

CITY OF BEVERLY HILLS

SINGLE AUDIT

Year ended June 30, 2019

CITY OF BEVERLY HILLS
Beverly Hills, California

SINGLE AUDIT
Year ended June 30, 2019

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Honorable Mayor
and Members of City Council
of the City of Beverly Hills
Beverly Hills, 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, business type activities, each major fund, and the aggregate remaining fund information of the City of Beverly Hills, California, (the City) as of and for the year ended June 30, 2019, and the related notes to the basic financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 9, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of 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.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City's financial statements are free of 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting 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.

A handwritten signature in black ink that reads "Crowe LLP". The signature is written in a cursive, flowing style.

Crowe LLP

Costa Mesa, California
December 9, 2019

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

To the Honorable Mayor
and Members of City Council
of the City of Beverly Hills,
Beverly Hills, California

Report on Compliance for Each Major Federal Program

We have audited the City of Beverly Hills, California (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 program is 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.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on 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 direct and material effect on each of its' major federal programs for the year ended June 30, 2019.

(Continued)

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.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the governmental activities, 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 December 9, 2019, 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 additional 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 expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.



Crowe LLP

Costa Mesa, California
January 16, 2020

CITY OF BEVERLY HILLS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2019

Federal Grantor/Pass-through Entity Program or Cluster Title	CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
U.S. Department of Housing and Urban Development			
Pass-Through from the County of Los Angeles:			
CDBG - Entitlement Grants Cluster			
Community Development Block Grant	14.218	D96095-18	\$ 54,903
Community Development Block Grant	14.218	D99102-18	<u>43,711</u>
Total CDBG - Entitlement Grants Cluster			98,614
Total U.S. Department of Housing and Urban Development			<u>98,614</u>
U.S. Department of Transportation			
Pass-Through from the State of California- Office of Traffic Safety			
Selective Traffic Enforcement Program (STEP) - 2018	20.608	PT18011	43,687
Selective Traffic Enforcement Program (STEP) - 2019	20.608	PT19012	<u>63,303</u>
Total Selective Traffic Enforcement Program (STEP)			106,990
Highway Safety Cluster			
Selective Traffic Enforcement Program (STEP) - 2018	20.600	PT18011	33,193
Selective Traffic Enforcement Program (STEP) - 2019	20.600	PT19012	<u>21,933</u>
Total Highway Safety Cluster			55,126
Total U.S. Department of Transportation			<u>162,116</u>
U.S. Department of Treasury			
Direct Assistance:			
Equitable Sharing Program	21.016		60,926
Total U.S. Department of Treasury			<u>60,926</u>
U.S. Department of Justice			
Direct Assistance:			
Equitable Sharing Program	16.922		326,461
Bulletproof Vest Partnership Program	16.607		12,873
Total U.S. Department of Justice			<u>339,334</u>
U.S. Department of Homeland Security			
Pass-Through from the City of Los Angeles:			
Homeland Security Grant Program	97.067	C-130246	107,001
Total U.S. Department of Homeland Security			<u>107,001</u>
Total Expenditures of Federal Awards			<u>\$ 767,991</u>

See accompanying notes to schedule of expenditures of federal awards.

CITY OF BEVERLY HILLS
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2019

NOTE 1 – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal grant activity of the City of Beverly Hills for the year ended June 30, 2019. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of City of Beverly Hills, it does not present the financial position, changes in net position, or cash flows of the City of Beverly Hills.

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. City of Beverly Hills has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

NOTE 2 – MATCHING COSTS

The nonfederal share of program costs (matching costs) are not included in the accompanying Schedule of Expenditure of Federal Awards.

CITY OF BEVERLY HILLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended June 30, 2019

SECTION I – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:

Unmodified

Internal control over financial reporting:

Material weakness(es) identified?

_____ Yes X No

Significant deficiency(ies) identified?

_____ Yes X None reported

Noncompliance material to financial statements noted?

_____ Yes X No

Federal Awards

Internal control over major federal programs:

Material weakness(es) identified?

_____ Yes X No

Significant deficiencies identified not considered to be material weaknesses?

_____ Yes X 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)?

_____ Yes X No

Identification of major federal programs:

CFDA Number

Name of Federal Program or Cluster

16.922

Equitable Sharing Program

Dollar threshold used to distinguish between type A and type B programs:

\$750,000

Auditee qualified as low-risk auditee?

_____ Yes X No

CITY OF BEVERLY HILLS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year ended June 30, 2019

SECTION I – PRIOR YEAR FINDINGS RELATING TO THE FINANCIAL STATEMENTS, WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH GENERALLY ACCEPTED GOVERNMENT AUDITING STANDARDS

2018-001 Information System Controls (Material Weakness)

Condition:

We evaluated system access to the City of Beverly Hills (the City) Active Directory as well as the financial reporting system, MUNIS. The Active Directory authenticates and authorizes all users and computers in a Windows domain type network-assigning and enforcing security policies for all computers and installing or updating software. For example, when a user logs into a computer that is part of a Windows domain, Active Directory checks the submitted password and determines whether the user is an authorized user.

Management’s Response and Planned Corrective Action:

The City agrees that internal controls are critical to our control environment and will work to implement changes necessary to mitigate the risks identified. The Accounting Manager played a critical role in the implementation of the City’s new Enterprise Resource Planning (ERP) system and as such, did have super user rights to the software. As she developed the City’s user roles for the software, she had maintained this access subsequent to implementation and has processed necessary user updates, as needed, based on the request of the department and work function/responsibilities. Finance Department staff have operational roles, which require the use of Munis in the course and scope of their duties; therefore, we are working to identify/obtain staff resources who could oversee the administration of the ERP system and provide additional technical support and report writing capabilities on a permanent basis. For the short-term, we worked with Information Technology (IT) Department to transition user access, permissions, and workflow implementation and changes to the Information Technology Department and have provided internal and Munis-led trainings.

Status of Planned Corrective Action:

Implemented.

2018-002 Payroll Segregation of Duties Internal Control (Material Weakness)

Condition:

One employee in the Payroll department has the ability to initiate and approve changes to underlying employee payroll records on a personnel action form without a separate review or approval to verify that the change made was appropriate. The same individual has the ability to process payroll.

Management’s Response and Planned Corrective Action:

Management understands and agrees that segregation of duties in the payroll process is important. Management will perform a comprehensive review of the internal controls in the payroll process with the goal of full segregation between HR and payroll. If it is determined system or other limitations prevent full segregation, monitoring review controls will be implemented.

Status of Planned Corrective Action:

Implemented.

(Continued)

CITY OF BEVERLY HILLS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year ended June 30, 2019

2018-003 Financial Reporting Deficiency in Internal Control (Significant Deficiency)

Condition:

During the year-end testing procedures, we identified several adjustments or errors in financial statement disclosures relating to accounts payable, lease revenue, charges for services, capital assets, cash and investments and other post-employment benefits. These adjustments were reflected in the Comprehensive Annual Financial Report (CAFR) to ensure balances were properly accounted and disclosed in accordance with Generally Accepted Accounting Principles

Management's Response and Planned Corrective Action:

Management agrees that increased level of reviews would elevate the accuracy of the financial reporting. As mentioned above, assuring timeliness of all entries that pertain to a specific fiscal year will also allow more time to be devoted to the review process. In order to avoid future misclassification occurrences, management designed additional schedules that independently calculate reporting categories, reviewed existing formulas in order to avoid prior year figures to be carried forward into future years, and also designed and configured additional correlation rules that will alert the preparer if similar errors occur.

Status of Planned Corrective Action:

Implemented.

CITY OF BEVERLY HILLS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year ended June 30, 2019

SECTION II – PRIOR YEAR FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS INCLUDING AUDIT FINDINGS AS DEFINED IN TITLE 2 U.S. CODE OF FEDERAL REGULATIONS PART 200, UNIFORM ADMINISTRATIVE REQUIREMENTS, COST PRINCIPLES, AND AUDIT REQUIREMENTS FOR FEDERAL AWARDS

2018-004 Equipment and Real Property Management (Material Weakness)

Condition:

The City's capital assets policy defines capital assets as assets with an individual cost of \$10,000 or more and an estimated useful life in excess of one year. The policy does not more narrowly define capital assets acquired with federal awards with per-unit acquisition costs equal to \$5,000. Further, the capital asset policy does not include equipment management requirements for assets acquired with federal awards in accordance with the Uniform Guidance.

Lastly, the City does not maintain property records that include required identification information for assets acquired with federal awards. As a result, the City did not comply with the following compliance requirements:

- A physical inventory of the property must be taken with the results reconciled with property records at least once every two years.
- Equipment acquired is adequately safeguarded to prevent loss, damage, or theft of the property.
- Adequate maintenance procedures must be developed to keep the property in good working condition.
- Sales procedures are established to ensure the highest possible return.

Management's Response and Planned Corrective Action

Finance Management will work on updating the capital assets policy to include reference to equipment purchased with federal funding that is consistent with the Uniform Administrative requirements established by the Uniform Guidance. Finance Management will establish a practice whereby required equipment inventory is performed at the minimum frequency and reconcile the results of the inventory to the City's underlying records. Department Management will create and/or update historical property records with the information required under the Uniform Guidance and will establish and maintain documentation requirements for the maintenance of assets acquired with Federal funds.

Status of Planned Corrective Action:

Implemented.

2018-005 Procurement and Suspension and Debarment (Material Weakness)

Condition:

The City was subject to the new procurement requirements under the Uniform Administrative Requirements codified under 2 CFR 200, effective December 26, 2014, if it did not elect in its written procedures that it intended to utilize the permitted grace period. The grace period if adopted, would have extended the implementation date for the new procurement requirements from being applicable for the year ended June 30, 2016 to the year ended June 30, 2019.

As the City was subject to the new procurement requirements under the Uniform Administrative Requirements, the City's purchasing and procurement policies were required to be updated to reflect a

(Continued)

CITY OF BEVERLY HILLS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year ended June 30, 2019

number of new Federal regulations. The City has not yet updated its purchasing and procurement policies to reflect the new Federal regulations.

For the two procurements selected for testing, the City utilized two different third parties to conduct the procurement processes on the City's behalf. The support obtained, from the respective third party entities utilized, only included the pricing information for the vendors selected. The City did not provide evidence it maintained records for the history of the procurement, including the rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price.

Management's response and planned corrective action:

Finance Management is currently working on updating the existing purchasing and procurement policy to reflect applicable laws and requirements of Uniform Guidance pertaining to procurement standards. Finance Management will work with Department Management to ensure they obtain and maintain records demonstrating compliance with the federal procurement requirements. Finance Management will also work with Department Management to develop written procedures for demonstrating compliance with suspension and debarment requirements.

Status of Planned Corrective Action:

Implemented.