



FINANCE AND AUDIT COMMITTEE MEETING

550 E. 6th Street, Beaumont, CA

Monday, April 12, 2021 - 6:00 PM

Materials related to an item on this agenda submitted to the Finance and Audit Committee after distribution of the agenda packets are available for public inspection in the City Clerk's office at 550 E. 6th Street during normal business hours.

AGENDA

MEETING PARTICIPATION NOTICE

This meeting will be conducted utilizing teleconference communications and will be recorded for live streaming as well as open to public attendance subject to social distancing and applicable health orders. All City of Beaumont public meetings will be available via live streaming and made available on the City's official YouTube webpage. Please use the following link during the meeting for live stream access.

beaumontca.gov/livestream

Public comments will be accepted using the following options.

1. Written comments will be accepted via email and will be read aloud during the corresponding item of the meeting. Public comments shall not exceed three (3) minutes unless otherwise authorized by City Council. Comments can be submitted anytime prior to the meeting as well as during the meeting up until the end of the corresponding item. Please submit your comments to: **nicolew@beaumontca.gov**
2. Phone-in comments will be accepted by joining a conference line prior to the corresponding item of the meeting. Public comments shall not exceed three (3) minutes unless otherwise authorized by City Council. Please use the following phone number to join the call **(951) 922 - 4845.**
3. In person comments subject to the adherence of the applicable health orders and social distancing requirements.

In compliance with the American Disabilities Act, if you require special assistance to participate in this meeting, please contact the City Clerk's office using the above email or call **(951) 572 - 3196.** Notification 48 hours prior to a meeting will ensure the best reasonable accommodation arrangements.

REGULAR SESSION

6:00 PM

CALL TO ORDER

Committee Members: Council Member Julio Martinez, Council Member David Fenn, Treasurer Baron Ginnetti, Chair Thomas LeMasters, Vice Chair Steve Cooley, Member Frank Parks, Member Keith Bacon, Alternate Member David Vanderpool, and Alternate Member Dameon Butler

Action of any Requests for Excused Absence

Pledge of Allegiance

Approval/Adjustments to Agenda

Conflict of Interest Disclosure

PUBLIC COMMENT PERIOD (ITEMS NOT ON THE AGENDA):

Any one person may address the Committee on any matter not on this agenda. If you wish to speak, please fill out a "Public Comment Form" provided at the back table and give it to the Committee Chair or Secretary. There is a three (3) minute limit on public comments. There will be no sharing or passing of time to another person. State Law prohibits the Committee from discussing or taking actions brought up by your comments.

ACTION ITEMS / PUBLIC HEARINGS / REQUESTS

1. Approval of Minutes

Recommended Action:

Approve Minutes dated March 8, 2021.

2. FY 2021 General Fund and Wastewater Fund Budget to Actual through March 2021

Recommended Action:

Receive and file the attached reports.

3. Internal Control Findings Update

SUB-COMMITTEE UPDATES

FUTURE AGENDA ITEMS

MEETING REVIEW - TREASURER

FINANCE DIRECTOR'S COMMENTS

ADJOURNMENT

The next regular meeting of the Finance and Audit Committee Meeting is scheduled for Monday, May 10, 2021, at 6:00 p.m.

Beaumont City Hall – Online www.BeaumontCa.gov

FINANCE AND AUDIT COMMITTEE MEETING

550 E. 6th Street, Beaumont, CA

Monday, March 08, 2021 - 6:00 PM

MINUTES

REGULAR SESSION

6:00 PM

CALL TO ORDER at 6:01 p.m.

Present: Committee Members: Council Member Julio Martinez, Council Member David Fenn, Treasurer Baron Ginnetti, Chair Thomas LeMasters, Vice Chair Steve Cooley, Member Frank Parks, Alternate Member David Vanderpool, and Alternate Member Dameon Butler

Absent: Member Keith Bacon

Action of any Requests for Excused Absence: **Member Bacon is excused.**

Pledge of Allegiance

Approval/Adjustments to Agenda: **None**

Conflict of Interest Disclosure: **None**

PUBLIC COMMENT PERIOD (ITEMS NOT ON THE AGENDA):

Any one person may address the Committee on any matter not on this agenda. If you wish to speak, please fill out a "Public Comment Form" provided at the back table and give it to the Committee Chair or Secretary. There is a three (3) minute limit on public comments. There will be no sharing or passing of time to another person. State Law prohibits the Committee from discussing or taking actions brought up by your comments.

No comments

ACTION ITEMS / PUBLIC HEARINGS / REQUESTS

1. Approval of Minutes

Motion by Member Parks

Second by Vice Chair Cooley

To approve minutes dated February 8, 2021.

2. FY2021 General Fund and Wastewater Fund Budget to Actual through February 2021

Motion by Vice Chair Cooley

Second by Treasurer Ginnetti

To receive and file reports.

3. Internal Control Findings from FY2020 Audit - Status Update

SUB-COMMITTEE UPDATES

Discussion of restarting the tasks of the sub-committees.

FUTURE AGENDA ITEMS

- Sub Committee Assignments

MEETING REVIEW - TREASURER

FINANCE DIRECTOR'S COMMENTS

ADJOURNMENT at 6:46 p.m.



Staff Report

TO: Finance Committee
FROM: Jeff Mohlenkamp, Finance Director
DATE: April 12, 2021
SUBJECT: **FY 2021 General Fund and Wastewater Fund Budget to Actual through March 2021**

Background and Analysis:

Staff have updated the analysis of the General Fund and Wastewater Fund for FY 2020-21 with results through March 2021.

This early analysis of the budget to actual results for FY 2021 is included in the attached spreadsheets.

Recommended Action:

Receive and file the attached reports.

Attachments:

- A. FY 2021 General Fund Budget to Actual Report – through March 2021
- B. FY 2021 Wastewater Fund Budget to Actual Report – through March 2021



City of Beaumont, CA

Budget Comparison Report

General Fund Budget to Actual through March 2021

Item 2.

SubCategory	2018-2019 YTD Activity Through Per	2019-2020 YTD Activity Through Per	2020-2021 YTD Activity Through Per	Parent Budget		Notes
				2020-2021 V1 2020-2021	FY 2021 Estimate	
Fund: 100 - GENERAL FUND						
Revenue						
Category: 40 - TAXES						
400 - Real Property Taxes	\$ 3,171,203	\$ 3,313,501	\$ 3,761,325	\$ 6,174,605	\$ 6,200,000	
403 - Personal Property Taxes	\$ -	\$ 254,416	\$ 210,630	\$ 267,137	\$ 285,000	
406 - Franchise Fees	\$ 246,119	\$ 7,395,475	\$ 2,401,201	\$ 3,019,846	\$ 3,150,000	
409 - Sales Taxes	\$ 3,375,550	\$ 3,511,126	\$ 4,378,475	\$ 6,375,048	\$ 6,480,000	
420 - Other Taxes	\$ 3,546,281	\$ 3,780,262	\$ 4,327,358	\$ 7,533,745	\$ 7,560,000	
Total Category: 40 - TAXES:	\$ 10,339,153	\$ 18,254,781	\$ 15,078,989	\$ 23,370,381	\$ 23,675,000	Taxes trending close to previous estimates and a little above adjusted budget
Category: 41 - LICENSES						
430 - Business Licenses	\$ 95,881	\$ 149,798	\$ 222,080	\$ 325,000	\$ 365,000	
Total Category: 41 - LICENSES:	\$ 95,881	\$ 149,798	\$ 222,080	\$ 325,000	\$ 365,000	collections expected to exceed budget
Category: 42 - PERMITS						
450 - Building Permits	\$ 3,384,439	\$ 1,747,449	\$ 1,274,538	\$ 2,200,000	\$ 1,750,000	
453 - Inspections	\$ 236,808	\$ 145,670	\$ 200,151	\$ 210,000	\$ 290,000	
456 - Other Permits	\$ 467,594	\$ 407,024	\$ 368,511	\$ 417,500	\$ 460,000	
515 - Public Works	\$ 263	\$ (72,380)	\$ -	\$ -	\$ -	
Total Category: 42 - PERMITS:	\$ 4,089,103	\$ 2,227,763	\$ 1,843,200	\$ 2,827,500	\$ 2,500,000	Development related activity trending close to previous estimates and below budget
Category: 45 - INTERGOVERNMENTAL						
465 - State	\$ 20,062	\$ -	\$ -	\$ -	\$ -	
470 - Local	\$ 9,257	\$ 2,550	\$ -	\$ -	\$ -	
Total Category: 45 - INTERGOVERNMENTAL:	\$ 29,319	\$ 2,550	\$ -	\$ -	\$ -	
Category: 47 - CHARGES FOR SERVICE						
500 - Sanitation	\$ 5,512,318	\$ 112,615	\$ 101,363	\$ -	\$ -	
505 - Animal Control	\$ 73,670	\$ 74,318	\$ 65,378	\$ 119,450	\$ 98,000	
510 - Community Development	\$ 4,786	\$ 4,672	\$ 4,156	\$ 5,500	\$ 5,500	
515 - Public Works	\$ 9,166	\$ 7,848	\$ 49,237	\$ 7,900	\$ 74,000	
525 - Abatements	\$ 20,904	\$ 40,212	\$ 41,121	\$ 54,500	\$ 50,000	
530 - Public Safety	\$ 199,018	\$ 180,305	\$ 184,020	\$ 537,850	\$ 475,000	

535 - Facilities	\$ 147,538	\$ 93,484	\$ 68,984	\$ 125,000	\$ 97,000
540 - Programs	\$ 92,315	\$ 77,882	\$ 1,915	\$ 20,000	\$ 4,000
545 - Other	\$ 84,424	\$ 119,215	\$ 76,720	\$ 148,200	\$ 102,000

Total Category: 47 - CHARGES FOR SERVICE: \$ 6,144,140 \$ 710,552 \$ 491,532 \$ 1,018,400 \$ 905,500 charges for services trending below budget in most categories

Category: 50 - FINES AND FORFEITURES

555 - Vehicle	\$ 48,453	\$ 57,817	\$ 51,087	\$ 70,000	\$ 68,000
557 - Other	\$ 19,051	\$ 31,340	\$ 36,779	\$ 45,000	\$ 43,000

Total Category: 50 - FINES AND FORFEITURES: \$ 67,504 \$ 89,157 \$ 87,866 \$ 115,000 \$ 111,000

Category: 53 - COST RECOVERY

465 - State	\$ 8,139	\$ 24,854	\$ -	\$ 25,000	\$ 20,000
565 - Other Income	\$ 376,492	\$ 384,055	\$ 5,825	\$ 334,000	\$ 280,000

Total Category: 53 - COST RECOVERY: \$ 384,631 \$ 408,909 \$ 5,825 \$ 359,000

collected near FY end
most collected near FY end

Category: 54 - MISCELLANEOUS REVENUES

560 - Investment Earnings	\$ 484	\$ (79,674)	\$ 47,218	\$ 170,000	\$ 107,000
565 - Other Income	\$ 14,752	\$ 156,147	\$ 189,035	\$ 154,500	\$ 226,000

Total Category: 54 - MISCELLANEOUS REVENUES: \$ 15,237 \$ 76,472 \$ 236,253 \$ 324,500 \$ 333,000

rates continue lower/ new investment strategy expected

Category: 58 - OTHER FINANCING SOURCES

595 - Sale of Assets	\$ 16,649	\$ 26,203	\$ -	\$ 15,000	
599 - Other	\$ 7,500	\$ -	\$ -	\$ -	

Total Category: 58 - OTHER FINANCING SOURCES: \$ 24,149 \$ 26,203 \$ - \$ 15,000 \$ -

Category: 90 - TRANSFERS

900 - Transfers	\$ 129,892	\$ 1,954,182	\$ 3,945,159	\$ 8,757,651	\$ 8,757,651
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Total Category: 90 - TRANSFERS: \$ 129,892 \$ 1,954,182 \$ 3,945,159 \$ 8,757,651 \$ 8,757,651

all transfer expected to occur at budget levels

Total Revenue: \$ 21,319,010 \$ 23,900,367 \$ 21,910,903 \$ 37,112,432 \$ 36,927,151

Expense

Category: 60 - PERSONNEL SERVICES

600 - SALARIES AND WAGES	\$ 8,134,337	\$ 8,772,411	\$ 9,074,460	\$ 13,179,560	\$ 12,603,417
610 - BENEFITS	\$ 3,873,325	\$ 4,610,539	\$ 4,100,840	\$ 6,073,295	\$ 5,664,144
615 - OTHER	\$ 550,300	\$ 628,175	\$ 433,587	\$ 478,509	\$ 585,928

Total Category: 60 - PERSONNEL SERVICES: \$ 12,557,962 \$ 14,011,125 \$ 13,608,887 \$ 19,731,364 \$ 18,853,488

Savings have narrowed a little from the last estimate/ additional positions filled

Category: 65 - OPERATING COSTS

650 - UTILITIES	\$ 1,244,653	\$ 1,236,516	\$ 1,322,289	\$ 1,548,533	\$ 1,763,053
655 - ADMINISTRATIVE	\$ 270,188	\$ 310,650	\$ 311,266	\$ 440,301	\$ 415,021
660 - FLEET COSTS	\$ 245,081	\$ 295,320	\$ 284,447	\$ 369,669	\$ 379,262
665 - PROGRAM COSTS	\$ 388,732	\$ 469,747	\$ 520,378	\$ 741,619	\$ 703,214
670 - REPAIRS AND MAINTENANCE	\$ 222,454	\$ 256,245	\$ 515,947	\$ 996,595	\$ 747,750
675 - SUPPLIES	\$ 245,183	\$ 233,691	\$ 183,241	\$ 544,920	\$ 435,000

680 - SPECIAL SERVICES \$ 5,390,518 \$ 582,309 \$ 139,472 \$ 422,000 \$ 340,000

expenditures in last qtr expected to be higher

690 - CONTRACTUAL SERVICES	\$ 3,059,589	\$ 2,936,639	\$ 4,169,117	\$ 7,275,058	\$ 6,640,000	expenditures in last qtr expected to be higher
697 - ADMIN OVERHEAD	\$ (534,000)	\$ (562,500)	\$ -	\$ -		
699 - OTHER	\$ 962,921	\$ 1,189,431	\$ 1,580,884	\$ 1,647,200	\$ 1,595,000	Most is insurance premium paid at beginning of the FY
Total Category: 65 - OPERATING COSTS:	\$ 11,495,318	\$ 6,948,048	\$ 9,027,041	\$ 13,985,895	\$ 13,018,299	
Category: 70 - CAPITAL IMPROVEMENTS						
700 - EQUIPMENT	\$ 166,187	\$ 40,142	\$ 56,209	\$ 367,000	\$ 355,000	
703 - FURNITURE	\$ -	\$ 6,466	\$ -	\$ -		
705 - VEHICLE	\$ 79,236	\$ 239,251	\$ 361,273	\$ 588,591	\$ 585,000	
710 - STRUCTURE	\$ -	\$ -	\$ -	\$ -		
Total Category: 70 - CAPITAL IMPROVEMENTS:	\$ 245,423	\$ 285,859	\$ 417,483	\$ 955,591	\$ 940,000	
Category: 77 - CONTINGENCY						
770 - CONTINGENCY	\$ -	\$ -	\$ -	\$ 150,001	\$ -	
Total Category: 77 - CONTINGENCY:	\$ -	\$ -	\$ -	\$ 150,001		
Category: 90 - TRANSFERS						
900 - Transfers	\$ 18,985	\$ 45,194	\$ 270,955	\$ 1,236,545	\$ 1,236,545	Includes budget adjustments made in March 2021
Total Category: 90 - TRANSFERS:	\$ 18,985	\$ 45,194	\$ 270,955	\$ 1,236,545	\$ 1,236,545	
Total Expense:	\$ 24,317,688	\$ 21,290,226	\$ 23,324,366	\$ 36,059,396	\$ 34,048,332	
Total Fund: 100 - GENERAL FUND:	\$ (2,998,678)	\$ 2,610,141	\$ (1,413,463)	\$ 1,053,036	\$ 2,878,819	

Analysis: The General Fund is trending to have a surplus of \$2.5 million to \$3.0 million. This is lower than last month due to the increased level of transfer outs authorized by the City Council for various projects. These one-time allocations of General Funds reduced the net fund balance increase by \$1.2 million.



Budget Comparison Report

Group Summary

SubCategory	2018-2019 YTD Activity Through Per	2019-2020 YTD Activity Through Per	2020-2021 YTD Activity Through Per	Parent Budget	
				2020-2021 V1 2020-2021	FY 2021 Estimate
Fund: 700 - WASTEWATER FUND					
Revenue					
Category: 50 - FINES AND FORFEITURES					
557 - Other	\$ 9,000	\$ 1,000	\$ 1,946	\$ -	\$ 2,000
Total Category: 50 - FINES AND FORFEITURES:	\$ 9,000	\$ 1,000	\$ 1,946	\$ -	
Category: 53 - COST RECOVERY					
565 - Other Income	\$ -	\$ 6,236	\$ -	\$ 6,300	\$ 6,500
Total Category: 53 - COST RECOVERY:	\$ -	\$ 6,236	\$ -	\$ 6,300	
Category: 54 - MISCELLANEOUS REVENUES					
560 - Investment Earnings	\$ 24,678	\$ 40,158	\$ 15,156	\$ 37,500	\$ 32,000
Total Category: 54 - MISCELLANEOUS REVENUES:	\$ 24,678	\$ 40,158	\$ 15,156	\$ 37,500	
Category: 56 - PROPRIETARY REVENUES					
570 - WasteWater	\$ 5,820,976	\$ 6,727,883	\$ 7,064,683	\$ 10,849,000	\$ 10,700,000
Total Category: 56 - PROPRIETARY REVENUES:	\$ 5,820,976	\$ 6,727,883	\$ 7,064,683	\$ 10,849,000	\$ 10,700,000
Category: 58 - OTHER FINANCING SOURCES					
595 - Sale of Assets	\$ 635	\$ -	\$ -	\$ -	
599 - Other	\$ 831	\$ 780	\$ -	\$ -	
Total Category: 58 - OTHER FINANCING SOURCES:	\$ 1,466	\$ 780	\$ -	\$ -	
Category: 90 - TRANSFERS					
900 - Transfers	\$ (100,000)	\$ -	\$ -	\$ -	
Total Category: 90 - TRANSFERS:	\$ (100,000)	\$ -	\$ -	\$ -	
Total Revenue:	\$ 5,756,120	\$ 6,776,057	\$ 7,081,784	\$ 10,892,800	\$ 10,740,500
Expense					
Category: 60 - PERSONNEL SERVICES					
600 - SALARIES AND WAGES	\$ 393,742	\$ 860,463	\$ 809,346	\$ 1,340,577	\$ 1,275,000
610 - BENEFITS	\$ 139,901	\$ 262,232	\$ 240,062	\$ 501,401	\$ 385,000
615 - OTHER	\$ 6,734	\$ 13,920	\$ 12,498	\$ 17,572	\$ 18,500
Total Category: 60 - PERSONNEL SERVICES:	\$ 540,376	\$ 1,136,615	\$ 1,061,906	\$ 1,859,549	\$ 1,678,500
Category: 65 - OPERATING COSTS					
650 - UTILITIES	\$ 603,450	\$ 596,718	\$ 636,017	\$ 827,821	\$ 862,000
655 - ADMINISTRATIVE	\$ 114,084	\$ 101,590	\$ 197,050	\$ 291,216	\$ 280,733

Notes

this includes 4 out of 6 payments/
tracking a little below budget

significant savings are expected in
personnel

660 - FLEET COSTS	\$ 7,208	\$ 21,087	\$ 27,876	\$ 31,980	\$ 37,168
670 - REPAIRS AND MAINTENANCE	\$ 30,703	\$ 43,581	\$ 25,913	\$ 60,695	\$ 44,551
675 - SUPPLIES	\$ 168,056	\$ 143,069	\$ 275,130	\$ 379,610	\$ 366,841
690 - CONTRACTUAL SERVICES	\$ 959,394	\$ 558,274	\$ 575,214	\$ 1,062,563	\$ 905,000
697 - ADMIN OVERHEAD	\$ 459,000	\$ 487,500	\$ -	\$ -	\$ -
699 - OTHER	\$ 38,521	\$ 92,990	\$ 67,043	\$ 480,137	\$ 154,390
Total Category: 65 - OPERATING COSTS:	\$ 2,380,416	\$ 2,044,810	\$ 1,804,243	\$ 3,134,022	\$ 2,650,683
Category: 70 - CAPITAL IMPROVEMENTS					
700 - EQUIPMENT	\$ 1,832	\$ -	\$ 46,480	\$ 153,638	\$ 153,000
750 - OTHER	\$ -	\$ -	\$ -	\$ 103,804	\$ 50,000
Total Category: 70 - CAPITAL IMPROVEMENTS:	\$ 1,832	\$ -	\$ 46,480	\$ 257,442	\$ 203,000
Category: 90 - TRANSFERS					
900 - Transfers	\$ -	\$ 3,858,375	\$ 5,144,371	\$ 5,641,787	\$ 5,641,787
Total Category: 90 - TRANSFERS:	\$ -	\$ 3,858,375	\$ 5,144,371	\$ 5,641,787	\$ 5,641,787
Total Expense:	\$ 2,922,624	\$ 7,039,800	\$ 8,057,001	\$ 10,892,800	\$ 10,173,970
Total Fund: 700 - WASTEWATER FUND:	\$ 2,833,497	\$ (263,743)	\$ (975,217)	\$ -	\$ 566,530

Includes transfers to cover debt service and for capital projects

Analysis: The Waste Water Fund is tracking to have a surplus of \$500K to \$600K. This is due to continued savings in both personnel and operating costs.

**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