

**City of Beaumont
Schedule of Findings
Year Ended June 30, 2020**

Update for the Finance and Audit Committee – March 8, 2021

A. Current Year Findings

Finding 2020-003- Payroll Process – Personnel Action Forms

Criteria

A strong payroll internal control system can generally be implemented to cover potential threats of error and misappropriation with a reasonable effort. Payroll controls should include the following:

- Comparison of actuals to budget information and the review of any unexpected variances;
- Close review and supervision of reports prepared for filing with federal and state taxing authorities; and
- Separation of the payroll functions of employment, timekeeping, payroll preparation, and record-keeping;
- Review of change reports for each payroll period by personnel outside the payroll function with verification of changes.

Condition and Context

During our audit, we noted that several personnel action forms were not approved by the employee or appropriate supervising personnel.

Effect

Changes to personnel records such as wages increases, promotions, status changes, etc., need to be documented in a Personnel Action Form with formal acknowledgment by the employee and a supervisory personnel as well. Failure to formally document the changes substantially increases the risk of unauthorized changes in payroll data such as pay rates, hours worked, etc., which significantly weakens internal control.

Recommendation

We recommend that the Finance Department have all personnel action forms signed by the affected employee and by a supervisory personnel as well; and to perform regular risk assessments reviews to identify where lacks of internal controls issues in the payroll process need to be addressed.

Management Response to Finding

Management concurs that employee payroll change forms have not been signed by employees and supervisors. Effective October 20, 2020, all employee change forms will be required to be signed by the employee and a supervisory position.

As noted in the finding above, these documents are only completed in conjunction with a conditional job offer, satisfactory performance evaluation or an MOU contract obligation. The copy of the form is routed to the employee for their record. The form is included as part of the bi-weekly payroll file and reviewed by a senior accountant in the Finance Department.

Management notes that mitigating controls have been in existence, in that while employee payroll change forms have not been signed by employees and supervisors, employee pay modifications generally occur at an anniversary date and an evaluation that is signed by the employee and supervisor usually precedes any modification in pay. In those instances where an evaluation is not completed, the personnel policies of the City provide that an employee is entitled to a merit increase. As a result, increases in pay are driven by policies and procedures of the City and can be tied to the employee's anniversary date.

Update for the Finance Committee – April 12, 2021

Effective October 20, 2020 the Administration Director began signing all employee change forms. Beginning March 1, 2021 all employee change forms will also be signed by the employee and supervisor. This corrective action is only partially implemented and will be updated in future reports.

March 8, 2021 update – the majority of forms are now being signed by both employees and supervisors. Staff are still tying together the final processes to ensure full compliance. We expect this to be completed by the April report.

April 12, 2021 update – the Administration Department has completed a project to have all employee change forms signed by both the employee and the supervisor for all prior changes. This process will be continued going forward. The corrective action for this finding is now fully implemented and will be removed from the list going forward.

Review of Prior Year Findings

Finding 2020-004 Segregation of Duties for Business Licenses Process

Condition:

During our audit, lack of segregation of duties was noted in the City's Business Licenses process. The permit technician, who accepts payments for business licenses, 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. This finding was previously reported in 2019 as finding 2019-001 and in 2018 as finding 2018-005 - Segregation of Duties for Business Licenses Process.

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.

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 reporting limitations within Incode that were not evident prior to purchasing the system.

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:

Reports of transactional activity will be generated from the HdL business license system that details business license collection activity. An Accounting Technician in the Finance Division will compare these reports to the deposits submitted to the Finance Department and entered into the City's general ledger. This reconciliation will be completed weekly. Any discrepancies will be brought to the attention of the Administrative Services Manager for resolution. Effective February 1, 2021, the Finance Department will complete a reconciliation of funds collected from business license activity to the license activity in the HdL system.

Update to Finance Committee – April 12, 2021

Effective March 1, 2021, the Finance Department will run a report of all business license activity and compare this to the receipt activity within the HdL business license system. Any exceptions will be reported to the Finance Director for follow-up with the Director of Administration who oversees the business license process.

March 8, 2021 update – Finance Staff now have full access to run reports from the HdL business license system and have completed one reconciliation. This finding will remain through April to ensure additional reconciliations are completed.

April 12, 2021 Update- Finance Staff have completed additional reconciliations without exception

Finding 2020-005 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 (CPD) 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.

While the City completed a cost allocation study in April 2016 and has implemented the cost allocation of administrative costs to the various funds within the City, the City has not had a formal Cost Allocation Plan performed for charging of its costs to federally funded projects. This finding was previously reported in 2019 as finding 2019-002 and in 2018 as 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.

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. For federal awards, the City may elect to use the 10 percent of Modified Total Direct Cost (MTDC) de Minimis indirect rate to recover indirect costs as part of your federal grant budgets. If the City elects to use the 10 percent de Minimis rate, the Uniform Guidance requires that the City use Modified Total Direct Costs as the cost base. MTDC means all direct salaries and wages, applicable fringe benefits, materials and supplies, services, travel, and up to the first \$25,000 of each sub award (regardless of the period of performance of the sub awards under the award).

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:

While the City completed a cost allocation study in April 2016 and has implemented the cost

allocation of administrative costs to the various funds within the City, further work is necessary to fully comply with this recommendation. The City has not yet completed the cost allocation for indirect costs to federal and state grant programs. Management intends to re-evaluate its cost allocation strategy and hire an external professional to assist the City in completing the cost allocation process. There has been no progress on this finding since the last audit.

Update to Finance Committee – March 8, 2021

In the summer of 2021, the Finance Department intends to engage a consultant to complete a cost allocation evaluation. The results of this work will enable the City to charge an indirect rate against grants where appropriate.

No update for March 2021.

No update for April 2021