

City of Hemet

Hemet, California

Single Audit and Independent Auditors' Reports

For the Year Ended June 30, 2019



City of Hemet

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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 GOVERNMENTAL AUDITING STANDARDS**

Independent Auditors' Report

To the Honorable Mayor and Members of City Council
of the City of Hemet
Hemet, 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 Hemet, California (the "City") as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 16, 2020.

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") to determine the 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 was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying Schedule of Findings and Questioned Costs, we did identify certain deficiencies in internal control that we consider to be material weaknesses and 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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 2019-001 to be a material weakness.

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 consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 2019-002 and 2019-003 to be significant deficiencies.

To the Honorable Mayor and Members of City Council
of the City of Hemet
Hemet, 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 response to the findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The City'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 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
June 16, 2020



**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; ON INTERNAL CONTROL
OVER COMPLIANCE; AND ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
REQUIRED BY THE UNIFORM GUIDANCE**

Independent Auditors' Report

To the Honorable Mayor and Members of City Council
of the City of Hemet
Hemet, California

Report on Compliance for Each Major Federal Program

We have audited the City of Hemet, 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 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* (the "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 types of 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 the 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 the 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 Hemet
Hemet, California
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Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

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 the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated June 16, 2020, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic 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 basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain other procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic 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 Expenditure 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

July 28, 2020, with the exception of the Schedule of Federal Expenditures of Federal Awards June 16, 2020.

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City of Hemet
Schedule of Federal Award Expenditures
For the Year Ended June 30, 2019

Federal Grantor/Pass-Through Grantor/ Program Title	CFDA Number	Grant Identification Number	Federal Expenditures	Expenditures To Subrecipients
<u>U.S. Department of Housing and Urban Development</u>				
<i>Direct Assistance:</i>				
Community Development Block Grants/Entitlement Grants:				
Community Development Block Grant	14.218	B-15-MC-06-0579	\$ 59,231	\$ -
Community Development Block Grant	14.218	B-16-MC-06-0579	128,219	-
Community Development Block Grant	14.218	B-17-MC-06-0579	74,569	-
Community Development Block Grant	14.218	B-18-MC-06-0579	516,976	110,635
Neighborhood Stabilization Grant	14.218	B-08-MN-06-0508	12,111	-
Total Community Development Block Grants/Entitlement Grants			<u>791,106</u>	<u>110,635</u>
Total U.S. Department of Housing and Urban Development			<u>791,106</u>	<u>110,635</u>
<u>U.S. Department of Justice</u>				
<i>Passed through the City of Riverside:</i>				
Edward Byrne Memorial Justice Assistance Grant (JAG)	16.710	2018-DJ-BX-0856	14,001	-
Total U.S. Department of Justice			<u>14,001</u>	<u>-</u>
<u>U.S. Department of Transportation</u>				
<i>Passed through the State of California Office of Traffic Safety:</i>				
Minimum Penalties for Repeat Offenders for Driving				
While Intoxicated	20.608	PT18056	25,143	-
Minimum Penalties for Repeat Offenders for Driving				
While Intoxicated	20.608	PT19048	47,282	-
Total U.S. Department of Transportation			<u>72,425</u>	<u>-</u>
<u>U.S. Department of Homeland Security</u>				
<i>Passed through the County of Riverside Emergency Management Department:</i>				
Homeland Security Grant Program	97.067	2017-0083	2,400	-
<i>Passed through the County of Riverside Department of Public Health:</i>				
Homeland Security Grant Program	97.067	EM-18-102	16,860	-
Total Homeland Security Grant Program			<u>19,260</u>	<u>-</u>
Total U.S. Department of Homeland Security			<u>19,260</u>	<u>-</u>
Total Expenditures of Federal Awards			<u>\$ 896,792</u>	<u>\$ 110,635</u>

City of Hemet
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2019

Note 1 – Reporting Entity

The financial reporting entity, as defined by the Governmental Accounting Standards Board (“GASB”) Codification, consists of the primary government, which is the City of Hemet, California (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 City’s financial statements to be misleading or incomplete.

Note 2 – Summary of Significant Accounting Policies

Basis of Accounting

Funds received under the various grant programs have been recorded within the special revenue funds of the City. The City utilizes the modified accrual basis of accounting for the special revenue funds. The accompanying Schedule of Expenditures of Federal Awards (the “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*. Therefore, some amounts presented in the Schedule may differ from amounts presented in, or used in, the preparation of City’s basic financial statements.

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 Office of Traffic Safety, County of Riverside Emergency Management Department, and the County of Riverside Department of Public Health, 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 or results of operations of the City.

Note 3 – Subrecipients

For the fiscal year ended June 30, 2019, the City had the following subrecipients funded by the Community Development Block Grant:

Fair Housing Council of Riverside County	\$	35,070
Valley Restart Shelter		21,366
Car-A-Van Transit		18,341
The Council on Aging Southern California		13,018
Center Against Sexual Assault of Southwest Riverside County		8,840
Family Services Association		8,000
Valley-Wide Recreation and Park District		6,000
Total	\$	110,635

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 Hemet
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2019

Section I – Summary of Auditor’s Results

Financial Statements

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

Federal Awards

Internal control over major federal programs:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified?	None Reported
Type of auditor’s report issued on compliance for major federal programs	Unmodified
Any audit findings disclosed that are required to be reported in Accordance with 2 CFR 200.516(a)	No

Identification of major federal programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>	<u>Expenditures</u>
14.218	Community Development Block Grants/Entitlement Grants	<u>\$ 791,106</u>
	Total Expenditures of All Major Federal Programs	<u>\$ 791,106</u>
	Total Expenditures of Federal Awards	<u>\$ 896,792</u>
	Percentage of Total Expenditures of Federal Awards	<u>88.22%</u>

Dollar threshold used to distinguish between type A and type B program	\$750,000
Auditee qualified as low-risk auditee under 2 CFR section 200.520?	No

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

Section II – Financial Statement Findings

A. Current Year Findings – Financial Statements

Finding 2019-001 Accounting Policies and Procedures

Criteria:

Accounting Policies and Procedures would aid the Finance Department and the City in providing training for accounting personnel, communicating and providing a source of reference to approved policies, and maintaining consistency of recording financial transactions.

Condition:

During our review of control environment, we noted that the City lacked formal policies and procedures. Although the City has informal policies, the City should establish formal and comprehensive policies approved by the City Council to provide detailed guidance to employees and management of the City.

Cause:

The City did not have sufficient resources to develop the accounting policies and procedures.

Identification as a Repeat Finding, if Applicable:

This is a repeat finding.

Effect:

Without the Accounting Policies and Procedures, personnel responsible for the daily work and transactions do not have a clear understanding of their role and responsibilities or the accounting standards applicable to their function. In addition, the absence of standardized procedures has and will create inefficient and inconsistent processing of transactions. Absent clear guidance, delays in financial reporting occur as staffs are unaware of where to find the answers.

Recommendation:

We recommend that the City develop a comprehensive accounting manual that would set the guidelines for recording significant transactions in the general ledger. In addition, Management should consider developing an accounting manual which includes at a minimum:

- Specific duties and responsibilities (desk procedures)
- Minimum required qualifications or standards
- Council/Management approved policies relating to specific transactions
- Procedures for processing of specific financial activities
- Appropriate monitoring and review controls

Management View and Corrective Action Plan:

The Finance Department has experienced turnover in several positions due to retirements, promotions, and staff leaving for other employment. We continue to work with Human Resources to fill the vacancies with qualified individuals. As of the date of this report, all positions in the Finance Department have been filled. All staff has been tasked with writing procedures for their areas of work. Department policies are also being worked on, but require support from other departments and in some instances changes to the Personnel Rules which require Council approval.

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

Section II – Financial Statement Findings (Continued)

A. Current Year Findings – Financial Statements (Continued)

Finding 2019-002 Internal Service Funds

Criteria:

Governmental Accounting Standards Board (GASB) Statement No. 34 *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, provides that internal service funds (ISFs) may be used to report any activities that provide goods or services to other funds, departments, or agencies of the primary government and its component units, or other governments, on a cost-reimbursement basis. Internal service funds use the full accrual basis of accounting; accordingly, charges to other funds for goods or services should be set to provide for the cost-reimbursement of the accrual-based expenses incurred by the activity. Internal service funds are voluntary under generally accepted accounting principles and are designed to recover the full cost of an activity from participating funds, departments or agencies. GASB 34 also states if a government does not intend to recover the full cost of providing goods or services, the use of an internal service fund would not be appropriate.

Condition:

The City has the following two internal service funds with fund deficits at June 30, 2019:

• Administrative Services Fund	\$ (7,320,760)
• Liability Insurance Fund	\$ (470,790)

Cause:

The deficits in the ISFs were caused by:

1. ISFs are to be accounted for on a full accrual basis or cost-reimbursement basis;
2. The ISFs have historically budgeted revenues and projected expenditures on a cash basis;
3. The timing of litigation being settled near the end of the fiscal year;
4. Implementation of GASB 68, *Accounting and Financial Reporting for Pensions*
5. Implementation of GASB 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions*

Identification as a Repeat Finding, if Applicable:

Not applicable

Effect:

By definition, an internal service fund is operated on a cost-reimbursement basis. For an internal service fund to operate on a cost-reimbursement basis, its charges to other funds should result in revenues and expenses that are approximately equal over time, even though it periodically may report annual increases or decreases in net position. Because the intent of internal service funds is to facilitate cost allocation, the accumulation of net position surpluses or deficits over time generally indicates that service is no longer being made on a cost-reimbursement basis.

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

Section II – Financial Statement Findings (Continued)

A. Current Year Findings – Financial Statements (Continued)

Finding 2019-002 Internal Service Funds (Continued)

Recommendation:

The City should reassess the cost allocation methodology of its various ISFs so that the user funds or departments are charged a sufficient amount to cover the cost of providing the respective services and either:

1. Continue the use of ISFs with the strong monitoring by the City management on a monthly basis to ensure that the ISFs are allocating costs to the appropriate funds;
2. Discontinue the use of ISFs and provide the accounting allocation of costs to other funds and the General Fund in order to set aside cash reserves to fund long-term liabilities (e.g. insurance claims liabilities).

Management’s Response:

The Administrative Services Fund has a negative balance as a result of the implementation of GASB 68 and GASB 75. For presentation purposes, the fund has a deficit. However, this is not actually the case on a cash basis.

The Liability Insurance Fund had a negative fund balance as a result of several litigated cases that were settled at or near the end of the fiscal year. The City works with its excess insurance carrier and has since received reimbursement of these funds.

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

Section II – Financial Statement Findings (Continued)

A. Current Year Findings – Financial Statements (Continued)

Finding 2019-003 Internal Control Over Bank Reconciliation and Financial Reporting

Criteria:

Management is responsible for designing, implementing, and maintaining appropriate internal control over financial reporting and compliance. Management is also responsible for the accuracy of the financial statements including disclosures. As part of satisfying that responsibility, staff must possess the skills, knowledge, and experience necessary to complete the year-end close and must diligently employ the skills, knowledge, and experience to produce reliable and accurate financial information.

Effective internal control over financial reporting provides reasonable assurance for the completeness and accuracy of accounting records and proper year-end closing. Internal control is defined as a process implemented and monitored by the City Council, management, and other personnel that provides reasonable assurance that the objectives of the City will be achieved. Internal control is not one event, but a series of events that occur throughout an entity's operations. The City's internal control system should be designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- Reliability of financial reporting for internal and external use;
- Effectiveness and efficiency of operations; and
- Compliance with applicable laws and regulations.

Condition:

During the performance of walkthrough over bank reconciliation in August 2019, we noted significant delay in performing bank reconciliations. January 2019 was prepared while it was not finalized and the bank reconciliation had a material variance between the reconciliation and the balance in the general ledger. The fixed asset schedule was not available for the auditors to review until January 2020.

Cause:

The turnover in the Finance Department from the prior year resulted in the delay of bank reconciliations and the fixed asset schedules. There was an inadequate review over the year end closing process.

Identification as a Repeat Finding, if Applicable:

Not applicable

Effect or Potential Effect:

Delays in processing transactions timely and closing accounting periods can create accounting errors that could go undetected. It could materially misstate the financial statements and create further delays in issuing audited financial statements. Furthermore, delay in completing the bank reconciliations and fixed asset schedules makes the process more difficult due to staff having to retrace transactions from months prior.

Recommendation:

We recommend the City establish effective monthly and year end closing procedures that reduce the risk in accounting errors and the need for correcting journal entries after the year end closing. These procedures would include timely review and approval by management of account reconciliations, sub-ledger transactions, cutoff review for account balances at fund and overall government-wide levels, and revenue and expenditures/expense review.

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

Section II – Financial Statement Findings (Continued)

A. Current Year Findings – Financial Statements (Continued)

Finding 2019-003 Internal Control Over Bank Reconciliation and Financial Reporting (Continued)

Views of Responsible Officials and Planned Corrective Actions:

The Finance Department has experienced turnover in several positions due to retirements, promotions, and staff leaving for other employment. We continue to work with Human Resources to fill the vacancies with qualified individuals. As of the date of this report, all positions in the Finance Department have been filled. All finance staff is being held accountable for meeting deadlines and ensuring bank reconciliations are completed within 30 days of the end of the month.

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

Section II – Financial Statement Findings (Continued)

B. Prior Year Findings – Financial Statements

Finding 2018-001 Accounting Policies and Procedures

Criteria:

Accounting Policies and Procedures would aid the Finance Department and the City in providing training for accounting personnel, communicating and providing a source of reference to approved policies, and maintaining consistency of recording financial transactions.

Condition:

During our review of control environment, we noted that the City lacked formal policies and procedures. Although the City has informal policies, the City should establish formal and comprehensive policies approved by the City Council to provide detailed guidance to employees and management of the City.

Cause:

The City did not have sufficient resources to develop the accounting policies and procedures.

Identification as a Repeat Finding, if Applicable:

This is a repeat finding.

Effect:

Without the Accounting Policies and Procedures, personnel responsible for the daily work and transactions do not have a clear understanding of their role and responsibilities or the accounting standards applicable to their function. In addition, the absence of standardized procedures has and will create inefficient and inconsistent processing of transactions. Absent clear guidance, delays in financial reporting occur as staffs are unaware of where to find the answers.

Recommendation:

We recommend that the City develop a comprehensive accounting manual that would set the guidelines for recording significant transactions in the general ledger. In addition, Management should consider developing an accounting manual which includes at a minimum:

- Specific duties and responsibilities (desk procedures)
- Minimum required qualifications or standards
- Council/Management approved policies relating to specific transactions
- Procedures for processing of specific financial activities
- Appropriate monitoring and review controls

Management View and Corrective Action Plan:

The Finance Department has suffered and has experienced turnover in several positions due to retirements, promotions, and staff leaving for other employment. We continue to work with Human Resources to fill the vacancies with qualified individuals. As the positions are filled, employees will be tasked with ensuring procedures are completed for each desk. Staff continues to work on the Accounting Policies. Two more policies are programmed for implementation in FY2018/2019.

Status:

Continued in current year as finding 2019-001.

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

Section II – Financial Statement Findings (Continued)

B. Prior Year Findings – Financial Statements (Continued)

Finding 2018-002 City’s Finance Organization

Criteria:

Control environment sets the tone of an organization, influencing the control consciousness of its people. An effective system of internal control is built and operated in an organization that strives to on the foundation:

1. Achieve its strategic objectives,
2. Provide reliable financial reporting to internal and external stakeholders,
3. Operate its business efficiently and effectively,
4. Comply with all applicable laws and regulations, and
5. Safeguard its assets.

Control environment factors include the integrity, ethical values, and competence of the City’s personnel, management’s philosophy and operating style, the way management assigns authority and responsibility, and organizes and develops its people, and the attention and direction provided by the City Council.

Condition:

The City has operated for many years with limited accounting support staff in the Finance Department resulting in inadequate thorough reviews, analysis, and reconciliation of financial transactions. During the current fiscal year a key employee with extensive knowledge of the City’s operations retired and the department expects two additional experienced employees to retired during fiscal year 2019.

Cause:

The City’s Finance Department was short staffed heading into the fiscal year. The City also experienced in turnover in key management positions and support staff. The open support positions have not been filled due to a combination of factors including inexperienced applicants and hiring freezes. The Finance Department has had to catch up with backlogs and deal with the day to day activities.

Effect:

The lack of staff created a significant burden to the Finance Director and remaining Finance Staff, increased the risk for errors and noncompliance, and resulted in delays in the financial statement closing process, review process, and the process of designing and implementing formal accounting policies and procedures. See findings 2018-001 and 2018-003 for additional information.

Recommendation:

We recommend the City establish a well-defined Finance Department and recruit experienced/competent accounting personnel. We also recommend the City evaluate the breadth of the Finance Department workload and take steps to fill necessary positions and define or redefine the roles and responsibilities of each position in order to strengthen its internal control over financial reporting and compliance.

Views of Responsible Officials and Planned Corrective Actions:

As stated in Finding 2018-001, Finance continues to work with Human Resources to fill the vacancies with qualified individuals. Job Descriptions are being reviewed and updated as necessary.

Status:

Implemented.

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

Section II – Financial Statement Findings (Continued)

B. Prior Year Findings – Financial Statements (Continued)

Finding 2018-003 Internal Controls over Journal Entries

Criteria:

Proper management review and approval of journal entries is an essential part of internal control over financial reporting. Manual journal entries are susceptible to fraud by overriding established control procedures and recording unauthorized or inappropriate journal entries or other post-closing adjustments. Sound internal controls call for proper authorization and review of journal entries.

Condition:

During the review of the journal entries, we noted that 13 out of 25 journal entries did not have proper approval signature of a reviewer. Journal entry reviews are performed during the bank reconciliation review. However, the documentation unrelated to bank reconciliations journal entry reviews and approvals are not maintained.

Cause:

There is lack of policies and procedures to mandate the documentation of journal entry reviews and approvals. In addition, due to the conditions reported in finding 2018-002 the Finance Department is under severe time constraints and a proper approval process is difficult to implement in the current circumstances.

Effect:

Lack of approvals of journal entries can lead to improper and inaccurate postings of general ledger activity.

Recommendation:

We recommend the City adopt formal policies and procedures to ensure all journal entries are reviewed and approved by requiring signatures of a preparer and a reviewer before being posted to the general ledger. See finding 2018-002 for additional recommendations regarding staffing.

Views of Responsible Officials and Planned Corrective Actions:

Again, a result of staffing shortages. In FY2018/2019, the current Finance Director is having all journal entries submitted for review and signature as soon as they are gathered for entry. This will be included in updates to procedure manuals and internal policies to ensure awareness amongst all staff.

Status:

Implemented

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

Section III – Federal Award Findings and Questioned Costs

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

No findings or questioned costs were noted on the City’s major programs for the year ended June 30, 2019.

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

No findings or questioned costs were noted on the City’s major programs for the year ended June 30, 2018.