

**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 Auditor's Report

To the Honorable City Council
City of Beaumont

We have audited, in accordance with 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, business-type activities, each major fund, and the aggregate remaining fund information of the City of Beaumont (the City) as of and for the year ended June 30 2021, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated **January xx, 2022**.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, 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 over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying *Schedule of Findings*, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

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 City'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. We identified deficiencies in internal control over financial reporting, described in the accompanying *Schedule of Findings* as items 2021-001, 2021-002, and 2021-003 that we consider to be significant deficiencies.

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 of Beaumont's Response to Findings

The City of Beaumont's response to the findings identified in our audit is described in the accompanying *Schedule of Findings*. The City of Beaumont's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 City'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 City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Rogers, Anderson, Malody & Scott, LLP.

San Bernardino, California
January xx, 2022

City of Beaumont

Schedule of Findings
Year Ended June 30, 2021

A. Current Year Findings

Finding 2021-001 – 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.

Schedule of Findings
Year Ended June 30, 2021

A. Current Year Findings (continued)

Finding 2021-001 - 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 cost to the various funds within the city, further work is necessary to fully comply with this recommendation. The City issued an RFP for a Full Cost Allocation Plan on September 28, 2021 and approved a contract with a consultant to provide the City with a Cost Allocation Plan for use beginning FY2023.

Finding 2021-002 – Billings - Segregation of Duties

Criteria:

During our audit, we noted the customer service counter representative collects payments for wastewater, records them into the billing system, and reconciles/approve them before posting into the general ledger.

Condition and Context:

During the audit, lack of segregation of duties was noted in the cash receipt billings process. The Customer Service Counter representative collects payments for wastewater, records them into the billing system, and reconciles/approve them before posting into the general ledger.

Effect:

Lack of segregation of duties related to the cash receipt billing process could result in erroneous, fictitious and or fraudulent cash receipts.

Recommendation:

We recommend that the Finance Department segregate the responsibilities for the collection of cash receipts, the recording of cash receipts into the billing system and the reconciliation of cash receipts to the general ledger.

Management Response to Finding:

Beginning in May 2021, the process for billing was changed to add in a layer of approval. The new process has the customer service counter running billing and the supervisor approves the billing through Info Send for the bills to be completed and mailed. Whoever is running the billing no longer approves the final documents. Finance completes all postings to the general ledger.

City of Beaumont

Schedule of Findings
Year Ended June 30, 2021

A. Current Year Findings (continued)

Finding 2021-003 – Adherence to Investment Policy

Criteria:

Per the City's investment policy, the City treasurer is required to report quarterly reports to City Council with specific details as documented per the City's investment policy.

Condition and Context:

During the audit, we noted that the City Treasurer was not reporting quarterly reports to City Council for the entire fiscal year 2021.

Effect:

The purpose of the adoption of an established investment policy is to set forth the overall investment philosophy of the City as decided by its governing board. The policy should be guiding rule and it should be followed without exception.

Recommendation:

We recommend that the Finance Department take steps to inform its City Treasurer of these discrepancies and that the investment policy is to be followed as it is stated. A copy of the investment policy should be provided to the City Treasurer with written correspondence of these matters. An investment policy is a very effective means of protecting the assets of the City, and we suggest that a procedure be implemented to be certain that it is carried out.

Management Response to Finding:

The City approved a contract for investment advisor services on February 16, 2021, and the City Council approved an amended investment policy on May 18, 2021. On August 9, 2021, City staff presented to the Finance and Audit Committee the FY2020-2021 4th Quarter Pooled Cash Investment Report which was then received and filed by the City Council on August 17, 2021. City staff has since included all Trustee accounts within the quarterly reports to encompass all investments held by the City.

City of Beaumont

Schedule of Findings
Year Ended June 30, 2021

B. Prior Year Findings

Findings 2020-004 Segregation of Duties for Business Licenses Process

Status:

Corrected

Findings 2020-005 Overhead Cost Allocation

Status:

Finding has not been implemented. See repeat finding at 2021-001.