operations of the City.

Note 4 – Subrecipients

During the fiscal year ended June 30, 2018, there were no amounts provided to subrecipients.

Note 5 – Indirect Cost Rate

The City has not elected to use the 10-percent de minimis indirect rate as allowed under the Uniform Guidance.

City of Beaumont
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2018

Section I – Summary of Auditors’ Result

Financial Statements

Types of auditors’ report issued:	Unmodified
Internal control over financial reporting:	
• Material weakness(es) identified?	2018-001, 2018-002 2018-003, 2018-004 2018-005
• Significant deficiency(ies) identified?	2018-006, 2018-007
Noncompliance material to the financial statements noted?	No

Federal Awards

Internal control over major programs:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified?	None reported
Type of auditor’s report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in Accordance with 2 CFR 200.516(a)?	None reported

Identification of major programs:

<u>Major Program</u>	<u>Federal CFDA #</u>	<u>Federal Expenditures</u>
Highway Planning and Construction Cluster	20.205	\$ 7,322,546
Total major program expenditures		<u>\$ 7,322,546</u>
Total expenditures of federal awards		<u>\$ 7,541,288</u>
Percent of total federal award expenditures		<u>97.10%</u>

Dollar threshold used to distinguish between type A and type B program:	\$750,000
Auditee qualified as low-risk auditee in accordance with 2 CFR 200.520?	No

City of Beaumont
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2018

Section II – Financial Statement Findings

Finding 2018-001 Policies and Procedures

Criteria:

Communication is an essential component of a comprehensive framework of internal controls. One method of communication that is particularly effective for controls over accounting and financial reporting is the formal documentation of accounting policies and procedures. A well-designed and properly maintained system of documenting accounting policies and procedures enhances both accountability and consistency. The resulting documentation can also serve as a useful training tool for staff. An accounting policies and procedures manual should include a comprehensive list of accounting procedures along with an indication of the employees and/or position responsible for completing the procedures. It should delineate the authority and responsibility of all employees or positions, including review and approval procedures. Internal control procedures should be described as they are actually intended to be performed. The documentation of accounting policies and procedures should explain the design and purpose of control-related procedures to improve employee understanding and aid in compliance.

The Government Finance Officers Association (GFOA) has issued a “Recommended Practice” regarding having a debt management policy. Specifically, GFOA recommends that local governments that issue should debt develop a comprehensive debt policy. Examples of elements that should be addressed in such a policy include:

- The purpose for which the debt may be issued;
- Legal debt limitations established by policy;
- Types of debt permitted to be issued and criteria for issuance;
- Structural features that may be considered, such as maturity of debt, setting the maturities of the debt equal to or less than the useful life of the project; use of zero coupon bonds, discount bonds, premium bonds.
- Credit objectives;
- Authorized methods of sale;
- Method of selecting outside finance professionals;
- Policy on refunding debt

Condition:

Our audit involved obtaining and evaluating various policies and procedures of the City. During the audit period, the City lacked having formal policies, procedures and guidelines in place for certain areas, including the following:

- Accounting Policies and Procedures
- Debt Management Policy

The City has been working towards establishing a comprehensive policy which was adopted after our audit period. During our audit the City had informal policies in these areas. We reiterate that the City could benefit from a more formal and comprehensive policies and procedures manual, approved by the City Council, which would provide detailed guidance to employees and management. This will help to ensure consistency in these areas, and continuity in periods of staff turnover.

Cause:

The City is currently in the aftermath and recovering from a major fraud which took place. Therefore its priorities have shifted to fiscal recovery and a focus on those areas of key internal controls that needed to be instituted in order to prevent the risk of fraud from occurring again. The policy aspect of the program, though very important, has not been the highest priority of Management or City Council though there is an awareness that it is necessary. As the City is continuing its recovery process, and with additional time, the comprehensive program and policy can be prioritized.

City of Beaumont
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2018

Section II – Financial Statement Findings (Continued)

Finding 2018-001 Policies and Procedures (Continued)

Recommendation:

We recommend the City develop and establish formal policies and procedures as discussed above. The policies and procedures should be developed by appropriate personnel and approved by the City Council. The City should consider GFOA's recommended practices and other resources during the process. The documentation of accounting policies and procedures should be evaluated annually and updated periodically, as necessary. It should be readily accessible to all applicable employees.

A debt policy should be formally adopted by the legislative body, and the debt program should be continuously monitored to ensure compliance with the debt policy. We recommend the City consider establishing a formal debt policy, taking into consideration the recommendations of GFOA.

Management's Response:

City management began developing formal, written policies and procedures specific to financial policies in 2016. The general financial policies were reviewed monthly by the Finance and Audit Committee until a cohesive guide book was completed. The full document was recommended to and approved by City Council in January 2018.

In response to an SEC investigation, a consultant was hired in November 2017 to review the city's policies and procedures related specifically to Community Facilities Debt issued. The consultant's final report was issued and presented in March 2018 to the City Council. As a result, the consultant's suggestions were incorporated into the policies and procedures of the City, not only for the CFD issuances, but for varying types of debt included in the debt policy, which was accepted and approved by city Council in March 2018.

All policies and procedures are reviewed on an annual basis for further refinement or improvements, as well as to incorporate any changes in laws or compliance. Where indicated, new policies and procedures will be incorporated into the total guide book.

Finding 2018-002 Establish a Comprehensive Fraud Program and Policy

Criteria:

The City Council and Management are responsible for designing and implementing systems and procedures for the prevention and detection of fraud, and for ensuring a culture and environment that promotes honesty and ethical behavior. This includes the responsibility to develop and implement a formal fraud risk assessment and detection program.

Fraud can range from minor employee theft and unproductive behavior to misappropriation of assets and fraudulent financial reporting. Although external auditors are required to consider the risk of fraud in the audit process, the external auditors are not considered part of the City's controls over the prevention and detection of fraud. Rather, external auditors are required to evaluate the City's fraud prevention and detection program, in relation to the audit of the financial statements.

Often, fraud can be difficult to detect because it often involves concealment through falsification of documents or collusion among management, employees, or third parties. Therefore, it is important to place a strong emphasis on fraud prevention and detection, which may reduce opportunities for fraud to take place, and on fraud deterrence, which could persuade individuals that they should not commit fraud because of the likelihood of investigation, and corrective action

City of Beaumont
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2018

Section II – Financial Statement Findings (Continued)

Finding 2018-002 Establish a Comprehensive Fraud Program and Policy (Continued)

Criteria (Continued):

including progressive discipline up to termination and punishment. Moreover, prevention and deterrence measures are much less costly than the time and expense required for fraud detection and investigation.

The City Council, Management and personnel at all levels of the organization — including every level of management and staff— have a responsibility and role in managing fraud risk. Particularly, they are expected to understand how the organization is responding to heightened risks and regulations, to perform duties designed to mitigate the risk of fraud, and to understand their role in safeguarding the assets that are under public and stakeholder scrutiny.

A comprehensive fraud policy should include the following key elements:

- An explicit definition of actions that are deemed to be fraudulent
- Allocation of responsibilities for the overall management of fraud
- A statement that all appropriate measures to deter fraud will be taken
- The formal procedures which employees should follow if a fraud is suspected
- Notification that all instances of suspected fraud will be investigated and reported to the appropriate authorities
- An unequivocal statement that all fraud offenders will be prosecuted and that the police will be assisted in any investigation that is required
- A statement that all efforts will be made to recover wrongfully obtained assets from fraudsters
- Encouragement to employees to report any suspicion of fraud
- The steps to be taken in the event a fraud is discovered and who is responsible for taking action including:
 - procedures staff should follow
 - assigning responsibility for an instant response to the occurrence recovering funds
 - dealing with the media

Condition:

The City currently lacks a formal comprehensive fraud program required to help prevent, detect and identify fraud and in order to appropriately safeguard assets. According to management, training has been provided with respect to the “tone at the top” to the City employees, however when interviewing employees during our audit they were unaware of a fraud policy. The City has taken steps to address the risk of fraud in certain areas, such as segregation of duties and other internal controls, but continued to lack the policies and a formalized process and program to institutionalize a comprehensive fraud program is needed.

The City’s current policies do not provide a thorough description of fraud. They also do not provide direction as to what employees should do if they suspect fraud is occurring.

Cause:

The City is currently in the aftermath and recovering from a major fraud which took place. Therefore its priorities have shifted to fiscal recovery and a focus on those areas of key internal controls that needed to be instituted in order to prevent the risk of fraud from occurring again. The policy aspect of the program, though very important, has not been the highest priority of Management or City Council though there is an awareness that it is necessary. As the City is continuing its recovery process, and with additional time, the comprehensive program and policy can be prioritized.

City of Beaumont
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2018

Section II – Financial Statement Findings (Continued)

Finding 2018-002 Establish a Comprehensive Fraud Program and Policy (Continued)

Effect:

The effect of fraud, misappropriation and defalcations and other fiscal irregularities can be far reaching and financially destructive to an organization and its reputation. All organizations are subject to fraud risks and it is impossible to eliminate all fraud in an organization. However, the potential for fraud in an organization and the failure to assess or identify the risk can be an impediment to the organizations achievement of its objections and can be the direct result of the failure to implement a policy and provide avenues for employees to report its concerns.

Recommendation:

The risk of fraud can be reduced through a combination of prevention, deterrence, and detection measures. The City should consider developing a formal fraud policies and institute a formal comprehensive fraud program.

The City should consider establishing a more formal training program for all employees regarding fraud. New employees should be trained at the time of hiring about the entity's code of conduct (and fraud policies). This training should explicitly cover expectations of all employees regarding (1) their duty to communicate certain matters; (2) a list of the types of matters, including actual or suspected fraud, to be communicated along with specific examples; and (3) information on how to communicate those matters. In addition to the training at the time of hiring, employees should receive refresher training periodically thereafter.

The policy needs to provide information to employees on how to communicate fraud related matters. It is important for the City to establish and communicate to employees a reporting system that is appropriate for the City. The City should consider establishing a confidential reporting mechanism, not only for employees, but also for vendors and customers of the City.

The City should also establish a formal fraud risk assessment program, to ensure that the risk of fraud is being periodically evaluated, monitored, and that appropriate action is taken to address the identified risks.

Management's Response:

City staff has developed a fraud and abuse reporting and investigation policy, incident reporting form, and staff training presentation. The draft documents have been reviewed by the Finance and Audit Committee as well as the City Attorney's office. Full implementation will begin with staff training presentation in March 2019.

Finding 2018-003 Segregation of Duties for Cash Receipts – City Hall

Criteria:

A strong internal control environment designed to prevent and detect errors and fraud necessitates a segregation of duties over the cash receipt function.

Condition:

Currently, Customer Service Coordinators (cashiers) at City Hall can edit and void transactions in Incode (the City's cash receipts system) subsequent to the receipt being issued. The same cashier should not be able to edit or void a transaction after a receipt has been issued unless an appropriate audit trail and approval process is created by individuals outside of the cash collection process.

City of Beaumont
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2018

Section II – Financial Statement Findings (Continued)

Finding 2018-003 Segregation of Duties for Cash Receipts – City Hall (Continued)

Cause:

Restrictive controls over the cashier's functions have been partially implemented to include a batch review prior to posting to the general ledger. However system limitations continue to prevent additional automated controls to be put in place to provide for strong internal controls, such as limiting their access and abilities within the software.

Effect:

Transactions could be edited or voided by cashiers and amounts collected could be misappropriated and go undetected.

Recommendation:

Though the City had implemented a secondary sign off and online viewing of the voids and adjusting entries during the audit period ending June 30, 2017, we recommend the City further expand these procedures to include developing a daily edit report or monitoring function review of the report and reconcile it to the cash drawer before closing out the cash drawers. This should be signed off by a supervisor or personnel not involved in the cash collection process. Amounts in excess of a large dollar threshold should be considered for sign off at a higher supervisory level.

Management's Response:

Software issues are being addressed with an upgrade to the cashiering system that is being scheduled this year. The upgrade will limit the ability of void entries being entered by cashiering staff. The current system creates a posting batch each night for each cashier, and a monitoring control has been implemented for the accounting technician to review the posting batch prior to posting into the general ledger. Any unusual void or adjustment activity more than \$20 are reviewed against the scanned supporting documentation.

If entries are identified without the proper back up, the information is given to the Director of Administration for investigation. Effective July 1, 2018, the Administrative Services Manager will be responsible for approving all adjustments or voids on a daily basis.

Finding 2018-004 Segregation of Duties for Building Permits

Criteria:

The same individual should not have access to the payments from customers and the ability to issue building permits unless an appropriate mitigating control has been implemented.

Condition:

The permit technician in the Community Development Department issues building permits and plan checks and collects the payments from customers. There is no reconciliation of the building permits and plan checks issued with the amounts collected and receipted in the City's general ledger.

City of Beaumont
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2018

Section II – Financial Statement Findings (Continued)

Finding 2018-004 Segregation of Duties for Building Permits (Continued)

Cause:

The City did not have proper design of its internal controls which would provide for an adequate segregation of duties between the billing and collections process.

Effect:

Building permits and plan checks could be issued without a corresponding cash receipt being recorded in the City's general ledger and ultimately deposited into the City's bank account.

Recommendation:

We recommend the City implement a procedure to generate reports from the Salesforce permit system, periodically (i.e. daily, weekly, monthly), and have someone independent of the permit issuance and collection functions review and reconcile the amounts from these reports to the revenue posted in the City's general ledger. In addition, the permit and fees process should be integrated into the accounting software to limit the number of manual entries posted to the general ledger system.

Management's Response:

In December 2017, the implementation of a building permit and inspection software (EnerGov) was completed. The software was selected because it has integration with the finance software, Tyler Incode 10. The EnerGov process simultaneously creates an invoice and a permit. The permit cannot be issued out of the system until the invoice is paid. Payments are accepted through the Tyler cashiering software which pulls and then clears the invoice from EnerGov. Tyler cashiering software is batched daily and reconciled to the bank deposit. The batch file is automatically transmitted to Tyler Incode 10 financial software to recognize the applicable income. A building permit cannot be issued without a payment being posted to the system, thus ensuring that building permits are issued only if payment for that permit has been received.

Finding 2018-005 Segregation of Duties for Business Licenses

Criteria:

The same individual should not have access to the payments from customers and the ability to issue business licenses unless an appropriate mitigating control has been implemented.

Condition:

The permit technician accepts payments for business licenses and has the ability to issue and distribute business licenses. There is no independent reconciliation of the business licenses issued from the HdL system with the amounts collected and posted in the Incode cash receipts system.

Cause:

The City does not perform an independent reconciliation for business licenses between the HdL system and the Incode cash receipts system due to system limitation that were not evident prior to purchasing the system.

City of Beaumont
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2018

Section II – Financial Statement Findings (Continued)

Finding 2018-005 Segregation of Duties for Business Licenses (Continued)

Effect:

Business licenses could be issued without a corresponding cash receipt being recorded in the City's general ledger and ultimately deposited into the City's bank account.

Recommendation:

We recommend the City implement a procedure to generate reports from the HdL business license program, periodically (i.e. daily, weekly, monthly), and have someone independent of the business license issuance and collection functions review and reconcile the amounts from these reports to the revenues posted in the City's general ledger. In addition, the permit and fees process should be integrated into the accounting software to limit the number of manual entries posted to the general ledger system.

Management's Response:

Software integration has been placed on hold while technical compatibility issues are reviewed. In the meantime, effective March 2019, the Budget Finance Specialist is responsible with comparing monthly reports from the existing business license software and the cash receipts system in order to reconcile the activity. Any differences will be forwarded to the Administrative Services Manager for explanation and resolution.

Finding 2018-006 Transient Occupancy Tax (TOT)

Criteria:

TOT revenues are approximately \$360,000 and are a significant revenue source to the City. Strong internal controls should be established and procedures developed to track these revenues closely each month/quarter, including investigating any unusual fluctuations and delinquencies, and possibly perform periodic audits to ensure the hotels are properly reporting and submitting the required taxes.

Condition:

Although Finance staff are maintaining a spreadsheet for tracking TOT payments each fiscal year, there does not appear to be anyone checking the TOT returns for accuracy, or keeping track of delinquencies. It also does not appear that the City is requiring the hotels to submit supporting documentation for exemptions. In addition, there have been no recent audits of the hotels.

Cause:

Turnover and lack of City staff; lack of accounting policies and procedures.

Effect:

Hotels could be underreporting these taxes with no consequences, resulting in lower revenues to the City.

City of Beaumont
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2018

Section II – Financial Statement Findings (Continued)

Finding 2018-006 Transient Occupancy Tax (TOT) (Continued)

Recommendation:

We recommend the City establish stronger controls and oversight for these revenues and possibly schedule “audits” of the hotels.

Management’s Response:

The finance department has continually maintained a checklist of transient occupancy tax (TOT) entities to ensure that all filings are received. Effective July 1, 2018, the finance department began sending late filing notices for the quarterly TOT filers. If the late filing is received prior to the subsequent filing due date, no penalty applies. However, if the filing has not been received, a second notice is sent with a billing statement for estimated TOT plus penalty. This procedure strengthens the previously maintained checklist by making proactive efforts to receive information and TOT receipts on a timely basis.

Finding 2018-007 Overhead Cost Allocation

Criteria:

Cost allocation plan methodologies should be thoroughly documented for transparency purposes, and updates to the plans should be done periodically in accordance with best practices.

Condition:

The City allocates certain General Fund costs (administration, maintenance, etc.) to the Sewer Enterprise, Gas Tax, Transit Enterprise, and the Community Facilities District (CFD) Fund. The amounts are based on calculations included in schedules maintained by the Finance Department. Currently the City is not allocating and recovering any of its indirect costs to federal (or state) grants.

Cause:

The City does have a formal cost allocation plan to allocate internal costs, and the plan developed internally is not sufficient to claim indirect costs against federal (and state) grant programs.

Effect:

The City could potentially be utilizing allocation methods which result in either less administrative costs or excessive administrative costs being allocated than would be allowable if detailed cost allocation studies were performed on a periodic basis, and in accordance with federal grant requirements. Costs that could be reimbursable from other than local sources may be able to be claimed if adequately supported.

City of Beaumont
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2018

Section II – Financial Statement Findings (Continued)

Finding 2018-007 Overhead Cost Allocation (Continued)

Recommendation:

We recommend the City perform a full cost allocation study of administrative costs to ensure the detailed methodology for the allocation of administrative costs is reasonable and appropriate, based on the current circumstances, and that the methodology is clearly defined and documented. A plan should be prepared in accordance with the Uniform Guidance in the event the City wishes to allocate and claim the indirect costs against federal (and state) grant programs. Due to the complexity involved in developing a well-supported and reasonable indirect cost plan, the City should evaluate the cost of outsourcing this study as opposed to the use of internal staff time.

Management's Response:

A complete overhead cost study was included in a contract awarded to MGT Consulting Group in April 2016 and was presented to City Council in March 2017. The study was conducted based on an administrative organization that was in a state of change and no longer applies to the administrative support services structure. Following GFOA guidance, an indirect cost allocation plan was prepared by the Finance Department with input from other directors and the City Manager in order to capture percentage of time and cost allocations based on functions and responsibilities within the City starting with fiscal year ended June 30, 2019. This approach has been reviewed and approved by the Finance and Audit Committee and the indirect cost allocation plan will be reviewed and updated on an annual basis.

Section III – Federal Awards Findings and Questioned Costs

No findings or questioned costs were noted on the City's major federal program for the year ended June 30, 2018.

PRIOR AUDIT FINDINGS STATUS

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City of Beaumont
Prior Year Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2018

Finding 2017-001 Internal Control over Financial Reporting/Accounting Close and Accuracy in Financial Reporting

Condition:

Due to limited staffing levels and the financial difficulties faced by the City during our audit period ended June 30, 2017, internal controls were either lacking, were not designed properly, and mitigating controls were not sufficient to effectively identify misstatements due from error.

In addition, the City did not have in place during our audit period a systematic method for ensuring that timely and complete year end closing procedures were in operation before presenting the trial balance to auditors, resulting in a number of journal entries being presented to correct or to reclassify balances in financial statements that should normally be captured through the closing process. Those adjustments have been reported and posted by the City.

Recommendation:

We understand that the City has established year-end closing procedures subsequent to the period of our audit. However, we recommend that the City review those year-end closing procedures to ensure that it adequately addresses and includes an evaluation of the areas that have caused the accounting errors above and the need for correcting journal entries after the year end closing. These procedures should include timely review and approval by management of account reconciliations, sub-ledger transactions, cutoff review for account balances at a fund and overall government-wide level, and revenue and expenditures/expense review. Revenue and expenditures/expenses should be compared to the prior year or prior year trends and to the budget.

Status:

Partially implemented through a monthly and year end closing checklist. See continuing control deficiencies reported as material weaknesses (findings 2018-001 through 2018-005) and significant deficiencies (findings 2018-06 through 2018-07).

Finding 2017-002 Policies and Procedures

Condition:

Our audit involved obtaining and evaluating various policies and procedures of the City. During the audit period, the City lacked having formal policies, procedures and guidelines in place for certain areas, including the following:

- Accounting Policies and Procedures
- Debt Management Policy

The City has been working towards establishing a comprehensive policy which was adopted after our audit period. During our audit the City had informal policies in these areas. We reiterate that the City could benefit from a more formal and comprehensive policies and procedures manual, approved by the City Council, which would provide detailed guidance to employees and management. This will help to ensure consistency in these areas, and continuity in periods of staff turnover.

Recommendation:

We recommend the City develop and establish formal policies and procedures as discussed above. The policies and procedures should be developed by appropriate personnel and approved by the City Council. The City should consider GFOA's recommended practices and other resources during the process. The documentation of accounting policies and procedures should be evaluated annually and updated periodically, as necessary. It should be readily accessible to all applicable employees.

City of Beaumont
Prior Year Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2018

Finding 2017-002 Policies and Procedures (Continued)

Recommendation: (Continued)

A debt policy should be formally adopted by the legislative body, and the debt program should be continuously monitored to ensure compliance with the debt policy. We recommend the City consider establishing a formal debt policy, taking into consideration the recommendations of GFOA.

Status:

Finding has not yet been resolved. See finding 2018-001.

Finding 2017-003 Establish a Comprehensive Fraud Program and Policy

Condition:

The City currently lacks a formal comprehensive fraud program required to help prevent, detect and identify fraud and in order to appropriately safeguard assets. According to management, training has been provided with respect to the “tone at the top” to the City employees, however when interviewing employees during our audit they were unaware of a fraud policy. The City has taken steps to address the risk of fraud in certain areas, such as segregation of duties and other internal controls, but continued to lack the policies and a formalized process and program to institutionalize a comprehensive fraud program is needed.

The City’s current policies do not provide a thorough description of fraud. They also do not provide direction as to what employees should do if they suspect fraud is occurring.

Recommendation:

The risk of fraud can be reduced through a combination of prevention, deterrence, and detection measures. The City should consider developing a formal fraud policies and institute a formal comprehensive fraud program.

The City should consider establishing a more formal training program for all employees regarding fraud. New employees should be trained at the time of hiring about the entity’s code of conduct (and fraud policies). This training should explicitly cover expectations of all employees regarding (1) their duty to communicate certain matters; (2) a list of the types of matters, including actual or suspected fraud, to be communicated along with specific examples; and (3) information on how to communicate those matters. In addition to the training at the time of hiring, employees should receive refresher training periodically thereafter.

The policy needs to provide information to employees on how to communicate fraud related matters. It is important for the City to establish and communicate to employees a reporting system that is appropriate for the City. The City should consider establishing a confidential reporting mechanism, not only for employees, but also for vendors and customers of the City.

The City should also establish a formal fraud risk assessment program, to ensure that the risk of fraud is being periodically evaluated, monitored, and that appropriate action is taken to address the identified risks.

Status:

Finding has not yet been resolved. See finding 2018-002.

City of Beaumont
Prior Year Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2018

Finding 2017-004 Segregation of Duties for Cash Receipts – City Hall

Condition:

Currently, Customer Service Coordinators (cashiers) at City Hall can edit and void transactions in Incode (the City's cash receipts system) subsequent to the receipt being issued. The same cashier should not be able to edit or void a transaction after a receipt has been issued unless an appropriate audit trail and approval process is created by individuals outside of the cash collection process.

Recommendation:

Though the City had implemented a secondary sign off and online viewing of the voids and adjusting entries during the audit period ending June 30, 2017, we recommend the City further expand these procedures to include developing a daily edit report or monitoring function review of the report and reconcile it to the cash drawer before closing out the cash drawers. This should be signed off by a supervisor for the Accounting Technician not involved in the cash collection process. Amounts in excess of a large dollar threshold should be considered for sign off at a higher supervisory level.

Status:

Partially implemented. See finding 2018-003.

Finding 2017-005 Segregation of Duties for Building Permits

Condition:

The permit technician in the Community Development Department issues building permits and plan checks and collects the payments from customers. There is no reconciliation of the building permits and plan checks issued with the amounts collected and receipted in the City's general ledger.

Recommendation:

We recommend the City implement a procedure to generate reports from the Salesforce permit system, periodically (i.e. daily, weekly, monthly), and have someone independent of the permit issuance and collection functions review and reconcile the amounts from these reports to the revenue posted in the City's general ledger. In addition, the permit and fees process should be integrated into the accounting software to limit the number of manual entries posted to the general ledger system.

Status:

Partially implemented during fiscal year ending June 30, 2018. See finding 2018-004.

City of Beaumont
Prior Year Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2018

Finding 2017-006 Development Impact Fees (DIF)

Condition:

The City currently uses a manual system for issuing DIF invoices and reconciling the accounting records which it is in the process of automating. Development impact fees (DIF) have been reconciled by type in order to establish balances at June 30, 2016. Prior to June 30, 2016, the City had recorded all of these revenues in one fund over the years (comingled), without keeping track of the expenditures and remaining unspent balances of each type of DIF. The City's has established in the new general ledger system a separate accounting fund for each DIF fee. The gross, fee credit, and net cash receipt are now tracked manually in Excel spreadsheets but recorded into the software by DIF that are restricted for certain purposes. Though substantial improvements have been made, manual processes including the use of spreadsheets typically are inefficient and can be prone to error or manipulation creating an increased risk of misappropriation or error in the financial statements.

Recommendation:

Because the DIF are financially significant to the City, the City should place high priority on and continue with the replacement of the current manual system with a more automated system and set of internal controls over the billing/invoicing and cash receipt functions. The calculation of the DIF and application of fee credits should be subjected to independent analysis and oversight by the Finance Department including controls over the reconciliation of the billings to the receipts, the authorization of any deviations from the standard fees or fee credits, and posting to the general ledger system. Once automated, the system controls should be tested and validated alongside the manual process for a period of time. Once fully automated, the Finance Department should develop specific monitoring (i.e. fee credit reports, void reports, edit report, etc.) and reconciliation of the general ledger to the subsidiary ledger reports should be performed.

Status:

Partially implemented. Monthly independent reconciliation started in July 2017. System software integration is still being implemented as recommended.

Finding 2017-007 Segregation of Duties for Business Licenses

Condition:

The permit technician accepts payments for business licenses and has the ability to issue and distribute business licenses. There is no independent reconciliation of the business licenses issued from the HdL system with the amounts collected and posted in the Incode cash receipts system.

Recommendation:

We recommend the City implement a procedure to generate reports from the HdL business license program, periodically (i.e. daily, weekly, monthly), and have someone independent of the business license issuance and collection functions review and reconcile the amounts from these reports to the revenues posted in the City's general ledger. In addition, the permit and fees process should be integrated into the accounting software to limit the number of manual entries posted to the general ledger system.

Status:

Finding has not yet been resolved. See finding 2018-005.

City of Beaumont
Prior Year Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2018

Finding 2017-008 Transient Occupancy Tax (TOT) and Utility User’s Tax (UUT)

Condition:

Although Finance staff are maintaining a spreadsheet for tracking TOT payments each fiscal year, there does not appear to be anyone checking the TOT returns for accuracy, or keeping track of delinquencies. It also does not appear that the City is requiring the hotels to submit supporting documentation for exemptions. In addition, there have been no recent audits of the hotels. The Finance staff prepared a spreadsheet for tracking UUT payments for 2014-15, but apparently stopped tracking this revenue for amounts received after June 30, 2015. Though it resumed in fiscal year 2016-17.

Recommendation:

We recommend the City establish stronger controls and oversight for these revenues and possibly schedule “audits” of the hotels and/or utility companies.

Status:

Finding has been partially resolved. See finding 2018-006.

Finding 2017-009 Lack of Oversight for Fuel Credit Card Activity

Condition:

Each City vehicle has a fuel credit card inside the vehicle. The City has not established formal policies over the use of the fuel credit cards. In addition, there is no formal analysis of the fuel credit card use, on a periodic basis, to determine if the fuel costs are reasonable based on known operations of the vehicles.

Recommendation:

We recommend the City adopt formal policies providing detailed guidance on the allowable uses of the City’s fuel credit cards. In addition, we recommend the City implement procedures to monitor the fuel activity, periodically, to analyze the use of the fuel credit cards. Also, City staff should be made aware of the monitoring and analysis of the fuel usage as an additional deterrent for misuse of the City fuel credit cards.

Status:

Corrected. Fuel statements and utilization are being reviewed monthly by Department Directors and the Budget Finance Specialist.

Finding 2017-010 Overhead Cost Allocation

Condition:

The City allocates certain General Fund costs (administration, maintenance, etc.) to the Sewer Enterprise, Gas Tax, Transit Enterprise, and the Community Facilities District (CFD) Fund. The amounts are based on calculations included in schedules maintained by the Finance Department.

City of Beaumont
Prior Year Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2018

Finding 2017-010 Overhead Cost Allocation (Continued)

Recommendation:

We recommend the City perform a full cost allocation study of administrative costs to ensure the detailed methodology for the allocation of administrative costs is reasonable and appropriate, based on the current circumstances, and that the methodology is clearly defined and documented.

Status:

Finding has not yet been resolved. See finding 2018-007.

Finding 2017-011 Segregation of Duties for Cash Receipts – Police Department

Condition:

Dispatchers at the Police Department can accept payment by check or cash after hours. Manual receipts are being issued to customers upon payment. The copy of the manual receipt and the cash and checks are then provided to the Customer

Service Coordinator; however, the Customer Service Coordinator is not keeping track of the numerical sequence of the manual receipts that are being issued.

Recommendation:

We recommend the City implement procedures for the Customer Service Coordinator to verify the numerical sequence of the manual receipts issued by the Dispatchers at the Police Department that are accepting payments by check or cash after-hours. In addition, the City's policy over cash receipts as currently written does not appear to include the remote location cash collection processes. We recommend that the policy be updated to encompass both central cashiering and all remote cashiering locations.

Status:

Recommendation has been partially implemented but the formal written policies were not completed until fiscal year 2019. Because prior year finding was reported to those charged with governance and management and is not considered a significant deficiency or material weakness, it is not repeated in fiscal year 2018. Tracking of status will continue to be done internally.

Finding 2017-012 Segregation of Duties for Bus Passes

Condition:

City employees that issue bus passes are also responsible for collecting and receipting payments from customers into the City's cash receipts system. Inventory controls over the numeric sequence of bus passes should be established and controlled.

Recommendation:

Though the City had established centralized tracking and reporting during fiscal year 2016/17, the finding and recommendation was not fully implemented at the transit department during our audit period. We recommend the City continue to implement the corrective actions it had identified previously.

City of Beaumont
Prior Year Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2018

Finding 2017-012 Segregation of Duties for Bus Passes (Continued)

Status:

Recommendation has been partially implemented. The transit department sells five different types of bus passes, and four of those types are available for two different route uses. All passes have two separate passenger rates – regular and senior/disabled/veteran. The combination of these elements dictates the value of the pass, and those passes can be purchased at any one of the three different locations. All passes are pre-numbered except for day passes which are collected when the passenger boards the bus.

Effective February 2019, a written policy has been developed and is being implemented to perform an internal audit of monthly passes sold for both routes and for both passenger rates because those are the highest value passes available and are only sold at City Hall. The process established is being tested by City staff to develop effective controls for all passes sold at all locations.

Because prior year finding was reported to those charged with governance and management and is not considered a significant deficiency or material weakness, it is not repeated in fiscal year 2018. Tracking of status will continue to be done internally.

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