



FINANCE AND AUDIT COMMITTEE MEETING

550 E. 6th Street, Beaumont, CA

Monday, March 08, 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 February 8, 2021.

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

Recommended Action:

Review and file these financial reports.

3. Internal Control Findings from FY2020 Audit - Status 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, April 12, 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, February 08, 2021 - 6:00 PM

MINUTES

CALL TO ORDER at 6:03 p.m.

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

Action of any requests for Excused Absence: **None**

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 Treasurer Ginnetti

Second by Member Parks

To approve of Minutes dated January 11, 2021, and January 25, 2021.

Approved by a unanimous vote.

2. Recommendation of Public Trust for Investment Advisor Services

Motion by Member Parks

Second Vice Chair Cooley

To approve the selection of Public Trust as Investment Advisor and Portfolio Management Services and to recommend contract approval by the City Council.

3. Internal Control Findings Update

SUB-COMMITTEE UPDATES

FUTURE AGENDA ITEMS

MEETING REVIEW - TREASURER

FINANCE DIRECTOR'S COMMENTS

Gave an update of the budget kick off process.

ADJOURNMENT at 7:19 p.m.



Staff Report

TO: Finance and Audit Committee
FROM: Jeff Mohlenkamp, Finance Director
DATE: March 8, 2021
SUBJECT: **FY2021 General Fund and Wastewater Fund Budget to Actual through February 2021**

Background and Analysis:

City staff has updated the General Fund and Wastewater Fund budget to actual reports for activity through February 2021. This constitutes 8 months of activity.

The summary schedules and analysis of budget to actual activity is included as Attachments A (General Fund) and Attachment B (Wastewater Fund) to this report.

Recommended Action:

Review and file these financial reports.

Attachments:

- A. FY2021 General Fund Budget to Actual results through February 2021
- B. FY2021 Waste Water Fund Budget to Actual results through February 2021



City of Beaumont, CA

Item 2.

Budget Comparison Report

General Fund Budget to Actual through Feb 2021

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	\$ 3,129,181	\$ 3,147,077	\$ 3,609,196	\$ 6,174,605	\$ 6,150,000	
403 - Personal Property Taxes	\$ -	\$ 254,416	\$ 210,630	\$ 267,137	\$ 285,000	
406 - Franchise Fees	\$ 246,119	\$ 6,870,475	\$ 1,890,338	\$ 3,019,846	\$ 3,100,000	
409 - Sales Taxes	\$ 2,844,795	\$ 3,020,075	\$ 3,153,023	\$ 5,725,048	\$ 6,450,000	February payment not yet posted, tracking above last year despite this/ final cleanup at year end expected to be less than last year
420 - Other Taxes	\$ 3,420,488	\$ 3,661,673	\$ 1,172,016	\$ 7,133,745	\$ 7,540,000	Motor Vehicle in Lieu coming in higher/ received but not yet posted for February
Total Category: 40 - TAXES:	\$ 9,640,583	\$ 16,953,717	\$ 10,035,203	\$ 22,320,381	\$ 23,525,000	
Category: 41 - LICENSES						
430 - Business Licenses	\$ 92,140	\$ 147,133	\$ 215,981	\$ 325,000	\$ 335,000	
Total Category: 41 - LICENSES:	\$ 92,140	\$ 147,133	\$ 215,981	\$ 325,000	\$ 335,000	
Category: 42 - PERMITS						
450 - Building Permits	\$ 3,181,058	\$ 1,554,648	\$ 1,049,260	\$ 2,200,000	\$ 1,770,000	
453 - Inspections	\$ 212,274	\$ 127,672	\$ 197,076	\$ 210,000	\$ 315,000	
456 - Other Permits	\$ 429,297	\$ 281,008	\$ 330,842	\$ 417,500	\$ 435,000	
515 - Public Works	\$ 263	\$ -	\$ -	\$ -	\$ -	
Total Category: 42 - PERMITS:	\$ 3,822,892	\$ 1,963,328	\$ 1,577,177	\$ 2,827,500	\$ 2,520,000	
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	\$ 4,524,387	\$ 112,615	\$ 115,403	\$ -	\$ -	
505 - Animal Control	\$ 65,859	\$ 70,360	\$ 55,175	\$ 119,450	\$ 80,000	
510 - Community Development	\$ 4,304	\$ 4,386	\$ 3,666	\$ 5,500	\$ 5,500	
515 - Public Works	\$ 8,887	\$ 7,379	\$ 48,958	\$ 7,900	\$ 74,000	
525 - Abatements	\$ 20,704	\$ 39,612	\$ 40,521	\$ 54,500	\$ 65,000	
530 - Public Safety	\$ 149,261	\$ 158,753	\$ 138,957	\$ 537,850	\$ 445,000	

535 - Facilities	\$ 135,410	\$ 86,312	\$ 63,163	\$ 125,000	\$ 104,000	
540 - Programs	\$ 85,433	\$ 75,282	\$ 500	\$ 20,000	\$ 5,000	
545 - Other	\$ 73,933	\$ 32,335	\$ 76,411	\$ 148,200	\$ 129,000	
Total Category: 47 - CHARGES FOR SERVICE:	\$ 5,068,177	\$ 587,035	\$ 542,755	\$ 1,018,400	\$ 907,500	
Category: 50 - FINES AND FORFEITURES						
555 - Vehicle	\$ 46,818	\$ 47,461	\$ 35,152	\$ 70,000	\$ 65,000	
557 - Other	\$ 13,872	\$ 25,321	\$ 33,356	\$ 45,000	\$ 49,000	
Total Category: 50 - FINES AND FORFEITURES:	\$ 60,690	\$ 72,782	\$ 68,508	\$ 115,000	\$ 114,000	
Category: 53 - COST RECOVERY						
465 - State	\$ 8,139	\$ 24,854	\$ -	\$ 25,000	\$ 25,000	
565 - Other Income	\$ 329,068	\$ 369,810	\$ 1,331	\$ 334,000	\$ 285,000	
Total Category: 53 - COST RECOVERY:	\$ 337,207	\$ 394,664	\$ 1,331	\$ 359,000	\$ 310,000	
Category: 54 - MISCELLANEOUS REVENUES						
560 - Investment Earnings	\$ 484	\$ 76,555	\$ 29,141	\$ 170,000	\$ 210,000	LAIF returns continue to be low as highly dependent on short term interest rates/ 2nd quarter allocation yet to be made
565 - Other Income	\$ 12,461	\$ 151,848	\$ 441,142	\$ 154,500	\$ 482,000	
Total Category: 54 - MISCELLANEOUS REVENUES:	\$ 12,946	\$ 228,403	\$ 470,282	\$ 324,500	\$ 692,000	
Category: 58 - OTHER FINANCING SOURCES						
595 - Sale of Assets	\$ 16,649	\$ 13,417	\$ -	\$ 15,000		
599 - Other	\$ 7,500	\$ -	\$ -	\$ -		
Total Category: 58 - OTHER FINANCING SOURCES:	\$ 24,149	\$ 13,417	\$ -	\$ 15,000	\$ -	
Category: 90 - TRANSFERS						
900 - Transfers	\$ (190,108)	\$ 1,408,140	\$ 3,945,159	\$ 8,549,581	\$ 8,500,000	All transfers expected to be completed
Total Category: 90 - TRANSFERS:	\$ (190,108)	\$ 1,408,140	\$ 3,945,159	\$ 8,549,581	\$ 8,500,000	
Total Revenue:	\$ 18,897,996	\$ 21,771,168	\$ 16,856,395	\$ 35,854,362	\$ 36,903,500	

Expense

Category: 60 - PERSONNEL SERVICES

600 - SALARIES AND WAGES	\$ 6,857,749	\$ 7,743,412	\$ 7,557,932	\$ 13,179,560	\$ 12,600,000	16 of 26 pay periods reported
610 - BENEFITS	\$ 3,282,987	\$ 4,488,962	\$ 3,646,362	\$ 6,073,295	\$ 5,900,000	
615 - OTHER	\$ 464,582	\$ 584,156	\$ 374,408	\$ 478,509	\$ 590,000	
Total Category: 60 - PERSONNEL SERVICES:	\$ 10,605,319	\$ 12,816,530	\$ 11,578,702	\$ 19,731,364	\$ 19,090,000	

Category: 65 - OPERATING COSTS

650 - UTILITIES	\$ 1,174,305	\$ 1,123,660	\$ 1,134,995	\$ 1,548,533	\$ 1,740,000	
655 - ADMINISTRATIVE	\$ 234,495	\$ 272,016	\$ 277,233	\$ 354,623	\$ 397,000	
660 - FLEET COSTS	\$ 215,737	\$ 266,687	\$ 236,425	\$ 369,669	\$ 405,000	
665 - PROGRAM COSTS	\$ 365,615	\$ 468,479	\$ 465,214	\$ 741,619	\$ 705,000	
670 - REPAIRS AND MAINTENANCE	\$ 217,366	\$ 241,545	\$ 442,404	\$ 820,510	\$ 775,000	
675 - SUPPLIES	\$ 209,108	\$ 184,658	\$ 138,362	\$ 541,570	\$ 315,000	
680 - SPECIAL SERVICES	\$ 4,095,513	\$ 491,902	\$ 144,690	\$ 612,000	\$ 385,000	
690 - CONTRACTUAL SERVICES	\$ 1,968,691	\$ 2,723,122	\$ 2,853,340	\$ 7,325,058	\$ 6,550,000	pace of spending picking up, expected to continue over the remainder of the fiscal year
697 - ADMIN OVERHEAD	\$ (356,000)	\$ (375,000)	\$ -	\$ -		
699 - OTHER	\$ 956,808	\$ 1,184,719	\$ 1,565,498	\$ 1,538,766	\$ 1,585,000	

Total Category: 65 - OPERATING COSTS:	\$ 9,081,638	\$ 6,581,788	\$ 7,258,161	\$ 13,852,348	\$ 12,857,000	
Category: 70 - CAPITAL IMPROVEMENTS						
700 - EQUIPMENT	\$ 166,187	\$ 36,415	\$ 52,482	\$ 180,000	\$ 175,000	
703 - FURNITURE	\$ -	\$ 6,466	\$ -	\$ -	\$ -	
705 - VEHICLE	\$ 71,593	\$ 215,690	\$ 291,871	\$ 273,816	\$ 315,000	
710 - STRUCTURE	\$ -	\$ -	\$ -	\$ -	\$ -	
Total Category: 70 - CAPITAL IMPROVEMENTS:	\$ 237,781	\$ 258,571	\$ 344,353	\$ 453,816	\$ 490,000	
Category: 77 - CONTINGENCY						
770 - CONTINGENCY	\$ -	\$ -	\$ 23,274	\$ 150,001	\$ 75,000	
Total Category: 77 - CONTINGENCY:	\$ -	\$ -	\$ 23,274	\$ 150,001	\$ 75,000	
Category: 90 - TRANSFERS						
900 - Transfers	\$ 18,985	\$ 5,528	\$ 8,227	\$ 31,000	\$ 270,000	Includes Covid costs not reimbursed by FEMA and Flood Mitigation prep costs
Total Category: 90 - TRANSFERS:	\$ 18,985	\$ 5,528	\$ 8,227	\$ 31,000	\$ 270,000	
Total Expense:	\$ 19,943,722	\$ 19,662,417	\$ 19,212,716	\$ 34,218,529	\$ 32,782,000	
Total Fund: 100 - GENERAL FUND:	\$ (1,045,726)	\$ 2,108,751	\$ (2,356,321)	\$ 1,635,833	\$ 4,121,500	

Analysis: The General Fund is tracking to have a surplus between \$3.6 and \$4.3 million at year end. Revenues are expected to exceed the budget by more than \$1 million and expenses in both personnel and operating costs are under budget.



Budget Comparison Report

FY 2021 Waste Water Budget to Actual through Feb 2021

SubCategory	2018-2019 YTD Activity Through Per	2019-2020 YTD Activity Through Per	2020-2021 YTD Activity Through Per	Parent Budget	
				FY 2021 Budget	FY 2021 Estimate
Fund: 700 - WASTEWATER FUND					
Revenue					
Category: 50 - FINES AND FORFEITURES					
557 - Other	\$ 8,500	\$ 1,000	\$ 1,946	\$ -	\$ 2,000
Total Category: 50 - FINES AND FORFEITURES:	\$ 8,500	\$ 1,000	\$ 1,946	\$ -	\$ 2,000
Category: 53 - COST RECOVERY					
565 - Other Income	\$ -	\$ 6,236	\$ -	\$ 6,300	\$ 6,000
Total Category: 53 - COST RECOVERY:	\$ -	\$ 6,236	\$ -	\$ 6,300	\$ 6,000
Category: 54 - MISCELLANEOUS REVENUES					
560 - Investment Earnings	\$ 24,678	\$ 26,907	\$ 7,093	\$ 37,500	\$ 32,000
Total Category: 54 - MISCELLANEOUS REVENUES:	\$ 24,678	\$ 26,907	\$ 7,093	\$ 37,500	\$ 32,000
Category: 56 - PROPRIETARY REVENUES					
570 - WasteWater	\$ 4,445,383	\$ 5,062,238	\$ 5,079,221	\$ 10,849,000	\$ 10,800,000
Total Category: 56 - PROPRIETARY REVENUES:	\$ 4,445,383	\$ 5,062,238	\$ 5,079,221	\$ 10,849,000	\$ 10,800,000
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:	\$ 4,380,027	\$ 5,097,161	\$ 5,088,260	\$ 10,892,800	\$ 10,840,000
Expense					
Category: 60 - PERSONNEL SERVICES					
600 - SALARIES AND WAGES	\$ 280,973	\$ 716,965	\$ 687,457	\$ 1,340,577	\$ 1,245,000
610 - BENEFITS	\$ 108,469	\$ 230,377	\$ 209,784	\$ 501,401	\$ 389,000
615 - OTHER	\$ 5,120	\$ 12,006	\$ 10,511	\$ 17,572	\$ 17,500

Only one quarter reflected in these numbers

Tracking close to budget/ reflects 3 of 6 payments/ payment expected to be higher in final half of year

savings expected/ new positions added will increase pace of spending

Total Category: 60 - PERSONNEL SERVICES:	\$ 394,561	\$ 959,347	\$ 907,752	\$ 1,859,549	\$ 1,651,500	
Category: 65 - OPERATING COSTS						
650 - UTILITIES	\$ 542,755	\$ 537,656	\$ 567,252	\$ 827,821	\$ 885,000	utilities tracking above budget
655 - ADMINISTRATIVE	\$ 111,071	\$ 93,380	\$ 152,344	\$ 291,216	\$ 265,000	
660 - FLEET COSTS	\$ 5,900	\$ 18,233	\$ 24,704	\$ 31,980	\$ 38,000	
670 - REPAIRS AND MAINTENANCE	\$ 24,621	\$ 39,424	\$ 23,539	\$ 60,695	\$ 53,000	
675 - SUPPLIES	\$ 156,820	\$ 127,028	\$ 215,264	\$ 379,610	\$ 347,000	
690 - CONTRACTUAL SERVICES	\$ 879,897	\$ 470,442	\$ 511,265	\$ 1,062,563	\$ 885,000	savings expected
697 - ADMIN OVERHEAD	\$ 306,000	\$ 325,000	\$ -	\$ -	\$ -	
699 - OTHER	\$ 12,135	\$ 91,263	\$ 61,272	\$ 480,137	\$ 365,000	
Total Category: 65 - OPERATING COSTS:	\$ 2,039,200	\$ 1,702,427	\$ 1,555,640	\$ 3,134,022	\$ 2,838,000	
Category: 70 - CAPITAL IMPROVEMENTS						
700 - EQUIPMENT	\$ 1,832	\$ -	\$ 24,319	\$ 153,638	\$ 145,000	
750 - OTHER	\$ -	\$ -	\$ -	\$ 103,804	\$ 100,000	
Total Category: 70 - CAPITAL IMPROVEMENTS:	\$ 1,832	\$ -	\$ 24,319	\$ 257,442	\$ 245,000	
Category: 90 - TRANSFERS						
900 - Transfers	\$ -	\$ 3,013,215	\$ 5,122,724	\$ 5,641,787	\$ 5,641,787	all transfer expected to occur
Total Category: 90 - TRANSFERS:	\$ -	\$ 3,013,215	\$ 5,122,724	\$ 5,641,787	\$ 5,641,787	
Total Expense:	\$ 2,435,593	\$ 5,674,989	\$ 7,610,436	\$ 10,892,800	\$ 10,376,287	
Total Fund: 700 - WASTEWATER FUND:	\$ 1,944,434	\$ (577,828)	\$ (2,522,176)	\$ -	\$ 463,713	

**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 2020-001- Cash Disbursements Process – Segregation of Duties

Criteria

Adequate segregation of duties between vendors' approvals, addition of authorized vendors into the payable system, and maintenance of vendors' accounts and files is a very important factor because the responsibilities for purchasing, receiving, recording into the accounting system, and disbursement should be separated as much as possible to create the best system of controls.

Condition and Context

During our audit, we noted that the Senior Accountant approves vendor changes and also has access to change vendor information. Upon further review, we identified that several other employees in the finance department also have access to change vendor information.

Effect

The lack of segregation of duties related to vendor files maintenance and cash disbursements processes could result in erroneous, fictitious, and/or fraudulent vendor payments.

Recommendation

We recommend that the Finance Department segregates the responsibilities for approving vendors and adding/editing vendors information into the system and perform a regular risk assessments review to identify where segregation of duties issues need to be corrected.

Management Response to Finding

The City concurs with this finding and has initiated corrective action. Effective December 1, 2020, the budget specialist position, which is not part of the payable process, will complete the entry of new vendors and have access to modify vendor records. The senior accountant over accounts payable will complete the review and approval of new vendors but will not have access to add or modify vendor records in the accounting system.

Staff directly involved in payment transactions will no longer have access to add or modify vendor records. Additionally, audit logs that identify any changes in vendor records, including identifying the individual that made the change will be reviewed monthly to identify the changes in vendors and to verify the staff member who made the change.

Update for the Finance Committee – March 8, 2021

The action discussed in the Management Response above has been completed. The budget specialist position now handles all new vendors that are used by the City and also completes any vendor changes. In the absence of the budget specialist, the Senior Accountant that is NOT involved in the accounts payable process performs these duties. Monthly, the Finance Director reviews the audit log in the system to ensure the only individuals involved in new

vendor setup or changes are these two positions. Corrective action to this finding has been implemented.

March 8 update: The Finance Director has reviewed audit logs available in the Incode Accounting System and confirmed the switch in duties has occurred. This finding will be removed from the reporting list going forward.

Finding 2020-002- Payroll Process – Segregation of Duties

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 the Administrative Services Manager processes payroll and has access to change employees' data including pay rates.

Effect

The lack of segregation of duties between payroll processes and human resources related functions could result in fictitious employees, or unapproved personnel rate changes.

Recommendation

We recommend that the Finance Department segregates the payroll processing function from the employee data changes function and to perform regular risk assessments reviews to identify where segregation of duties issues need to be addressed in the payroll process.

Management Response to Finding

The control procedure used by the City to process any changes in employee pay requires approval by the Director of Administration. That change is only prompted by a conditional job offer, satisfactory performance evaluation or an MOU contract obligation. That change is documented on an employee payroll change notice. These forms are submitted as part of the biweekly payroll packet that is reviewed by a senior accountant in the Finance Department. An audit report feature within the Paychex system named Employee Change Report is also submitted as part of the bi-weekly payroll packet, and is used to ensure all changes have the appropriate documentation attached.

Effective October 20, 2020, the employee payroll change notice will be signed by the Director of Administration. In the absence of the Director of Administration, the Director of Finance will approve any changes. These approval forms will be submitted as part of the bi-weekly payroll packet that is reviewed by a senior accountant in the Finance Department prior to submittal. While the senior accountant initialed the employee payroll change form in the past, a signature line was added for ease of identification.

The Administrative Services Manager has also begun to attach the back page of the employee evaluation, conditional job offer, MOU page or an email directing the pay rate change. An audit feature is available within the Paychex system currently utilized by the City. The audit feature allows for a report of all pay changes processed within defined time periods. This audit report will be reviewed quarterly by the Finance Department to determine if all pay changes have the required approvals.

Update for Finance Committee – March 8, 2021

As discussed above, all employee pay changes are now reviewed and signed by the Director of Administration. Further, this is reviewed by the Senior Accountant in Finance each pay period for compliance. The audit feature in Paychex has not been used to date. As a result, this finding will remain in this report until that process has been fully implemented.

March 8, 2021 update: the Paychex audit report is reviewed by Finance with payroll processing. It provides a summary from the payroll system of any changes in employee pay during the reporting period. This item is considered fully implemented and will be removed from the list for future months.

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 – March 8, 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.

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 – March 8, 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.

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.