

# **City of Beaumont**

**Beaumont, California**

## **Single Audit and Independent Auditors' Reports**

*For the Year Ended June 30, 2019*



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**City of Beaumont  
Single Audit Reports  
For the Year Ended June 30, 2019**

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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, 2019, 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 February 13, 2020.

**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.

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. 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.

Our consideration of internal control was for the limited purpose described in the first 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify deficiencies described in the accompanying schedule of findings and questioned costs as items 2019-001, 2019-002 and 2019-003 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.

*The PwC Group, LLP*

Santa Ana, California  
February 13, 2020



**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, 2019. 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, 2019.

### **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, 2019, and have issued our report thereon dated February 13, 2020 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  
February 13, 2020

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**City of Beaumont**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended June 30, 2019**

Federal Grantor/Passed through Grantor Program Title	CFDA Number	Grant Award Number	Federal Expenditures
<b>U.S. Department of Housing and Urban Development:</b>			
<b>Community Development Block Grant - Entitlement Cluster:</b>			
<i>Passed through Riverside County Economic Development Agency:</i>			
Community Development Block Grant	14.218	B-17-UC-06-0506	\$ 2,925
Community Development Block Grant	14.218	5.BEA.36-18	676
<b>Total Community Development Block Grant - Entitlement Cluster</b>			3,601
<b>Total U.S. Department of Housing and Urban Development</b>			3,601
<b>U.S. Department of Transportation:</b>			
<b>Highway Planning and Construction Cluster:</b>			
<i>Passed Through State of California Department of Transportation:</i>			
Potrero Interchange Project	20.205	DEM 10L-5209(008)	4,947,592
<b>Total Highway Planning and Construction Cluster</b>			4,947,592
<b>Total U.S. Department of Transportation</b>			4,947,592
<b>Total Expenditures of Federal Awards</b>			\$ 4,951,193

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, 2019**

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**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 – 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, 2019**

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**Section I – Summary of Auditors’ Result**

**Financial Statements**

Types of auditors’ report issued:	Unmodified
Internal control over financial reporting:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified?	2019-001, 2019-002, 2019-003
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:

Major Program	Federal CFDA #	Federal Expenditures
Highway Planning and Construction Cluster	20.205	\$ 4,947,592
<b>Total major program expenditures</b>		<b>\$ 4,947,592</b>
<b>Total expenditures of federal awards</b>		<b>\$ 4,951,193</b>
<b>Percent of total federal award expenditures</b>		<b>99.93%</b>

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, 2019**

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**Section II – Financial Statement Findings**

**A. Current Year Findings and Questioned Costs – Financial Statement Findings**

**Finding 2019-001 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.

**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. These processes will be effective beginning February 2020.

**City of Beaumont**  
**Schedule of Findings and Questioned Costs (Continued)**  
**For the Year Ended June 30, 2019**

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**Section II – Financial Statement Findings (Continued)**

**A. Current Year Findings and Questioned Costs – Financial Statement Findings (Continued)**

**Finding 2019-002 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. 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.

**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 subaward (regardless of the period of performance of the subawards 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.

**City of Beaumont**  
**Schedule of Findings and Questioned Costs (Continued)**  
**For the Year Ended June 30, 2019**

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**Section II – Financial Statement Findings (Continued)**

**A. Current Year Findings and Questioned Costs – Financial Statement Findings (Continued)**

**Finding 2019-002 Overhead Cost Allocation (Continued)**

**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. This will be undertaken during FY 2020 and should be fully implemented by December 2020.

**Finding 2019-003 Unauthorized Wire Transfers**

**Condition:**

During the year, the City was subject to a fraudulent payment scheme by a fictitious vendor posing as an authorized vendor of the City. The perpetrator submitted a request for payment change with new routing and bank account information along with a voided check in the amount of \$525,038. This was all done on what appeared to be the real vendor’s company letterhead. These invoices were processed through the normal cash disbursements cycles and wire payments were made. The bank account and routing number in the vendor master file were updated by the Accounting Technician without a second level of review in order to make the payment. Before the wire transfers were processed and cleared, the bank notified the City and the City was able to recover \$485,417.

Criminals today are using a variety of techniques, such as phishing e-mails and malware, to take control of business accounts to initiate payments to an accomplice or a foreign account. According to the 2015 survey of the Association for Financial Professionals, *2015 AFP Payments Fraud and Control Survey: Report of Survey Results, 2015, Bethesda, MD*, 27 percent of respondent organizations were affected by wire transfer fraud (a nearly 100 percent increase from the 2014 survey), and 10 percent were affected by automated clearing house (ACH) credit fraud (fraud involving an ACH payment order initiated by the person sending the payment).

**Criteria:**

An effective internal control system includes having appropriate segregation of duties in place within the cash disbursement transaction cycle. Maintenance of the Vendor Master File (VMF) is a foundational element of the accounts payable and procurement processes. The VMF contains vital information about the City’s vendors and facilitates their engagement in transactions with the City for the procurement of goods and services. It is essential to effectively maintain VMF file in order to avoid unauthorized or inappropriate activity, duplicate payments, and inefficiencies.

**Cause:**

There was a breakdown in internal controls over the modifications made to the vendor master file. The same person that can make payments was also able to alter the vendor file without a second level of review. This exposes the City due to the lack of segregation of duties.



**City of Beaumont**  
**Schedule of Findings and Questioned Costs (Continued)**  
**For the Year Ended June 30, 2019**

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**Section II – Financial Statement Findings (Continued)**

**A. Current Year Findings and Questioned Costs – Financial Statement Findings (Continued)**

**Finding 2019-003 Unauthorized Wire Transfers (Continued)**

**Effect:**

The City was exposed to a significant loss due to the lack of controls in place. However, mitigating controls were in place at the bank in their notification process to avoid any ultimate loss to the City. The detective controls in essence functioned. However, preventive controls are more effective and should be in place in order to identify and prevent fraud from occurring.

**Recommendation:**

The City should develop an authorization process that includes a review and approval of any modification should include system controls (access control) to the vendor master file within the system separate from the person making the change. This added segregation of duty should be included in the system of internal controls (across controls) to help to prevent unauthorized changes from being made and reduce the risk of fraud within the organization. Often in larger organizations, the vendor master file is established and managed by procurement separate from the accounts payable function.

**Management's Response:**

The City has developed a policy regarding electronic funds transfer (EFT) that clearly requires approval of the senior accountant prior to any change in vendor payment instructions. Further, staff are required to complete a secondary verification with the vendor via a phone call to a known and established contact prior to executing any change in payment instructions. Pursuant to the new policy, if fraud is suspected, the Finance Director and City Manager are to be immediately notified and steps initiated with the bank to mitigate the fraud.

**City of Beaumont**  
**Schedule of Findings and Questioned Costs (Continued)**  
**For the Year Ended June 30, 2019**

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**Section II – Financial Statement Findings (Continued)**

**B. Prior Year Findings and Questioned Costs – Financial Statement Findings**

**Finding 2018-001 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.

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 was implemented during the year ended June 30, 2019.

**City of Beaumont**  
**Schedule of Findings and Questioned Costs (Continued)**  
**For the Year Ended June 30, 2019**

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**Section II – Financial Statement Findings (Continued)**

**B. Prior Year Findings and Questioned Costs – Financial Statement Findings (Continued)**

**Finding 2018-002 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 was implemented during the year ended June 30, 2019.

**City of Beaumont**  
**Schedule of Findings and Questioned Costs (Continued)**  
**For the Year Ended June 30, 2019**

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**Section II – Financial Statement Findings (Continued)**

**B. Prior Year Findings and Questioned Costs – Financial Statement Findings (Continued)**

**Finding 2018-003 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 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.

**Status:**

Finding was implemented during the year ended June 30, 2019.

**Finding 2018-004 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:**

Finding was implemented during the year ended June 30, 2019.

**City of Beaumont**  
**Schedule of Findings and Questioned Costs (Continued)**  
**For the Year Ended June 30, 2019**

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**Section II – Financial Statement Findings (Continued)**

**B. Prior Year Findings and Questioned Costs – Financial Statement Findings (Continued)**

**Finding 2018-005 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 been resolved. See repeat finding at 2019-001.

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

**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.

**Recommendation:**

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

**Status:**

Finding was implemented during the year ended June 30, 2019.

**City of Beaumont**  
**Schedule of Findings and Questioned Costs (Continued)**  
**For the Year Ended June 30, 2019**

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**Section II – Financial Statement Findings (Continued)**

**B. Prior Year Findings and Questioned Costs – Financial Statement Findings (Continued)**

**Finding 2018-007 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. Currently the City is not allocating and recovering any of its indirect costs to federal (or state) grants.

**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.

**Status:**

Finding has not been resolved. See repeat finding at 2019-002.

**City of Beaumont**  
**Schedule of Findings and Questioned Costs (Continued)**  
**For the Year Ended June 30, 2019**

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**Section III – Federal Awards Finding and Questioned Costs**

**A. Current Year Findings and Questioned Costs – Major Federal Award Program Audit**

No current year findings and questioned costs noted.

**B. Prior Year Findings and Questioned Costs – Major Federal Award Program Audit**

No prior year findings and questioned costs noted.

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