

CITY OF BEVERLY HILLS

SINGLE AUDIT

Year ended June 30, 2018

CITY OF BEVERLY HILLS
Beverly Hills, California

SINGLE AUDIT
Year ended June 30, 2018

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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, 2018, 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 27, 2018. Our report included an emphasis of matter noting that the City adopted new accounting guidance, GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits other than Pensions, which resulted in a restatement of the July 1, 2017 governmental activities and business-type activities net position in the amount of [\$91,263,899] and [\$12,098,781], respectively, in addition to restatements to various City proprietary funds. Our opinions are not modified with respect to this matter.

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 identified certain deficiencies in internal control that we consider to be material weaknesses and a significant deficiency.

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 deficiencies described in the accompanying schedule of findings and questioned costs as 2018-001 and 2018-002 to be material weaknesses.

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 deficiency described in the accompanying schedule of findings and questioned costs as 2018-003 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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*.

The City's Response to Findings

The City's response to the findings identified in our audit are 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 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.


Crowe LLP

Costa Mesa, California
March 25, 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, 2018. 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 qualified opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

Basis for Qualified Opinion on Major Federal Program

As described in the accompanying schedule of findings and questioned costs, the City did not comply with requirements regarding the Equitable Sharing Program (CFDA 16.922) as described in findings 2018-004 for Equipment and Real Property Management and 2018-005 for Procurement and Suspension and Debarment. Compliance with such requirements is necessary, in our opinion, for the City to comply with the requirements applicable to that program.

Qualified Opinion on Major Federal Program

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the City complied, in all material respects, with the types of compliance requirements referred to above that could have direct and material effect on the Equitable Sharing Program (CFDA 16.922) for the year ended June 30, 2018.

Other Matters

The City's response to the noncompliance findings identified in our audit are 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 compliance and, accordingly, we express no opinion on the response.

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as findings 2018-004 and 2018-005 that we consider to be material weaknesses.

The City's response to the internal control over compliance findings identified in our audit are 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 compliance and, accordingly, we express no opinion on the response.

(Continued)

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, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated December 27, 2018, 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
March 25, 2019

CITY OF BEVERLY HILLS
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 Year ended June 30, 2018

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	D96095-17	\$ 57,155
Community Development Block Grant	14.218	D99102-17	<u>76,606</u>
Total CDBG - Entitlement Grants Cluster			133,761
Total U.S. Department of Housing and Urban Development			<u>133,761</u>
U.S. Department of Justice			
Direct Assistance:			
Equitable Sharing Program	16.922		850,438
Bulletproof Vest Partnership Program	16.607		7,715
Total U.S. Department of Justice			<u>858,153</u>
U.S. Department of Homeland Security			
Pass-Through from the City of Los Angeles:			
Homeland Security Grant Program	97.067	C-128208	191,105
Pass-Through from the County of Los Angeles:			
Homeland Security Grant Program	97.067	27-17	33,912
Total U.S. Department of Homeland Security			<u>225,017</u>
Total Expenditures of Federal Awards			<u>\$ 1,216,931</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, 2018

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, 2018. 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, 2018

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?	<u> X </u>	Yes	<u> </u>	No
Significant deficiency(ies) identified?	<u> X </u>	Yes	<u> </u>	None reported
Noncompliance material to financial statements noted?	<u> </u>	Yes	<u> X </u>	No

Federal Awards

Internal control over major federal programs:

Material weakness(es) identified?	<u> X </u>	Yes	<u> </u>	No
Significant deficiencies identified not considered to be material weaknesses?	<u> </u>	Yes	<u> X </u>	None reported

Type of auditor’s report issued on compliance for major federal programs:

Qualified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

 X Yes No

Identification of major federal programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
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

(Continued)

CITY OF BEVERLY HILLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended June 30, 2018

SECTION II – 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)

Criteria:

Internal controls over information systems are a key component of an organization's control environment. Entities should have internal controls including policies and procedures regarding segregation of duties, user access, monitoring changes to user security profiles, and appropriate design of password controls. Where adequate segregation of duties cannot be employed to adequately separate those with super user access from operational access to process transactions, detective and monitoring review controls should be established that adequately mitigate such risks. Such controls enable entities to increase efficiency by reducing manual processes and improving the accuracy and quality of the data used across those information systems. Such controls are also important to prevent erroneous and fraudulent transactions or entry to systems. Access to information systems should be removed when there is no longer a business need.

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.

Context:

During our assessment of information system controls, we noted the following:

- During the first six months of the fiscal year, there was one user in the Administrative Services Department (ASD), Accounting Division who maintains super user access to the financial reporting system, in addition to operational roles in the normal course of business. Super user access includes the ability to add, modify and delete user accounts as well as assign security privileges to user accounts. The Information and Technology (IT) and Administrative Services Departments do not have a process to evaluate and document the propriety of super user changes to user access profiles within the financial reporting system.
- The IT and Administrative Services Departments did not have a process in place during the period under audit to review application/system logs to validate that access to the financial reporting system is limited to current employees and that access levels assigned to users is appropriately limited to the functions of their job responsibilities.
- Management did not have a process in place during the year ended June 30, 2018 to ensure access to information systems was removed in a timely matter.

(Continued)

CITY OF BEVERLY HILLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended June 30, 2018

2018-001 Information System Controls (Material Weakness) (Continued)

Cause:

- Super user access – Management did not identify an appropriate resource to designate a system administrator outside of the operations environment.
- Review of change in user access roles – Management did not have a process in place to review changes in user access roles within the financial reporting system.
- Terminated users – While policies require that access is removed upon employee separation, internal controls are not adequately designed to ensure that access is removed on a timely basis. Timely communication between the Administrative Service Department Human Resources and Accounting Divisions and the IT Department to initiate the removal of access for separated employees was not consistently operating.

Effect:

Inadequate segregation of duties among City personnel responsible for changes to user account security settings and performing in an operational capacity during the regular course of business could lead to management override of internal controls. The absence of appropriate monitoring of super user access could result in unauthorized transactions recorded in the financial reporting system, where management would not be able to detect such activity. Further, the lack of timely removal of system access for terminated employees may lead to unauthorized access to City information.

Recommendation:

We recommend that management establish written system access policies and procedures which provide for the appropriate levels of user access based on the relative roles and responsibilities within the financial reporting system. A best practice is to provide the lowest level of access based on operational need. Further, we recommend the City perform a systematic review and maintain documentation of user's access rights within the financial reporting system, to ensure that a) there are not users with super user access who also have the ability to perform operational functions within the financial reporting system and b) user access roles are only for those functions which are necessary to perform in the normal course of business. Additionally, we recommend that the City consider removing user access accounts for users, which no longer have a business purpose to retain such access, in a timely manner.

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.

(Continued)

CITY OF BEVERLY HILLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended June 30, 2018

2018-001 Information System Controls (Material Weakness) (Continued)

Review of changes to user accounts:

We are continuing to work with IT and Munis to develop user-friendly understandable reporting to be able to perform periodic reviews of Munis access changes, which can be reviewed and approved, in addition to preparing written policies regarding such access. We are also working with IT to develop a more formal process for requesting and tracking the changes made to user accounts, roles, and workflow, utilizing their ServiceDesk request platform to potentially build in Finance approvals as well as routing the request to IT for updates.

Terminated users:

Regarding terminations, the City does have a basic process in place for managing terminated employees' access in Munis and for Active Directory changes; however, the City agrees that this process can be strengthened. Finance has been working with the Information Technology Department and the Human Resources Department to establish a new Administrative Regulation (AR), which includes policy and procedures, checklists, flowchart and overall process workflow for a new separation process. The goal is to begin utilizing electronic personnel actions, which will originate at the department level and then flow through to the necessary approves via workflow. Trainings were held during the month of December for personnel actions entry procedures and for Munis approval and checklist procedures. This new AR will be implemented in January 2019 and the departments have been advised of this change and will be required to enter and follow the new procedures at that time, recognizing that with any new process, challenges may arise and changes may need to be made to streamline the new process.

(Continued)

CITY OF BEVERLY HILLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended June 30, 2018

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

Criteria:

Entities should have strong internal controls that segregate the ability of an individual to initiate and approve changes to employee records from processing payroll. If such functions are not segregated, detective and monitoring review controls should be established that adequately mitigate such risks.

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.

Context:

We note that while such individual employee had the ability to both initiate and approve changes to underlying employee payroll records, no changes to employee payroll records were initiated by this individual during the current fiscal year.

Cause:

Internal controls over the separation of key functions in the payroll process are not properly designed.

Effect:

Inadequate segregation of duties among personnel with the ability to modify pay levels and process payroll could result in unauthorized payroll transactions.

Recommendation:

We recommend that management separate the function of processing changes to underlying payroll records from the payroll processing function.

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.

(Continued)

CITY OF BEVERLY HILLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended June 30, 2018

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

Criteria:

Internal controls over the closing and financial reporting process should be in place to ensure the City has the ability to initiate, record, process and report accurate financial data consistent with generally accepted accounting principles.

Condition/Context:

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. The following is a summary of each adjustment:

- Accounts Payable – Management recorded an accrual in the General Fund in the amount of \$4,769,501 during the year-end close that originally was not recorded in the following funds:

AP Liability Claims Reserve fund	\$ 2,868,633
AP Information Technology Fund	1,306,944
AP Vehicle Fund	195,139
AP Infrastructure Capital Project	92,221
AP Water Enterprise Fund	66,415
AP Parking Enterprise Fund	61,079
AP Policy, Admin, Legal	46,864
AP Solid Water Enterprise Fund	41,259
AP Reprographics/Graphics Fund	38,922
AP Capital Assets Fund	28,478
AP Measure R Fund	9,125
AP Storm Water Enterprise Fund	5,948
AP Prop A Fund	4,340
AP Equipment Replacement Fund	4,132

- Lease Revenue – Water equipment lease revenue is recorded in the water enterprise fund and should be allocated to several funds for lease charges. The journal entry to allocate \$ 1,401,363 in lease charges were not originally recorded in maintenance and operations expense for several funds.
- Charges for Services – Management incorrectly recorded \$24,823,320 as a reduction in charges for services in the governmental activities, which should have been recorded as an increase in functional expenses.
- Capital Assets – In the Capital Assets roll forward disclosed in the footnotes to the financial statements, management incorrectly recorded a \$13,503,929 land addition as a construction-in-progress transfer. This adjustment impacted only the disclosures and not the financial statements.
- Cash and Investments – In the cash and investments footnote to the financial statements, management incorrectly classified the components of cash and demand deposits with the pool investments by \$34,187,349. This adjustment impacted only the disclosures and not the financial statements.

(Continued)

CITY OF BEVERLY HILLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended June 30, 2018

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

- Other post-employment benefits – Management implemented a new accounting standard for other post-employment benefits (OPEB), GASB Statement No. 75 (GASB 75). We proposed and management corrected the following errors in management’s financial statements and disclosures:
 - Management did not originally disclose all key assumptions used in calculating the actuarially determined liability, such as: changes in discount rate and expected rate of return, payroll growth, mortality, and mortality improvement scale. Upon recommendation from the auditors, management recorded the required disclosures.
 - Management originally included a Schedule of Contributions – Other Post-Employment Benefits Plan, which is not applicable to the City because the related assets are not held in a trust that meets the criteria defined in paragraph 4 of GASB 75. Upon recommendation from the auditors, management removed the additional schedule from the CAFR.
 - Statements of cash flows – Management did not originally allocate the change in the total OPEB liability among the respective enterprise and internal service funds in the statements of cash flows. Management recorded the decrease in the total OPEB liability by impacted fund as follows.

Water Fund	\$ (67,492)
Parking Facilities	(209,619)
Wastewater Fund	(44,281)
Solid Waste Fund	(30,355)
Stormwater Fund	(28,926)
Information Technology	(34,996)
Capital Assets	(33,568)
Vehicles	(25,711)
Reprographics	(16,784)
Cable Television	(22,140)
Liability insurance	(2,142)
Workers compensation	(1,071)
Policy, Administration, & Legal	(312,462)

Cause:

The adjustments identified were a result of the closing process not beginning early enough to provide management the appropriate time necessary to reconcile all transaction classes and to improve the precision of their review of the CAFR report and its supporting schedules.

Effect:

A number of adjustments to the financial statements and disclosures were required during the audit to properly present the City’s financial statements in accordance with Generally Accepted Accounting Principles.

Recommendation:

We recommend that the City strengthen their review of their CAFR to ensure that the accounts and disclosures recorded reconcile to the general ledger and the supporting schedules. By implementing the above internal controls, it will reduce the number of closing entries and adjustments proposed and recorded during the audit.

(Continued)

CITY OF BEVERLY HILLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended June 30, 2018

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

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.

(Continued)

CITY OF BEVERLY HILLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended June 30, 2018

SECTION III – 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

Reference Number:	2018-004
Federal Program Title(s):	Equitable Sharing Program
Federal Catalog Number(s):	16.922
Federal Agency:	U.S. Department of Justice
Pass-Through Entity:	None
Federal Award Number(s) and Year(s):	CA0191000
Category of Finding:	Equipment and Real Property Management
Classification of Finding:	Material Noncompliance and Material Weakness

Criteria:

PART 200—UNIFORM ADMINISTRATIVE REQUIREMENTS, COST PRINCIPLES, AND AUDIT REQUIREMENTS FOR FEDERAL AWARDS

§200.33 Equipment.

Equipment means tangible personal property (including information technology systems) having a useful life of more than one year and a per-unit acquisition cost which equals or exceeds the lesser of the capitalization level established by the non-Federal entity for financial statement purposes, or \$5,000.

§200.313 Equipment.

(d) Management requirements. Procedures for managing equipment (including replacement equipment), whether acquired in whole or in part under a Federal award, until disposition takes place will, as a minimum, meet the following requirements:

- (1) Property records must be maintained that include a description of the property, a serial number or other identification number, the source of funding for the property (including the FAIN), who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the project costs for the Federal award under which the property was acquired, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property.
- (2) A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years.
- (3) A control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of the property. Any loss, damage, or theft must be investigated.
- (4) Adequate maintenance procedures must be developed to keep the property in good condition.
- (5) If the non-Federal entity is authorized or required to sell the property, proper sales procedures must be established to ensure the highest possible return.

(Continued)

CITY OF BEVERLY HILLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended June 30, 2018

2018-004 Equipment and Real Property Management (Continued)

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.

Context:

During the year, the City acquired approximately \$430,000 in assets classified as equipment. The dollar amount of assets acquired prior to the beginning of the fiscal year, which were subject to the equipment management requirements, could not be quantified.

Cause:

The City's Police Department experienced turnover of key staff members responsible for grant administration, thus adequate records were not maintained which demonstrate that the City met the compliance requirements.

Effect:

The City could not demonstrate it was in compliance with equipment management requirements, and there is a risk that equipment acquired with federal funds is not being maintained in good working condition.

Questioned Costs:

None reported.

Recommendation:

We recommend that the City revise its capital assets policy to include a reference to equipment purchased with federal funding that is consistent with the Uniform Administrative requirements established by the Uniform Guidance. We recommend that the City create or update historical property records with the information required under Uniform Guidance. Additionally, we recommend that the City perform the required equipment inventory at the minimum frequency required and reconcile the results of the inventory to the City's underlying records. Lastly, we recommend that the City establish and maintain documentation requirements for the maintenance of assets acquired with Federal funds, to ensure that equipment purchased is maintained in good working condition, adequately safeguarded from loss, damage or theft, and if sold, that the highest possible return is obtained.

(Continued)

CITY OF BEVERLY HILLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended June 30, 2018

2018-004 Equipment and Real Property Management (Continued)

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.

(Continued)

CITY OF BEVERLY HILLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended June 30, 2018

	2018-005
Federal Program Title(s):	Equitable Sharing Program
Federal Catalog Number(s):	16.922
Federal Agency:	U.S. Department of Justice
Pass-Through Entity:	None
Federal Award Number(s) and Year(s):	CA0191000
Category of Finding:	Procurement and Suspension and Debarment
Classification of Finding:	Material Noncompliance and Material Weakness

Criteria:

PART 200—UNIFORM ADMINISTRATIVE REQUIREMENTS, COST PRINCIPLES, AND AUDIT REQUIREMENTS FOR FEDERAL AWARDS

§200.110 Effective/applicability date.

(a) For the procurement standards in §§200.317-200.326, nonFederal entities may continue to comply with the procurement standards in previous OMB guidance (superseded by this part as described in §200.104) for two additional fiscal years after this part goes into effect. If a nonFederal entity chooses to use the previous procurement standards for additional fiscal years before adopting the procurement standards in this part, the nonFederal entity must document this decision in their internal procurement policies.

§200.318 General procurement standards.

(a) The nonFederal entity must use its own documented procurement procedures which reflect applicable State, local, and tribal laws and regulations, provided that the procurements conform to applicable Federal law and the standards identified in this part.

(c)(1) The non-Federal entity must maintain written standards of conduct covering conflicts of interest and governing the performance of its employees engaged in the selection, award and administration of contracts.

(i) The non-Federal entity must maintain records sufficient to detail the history of procurement. These records will include, but are not necessarily limited to the following: rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price.

§200.320 Methods of procurement to be followed.

(d) Procurement by competitive proposals. The technique of competitive proposals is normally conducted with more than one source submitting an offer, and either a fixed price or cost-reimbursement type contract is awarded. It is generally used when conditions are not appropriate for the use of sealed bids. If this method is used, the following requirements apply: (1) Requests for proposals must be publicized and identify all evaluation factors and their relative importance. Any response to publicized requests for proposals must be considered to the maximum extent practical; (2) Proposals must be solicited from an adequate number of qualified sources; (3) The non-Federal entity must have a written method for conducting technical evaluations of the proposals received and for selecting recipients; (4) Contracts must be awarded to the responsible firm whose proposal is most advantageous to the program, with price and other factors considered.

(Continued)

CITY OF BEVERLY HILLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended June 30, 2018

2018-005 Procurement and Suspension and Debarment (Continued)

§200.323 Contract cost and price.

(a) The non-Federal entity must perform a cost or price analysis in connection with every procurement action in excess of the Simplified Acquisition Threshold including contract modifications. The method and degree of analysis is dependent on the facts surrounding the particular procurement situation, but as a starting point, the non-Federal entity must make independent estimates before receiving bids or proposals.

2 CFR PART 200.212 Suspension and debarment.

Nonfederal entities and contractors are subject to the nonprocurement debarment and suspension regulations implementing Executive Orders 12549 and 12689, 2 CFR part 180. These regulations restrict awards, subawards, and contracts with certain parties that are debarred, suspended, or otherwise excluded from or ineligible for participation in Federal assistance programs or activities.

2 CFR PART 180—OMB GUIDELINES TO AGENCIES ON GOVERNMENTWIDE DEBARMENT AND SUSPENSION (NONPROCUREMENT)

Subpart C—Responsibilities of Participants Regarding Transactions Doing Business with Other Persons

§180.300 What must I do before I enter into a covered transaction with another person at the next lower tier?

When you enter into a covered transaction with another person at the next lower tier, you must verify that the person with whom you intend to do business is not excluded or disqualified.

You do this by:

- (a) Checking SAM Exclusions; or
- (b) Collecting a certification from that person; or
- (c) Adding a clause or condition to the covered transaction with that person.

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 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.

(Continued)

CITY OF BEVERLY HILLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended June 30, 2018

2018-005 Procurement and Suspension and Debarment (Continued)

For one of the procurements selected for testing, the City was required to use the procurement by competitive proposals (based on the dollar amount of the contract awarded). The City did not maintain evidence of that there was a publicized request for proposals, records of the respondents, or evidence that there was a written method for conducting the technical evaluations of the proposals received. Additionally, for the same procurement, the City did not maintain evidence that they, or the third party service provider performed a cost or price analysis, which should have included an independent estimate before receiving bids.

The City did not have a process in place where documentation was retained to demonstrate compliance with suspension and debarment requirements. For both procurements selected for testing, the City could not provide evidence that any of the allowed methods for verifying that an entity which the city intends to enter a covered transaction is not suspended or debarred.

Context:

The two procurements reviewed included a contract in the amount of \$91,820 for a mobile camera tower platform and another contract in the amount of \$175,177 for vehicles. Total federal expenditures for the Equitable Sharing Program was \$850,438.

Cause:

Management did not implement the requirements for the procurement standards in a timely manner. Additionally, department staff responsible for administering the program did not have procedures and controls in place to ensure compliance with the applicable Federal regulations at the time of the procurements. Management did not have a process in place to ensure that entities which the City enters into a covered transaction are not suspended or debarred.

Effect:

The City is not in compliance with federal regulations for procurement and suspension and debarment. This could result in the city entering into agreements with entities where there was not fair and open competition, as well as with entities that may be suspended or debarred, or otherwise prohibited from Federal participation.

Questioned Costs:

None reported.

Recommendation:

We recommend that the City adopt the requirements of Uniform Guidance pertaining to the procurement standards. This includes revising or amending its current purchasing and procurement policy to reflect applicable laws and regulations. Additionally, we recommend that the city obtain and maintain records demonstrating compliance with the federal procurement requirements.

We also recommend the City establish and maintain compliance with written procedures for how it intends to demonstrate compliance with suspension and debarment requirements.

(Continued)

CITY OF BEVERLY HILLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended June 30, 2018

2018-005 Procurement and Suspension and Debarment (Continued)

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.

(Continued)

CITY OF BEVERLY HILLS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year ended June 30, 2018

2017-001 – 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.

Status of Planned Corrective Action:

Partially Implemented.

Super user access:

As of January 2018, the super user access in the finance department has been removed. Responsibility for administrative changes to user accounts now rests with the Information Technology Department.

Review of change in user access roles:

Management has not yet commenced a periodic review of changes made by administrative users to individual user accounts.

Terminated users:

Management has not yet implemented changes to the process for removing access of terminated users from the information systems.

This item is repeated as 2018-001 in the current fiscal year.