

CITY OF BELL, CALIFORNIA

Single Audit Reports

For the Fiscal Year Ended June 30, 2013



Certified Public Accountants.

CITY OF BELL, CALIFORNIA
Single Audit Reports
For the Fiscal Year Ended June 30, 2013

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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*

The Honorable City Council
of the City of Bell, 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, each major fund, and the aggregate remaining fund information of the City of Bell, California (City), as of and for the fiscal year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated March 31, 2014. Our report contained a qualified opinion on the financial statements of the governmental activities, the General Fund, the Community Housing Authority Special Revenue Fund, the Gas Tax Capital Projects Fund, and the aggregate nonmajor governmental funds as a result of a departure from accounting principles generally accepted in the United States of America related to the allocation of direct payroll and benefit and administrative expenditures to certain funds based on budget estimates.

Internal Control Over Financial Reporting

In planning and performing our audit, 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 over financial reporting that we consider to be material weaknesses.

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 items 2013-001 through 2013-003 to be material weaknesses.

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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2013-001 and 2013-003.

The City's Response to Findings

The City's responses 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 and compliance and the result 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.

Macias Fini & O'Connell LLP

Los Angeles, California
March 31, 2014

Certified Public Accountants.

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**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 OMB Circular A-133**

The Honorable City Council
of the City of Bell, California

Report on Compliance for Each Major Federal Program

We have audited the City of Bell, California's (City) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal program for the year ended June 30, 2013. 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 the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the City's major federal program 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 the major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on the 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 its major federal program for the year ended June 30, 2013.

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 its major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for its major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated March 31, 2014, which contained qualified opinions on the financial statements of the governmental activities, the General Fund, the Community Housing Authority Special Revenue Fund, the Gas Tax Capital Projects Fund, and the aggregate nonmajor governmental funds as a result of a departure from accounting principles generally accepted in the United States of America related to the allocation of direct payroll and benefit and administrative expenditures to certain funds based on budget estimates. 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 OMB Circular A-133 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 basic 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 expenditure of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Macias Fini & O'Connell LLP

Los Angeles, California

March 31, 2014

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CITY OF BELL, CALIFORNIA
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2013

Federal Grantor/ Pass-Through Grantor/ Program Title	Catalog of Federal Domestic Assistance Number	Program Identification Number	Expenditures of Federal Awards
U.S. Department of Housing and Urban Development:			
Passed through Community Development Commission of the County of Los Angeles:			
Community Development Block Grants/Entitlement Grants	14.218	D96061-12	\$ 161,646
Community Development Block Grants/Entitlement Grants	14.218	D96065-12	70,051
Community Development Block Grants/Entitlement Grants	14.218	600511-12	10,867
Community Development Block Grants/Entitlement Grants	14.218	D96069-12	103,355
Community Development Block Grants/Entitlement Grants	14.218	D99075-12	105,162
Subtotal CFDA No. 14.218			<u>451,081</u>
Total U.S. Department of Housing and Urban Development			<u>451,081</u>
U.S. Department of Transportation:			
Passed through California Department of Transportation:			
ARRA Highway Planning and Construction	20.205	ESPL 5272(011)	142,251
U.S. Department of Treasury:			
Direct Program:			
Federal Asset Forfeitures	21.000	CA0190700	96,295
U.S. Department of Education:			
Direct Program:			
Fund for the Improvement of Education	84.215K	U215K100191	<u>124,029</u>
Total Expenditures of Federal Awards			<u><u>\$ 813,656</u></u>

See Notes to the Schedule of Expenditures of Federal Awards.

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CITY OF BELL, CALIFORNIA
Notes to the Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2013

(1) General

The accompanying schedule of expenditures of federal awards (Schedule) presents the activity of all federal award programs of the City of Bell, California (City). The Schedule includes federal awards received directly from federal agencies as well as federal awards passed through other agencies. The City's reporting entity is defined in Note 1 to the City's basic financial statements.

(2) Basis of Accounting

The accompanying Schedule is presented using the modified accrual basis of accounting, which is described in the notes to the City's basic financial statements.

(3) Relationship to Basic Financial Statements and Federal Financial Reports

Information reported in the accompanying Schedule agrees with the amounts reported in both the basic financial statements and related federal financial reports for the federal award programs. Revenues from federal award programs are reported as intergovernmental revenues in the basic financial statements.

(4) Loan Programs with Continuing Compliance Requirements

The City participates in the Community Development Block Grants/Entitlement Grants (CFDA No. 14.218) of the U.S. Department of Housing and Urban Development, which is subject to continuing compliance requirements for outstanding loans. The program's outstanding loans balance with continuing compliance requirements is \$322,393.

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**CITY OF BELL, CALIFORNIA
 Schedule of Findings and Questioned Costs
 For the Fiscal Year Ended June 30, 2013**

Section I – Summary of Auditor’s Results

Financial statements:

Type of auditor’s report issued:	Qualified
Internal control over financial reporting:	
• Material weakness(es) identified?	Yes
• Significant deficiency(ies) identified ?	None reported
• Noncompliance material to financial statements noted?	Yes

Federal Awards:

Internal control over major program:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified?	None reported
Type of auditor’s report issued on compliance for major program:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?	No

Identification of major program:

<u>CFDA Number</u> 14.218	<u>Name of Federal Program</u> Community Development Block Grants/ Entitlement Grants
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Dollar threshold used to distinguish between Type A and Type B programs:	\$300,000
Auditee qualified as a low-risk auditee?	No

CITY OF BELL, CALIFORNIA
Schedule of Findings and Questioned Costs (Continued)
For the Fiscal Year Ended June 30, 2013

Section II – Financial Statement Findings

Since the FY 2012 financial statement audits were issued in July 2013, many deficiencies noted in the FY 2012 financial statement audit continue to exist in FY 2013.

Finding 2013-001: Internal Control over Significant Accounting Procedures

Criteria

An organization should have a system of internal controls, which are suitably designed to allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements of the entity's financial statements on a timely basis. Formal written policies and procedures are in integral part of a system of internal controls. Such policies and procedures are established to ensure integrity over financial reporting, including compliance with provisions of laws, regulations, contracts, and grant agreements that could have a direct and material effect on the financial statements, and to safeguard assets. An effective system of internal controls also needs to operate as designed. Key duties and responsibilities need to be divided or segregated among different people to reduce the risk of error or fraud. This should include separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets. No one individual should control all key aspects of a transaction or event.

Condition, Cause and Effect

Due to the lack of formal policies and procedures over the City's accounting processes and functions related to financial reporting, we identified the following material weaknesses in internal controls during our audit:

1. Capital assets:

The City has not conducted physical inventory of capital assets. A properly designed system of internal controls should establish guidelines for a periodic physical inventory of capital assets, which reconciles physical counts to accounting records to ensure recorded capital assets exist and to safeguard capital assets.

2. Liabilities and cash disbursements:

a. The City does not have formal policies and procedures for determining year-end accruals for accounts payable and other accrued liabilities. Based on our search for unrecorded liabilities through examining subsequent disbursements, we determined that the City under accrued liabilities on some instances and over accrued liabilities in other instances. The net impact was an understatement of liabilities and expenditures/expenses by \$841,433 which included unrecorded payables of \$922,386 in "billed no pay" legal fees, unrecorded payables of \$266,955 in professional fees and an over accrual of payables of \$418,619 in street repairs. Subsequently, the City recorded an adjustment to accrue the liabilities into the proper fiscal year. Proper cutoff at year-end is critical for the accuracy of reporting transactions in the proper period. Without proper cutoff, expenditures/expenses and payables may not be accurately stated.

b. There is lack of segregation of duties within the Finance Department. The cash disbursement system is accessible via a password; however, the password is shared among the various users of the system. New vendors can be established by any user in the system. The approval process is performed verbally among the Finance Director, the Accounting Manager, and the Account Clerk. Lack of documentation over the approval process can cause the City to be at higher risk for inaccurate and unauthorized payments. The City's management expects to correct this during the implementation of their new accounting system.

CITY OF BELL, CALIFORNIA
Schedule of Findings and Questioned Costs (Continued)
For the Fiscal Year Ended June 30, 2013

- c. Per our understanding of internal controls, there was no safeguard over the blank check stock. These deficiencies cause the City to be at a high risk for unauthorized payments. The City's management expects to correct this during the implementation of their new accounting system.
 - d. The City does not reconcile the detail list of deposits payable at year-end reported in sub ledgers to the general ledger account. Accordingly, the balance of deposits payable may not be accurately stated.
 - e. The City also does not have formal process over managing deposits payable. We noted that when a tenant becomes grossly delinquent on rent, the tenant's security deposit will be applied against the back rent. This application of the security deposit against overdue rent is not communicated to the Finance department. As a result, deposits payable was overstated by \$32,000 at June 30, 2013. Without a formal process over deposits payable, the City is at risk to incorrectly recognize revenues as deposits payable.
 - f. The City does not reconcile workers' compensation payments made by the third-party vendor to the general ledger. As a result, there was an approximately \$102,000 discrepancy in workers' compensation payments per the general ledger and the loss-run claim report maintained by the third-party vendor.
3. Cash handling, cash receipts, receivables, bank reconciliations and investments:
- a. The cash receipts system for the City is outdated and constrictive. The system requires that the prior month's transactions be completed, approved and posted before the current month's data can be entered. This delays the recording of the current month's transactions and could result in inaccurate posting of revenues. The City's management expects to correct this during the implementation of their new accounting system.
 - b. The City does not have formal policies and procedures for determining year-end accruals for receivables. As a result, the City did not reduce receivables recorded in fiscal year 2012 in the amount of \$112,000 for payments received in fiscal year 2013, did not record gas tax receivables of \$25,000 for fiscal year 2013, and recorded \$18,000 of reimbursable expenditures as a reduction of deposits payable. Proper cutoff at year-end is critical for the accuracy of reporting transactions in the proper period. Without proper cutoff, revenues and receivables may not be accurately stated.
 - c. The City did not evaluate the collectability of advances to the Successor Agency of approximately \$1,430,000 by the Housing Special Revenue Fund, \$4,252,000 by the General Fund, and \$950,000 by the Retirement Special Fund nor did the City evaluate the collectability of interfund receivables from the General Fund of \$574,000 to the Retirement Special Revenue Fund and \$218,000 to the nonmajor governmental funds. The City subsequently wrote-off advances to the Successor Agency in the amount of \$6,632,000 and reported a loss under a special item. The City also subsequently reclassified approximately \$555,000 of due from the Retirement Special Revenue Fund and approximately \$218,000 of the nonmajor governmental funds to the General Fund to interfund transfers. The City should establish a formal process by which the collectability of advances to and interfund receivables are evaluated at least annually.
 - d. The City did not comply with the policy for accounting for stale dated checks as the City wrote-off stale checks of approximately \$212,000 from the City's bank account without publishing a notice in a newspaper in accordance with California Government Code Sections 50050-50053.
 - e. The City does not evaluate the cash balances in the pool account to reclassify negative cash balances as interfund receivables and payables. Subsequent to our inquiry, the City reclassified approximately \$115,000 of negative cash balances to Due from Successor Agency as of June 30, 2013.
4. Salaries, employee benefits and compensated absences:
The City does not have policies and procedures for the allocation of direct or indirect payroll expenditures and related benefits to City funds and functions. We found various employee payroll

CITY OF BELL, CALIFORNIA
Schedule of Findings and Questioned Costs (Continued)
For the Fiscal Year Ended June 30, 2013

expenditures and the related benefits allocated to various functions and funds based on budget estimates. As a result, expenditures and fund balances reported in the General Fund totaling \$7,500,962, Community Housing Authority Special Revenue Fund totaling \$136,965, Gas Tax Capital Projects Fund totaling \$41,317, and aggregate nonmajor governmental funds totaling \$92,193, as well as functional expenditures reported in the Statement of Activities may not be accurately stated.

5. Transfers in and out:

The City budgeted and made transfers in the amount of \$486,000 from several nonmajor special revenue funds to the General Fund to reimburse the General Fund for administrative expenditures incurred. These transfers are solely based on budget estimates. These budget estimates were developed based on a cost allocation study. However, there was no analysis performed to compare actual expenditures against budget estimates. As a result, expenditures and fund balances reported in the General Fund and aggregate nonmajor governmental funds as well as functional expenditures reported in the Statement of Activities may not be accurately stated. For the financial statements presentation, these amounts were not shown as transfers but as reduction to expenditures and expenditures of the General Fund and aggregate nonmajor governmental funds.

6. Other post-employment benefits (OPEB):

The City did not remove terminated employees from the data sent to the actuary for the OPEB valuation as of July 1, 2012. The inclusion of terminated employees in the data may result in the annual required contribution, the OPEB liability, and the funded status of the OPEB plan as of June 30, 2012, not being accurately stated. Since the City utilized the valuation as of July 1, 2012, as the basis for the current year estimate, the liability as of June 30, 2013, may not be accurately stated. The City should implement a process to review participant data utilized for OPEB estimates.

7. Year-end close process:

The City does not have a documented year-end close process. We found that the process was disorganized and fragmented, which resulted in many audit adjustments to record missed transactions or to correct errors. During our audit we noted that the City did not record entries from the fiscal year 2012 audit of approximately \$182,000 for the General Fund and \$250,000 for the aggregate nonmajor governmental funds.

Recommendation

We recommend that the City review all of its major functions and services and develop, approve, and implement formal written policies and procedures to ensure that the City's system of internal control over financial reporting and the safeguarding of assets is suitably designed. We further recommend that the City take immediate action to develop the policies and procedures related to the material weaknesses noted above. This should include a plan for the year-end closing process, which should detail a step by step guide listing each closing procedure, the individual responsible for the procedure, the time frame in which this procedure will be performed, and the individual who will review and approve the procedure. The City should also perform periodic monitoring reviews to determine that the controls are functioning as intended and that the appropriate controls are in place. In addition, the City should perform periodic risk assessments of the control environment to determine whether changes in policies and procedures are warranted when there are changes in the operating environment.

Management Response and Corrective Action

In November 2013, just weeks before the City receipted \$20.2 million from legal settlements and a land sale - thus completing the economic turnaround of the City of Bell organization -- the Finance

CITY OF BELL, CALIFORNIA
Schedule of Findings and Questioned Costs (Continued)
For the Fiscal Year Ended June 30, 2013

Department published its "Financial Management Policies and Procedures Manual." The Manual penetrates deeply into the internal controls observations above, and Department management is confident that vast improvement will manifest itself within months. As further testament to the City's motivation in regard to continued improvement in all facets of accounting and financial management, the Department added a second accounting position to its authorized personnel count during FY 2013.

The City's antiquated automated accounting system was purchased in 1986, at about the same time that desktop computing was introduced. Most of the system modules are not integrated, thus developing and reconciling year-end accruals for payable and receivables, to cite two examples, is a manual process. The cash receipting system suffers from similar limitations. At this writing, however, the process of implementing a new automated accounting system is well underway. The Department is on target to go parallel in June and go live with the new system on July 14, 2014.

The City plans on being in complete compliance with all controls weaknesses by at least FY 2015.

Responsible parties for corrective action are:

Josh Betta- Finance Director

Hector Vazquez- Accounting Manager

Finding 2013-002: Information Technology (IT) Control Weaknesses

Criteria

IT controls are a critical mechanism for ensuring the integrity of information systems and the reporting of the City's finances.

Condition, Cause and Effect

Since the FY 2012 Single Audit was issued in July 2013, many deficiencies noted in the 2012 Single Audit continue to exist as follows:

1. City lacks central governance of IT strategy and activities

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) standards requires that the top level of governance establish policies and procedures for its entire organization. Additionally, the COSO framework standards encourage that continual monitoring of these controls exist to ensure that the documented controls are actually being adhered to by staff. Such governance is integral to providing direction and establishing an entity's control environment by issuing enterprise-wide policies and procedures and providing oversight over IT activities. No such IT policies or procedures exist within the City.

The City has hired BreaIT to provide IT Management support. BreaIT also meets with the City regularly and is a member of the City's IT Technology Steering Committee (BITS). However, the City has not established IT policies and procedures.

Recommendation

The BITS committee, working in conjunction with BreaIT and the City management, should develop and implement IT policies and procedures governing all areas of IT controls, including hardware, software, user access, vendor activities, and general and application-specific IT security.

CITY OF BELL, CALIFORNIA
Schedule of Findings and Questioned Costs (Continued)
For the Fiscal Year Ended June 30, 2013

Management's Response and Corrective Action

The Finance Department published its "Financial Management Policies and Procedures Manual in November 2013, but only after the difficult work of establishing a balanced FY 2013 budget and the completion of economic settlements and a land sale permanently corrected the economic status of the City of Bell organization. The Manual possesses a plethora of IT policies.

Responsible parties for corrective action are Josh Betta - Finance Director and BreaIT.

2. *No contractual agreements for the City's outsourcing of financial system programming and support*

All services performed by outside entities for the City should be performed under contract. The City did not have any contract with DataStream Business Solutions (DataStream), which provides financial programming and support.

Recommendation

The City should 1) determine, via negotiation and forensic documentation analysis as required, ownership of its financial system software and 2) determine desired contractual terms and conditions for IT support vendors. After identifying their IT needs versus the services being provided by their current contractors, the City should evaluate if it should continue with current vendors or issue new Request For Proposals. The City should subsequently document and execute new contracts with its IT service providers.

Management's Response and Corrective Action

The City issued RFPs for a replacement accounting system in FY 2014, completed all relevant contracts, and is currently implementing the system. Go live date is July 14, 2014. The City continues to from time to time utilize its legacy support with DataStream Business Solutions on a time and materials basis for programming in support of the City's outdated system and for transition planning to the new system.

Responsible parties for corrective action are Josh Betta - Finance Director and BreaIT.

3. *The City does not have an IT Strategic Plan*

Best practices in IT general controls should ensure that strategic IT plans are developed that are aligned with the goals and objectives of the agency as a whole. The City, however, has not developed an IT Strategic Plan. Without a Strategic Plan in place, IT initiatives may not be in alignment with City needs, and the City may find difficulty in justifying required IT expenditures.

Recommendation

The BITS committee working in conjunction with BreaIT and the City management should develop an IT Strategic Plan. This plan should ensure that IT initiatives are aligned with the goals and objectives of the City.

Management's Response and Corrective Action

On April 17, 2012, BreaIT published the "City of Bell Network Analysis." This has formed the basis for a multitude of projects that have been completed, and others that are ongoing. At this writing, the City has released an RFP for consulting IT services. The successful bidder will be expected to develop a new strategic plan with City management.

CITY OF BELL, CALIFORNIA
Schedule of Findings and Questioned Costs (Continued)
For the Fiscal Year Ended June 30, 2013

Responsible parties for corrective action are Josh Betta - Finance Director and BreaIT.

4. *A formal policy and procedure for managing changes or development to the financial system has not been established*

Change control is a formal process used to ensure that changes to a product or system are introduced in a controlled and coordinated manner. Today's computer applications and network infrastructure are extremely complex, and require careful control and testing of changes in order not to disrupt an organization's operations. What seems like an innocuous code change can have disastrous impacts on a downstream process or data integrity. The City, however, has no formal control documentation for how the financial system vendor will manage system changes. Change control, including testing, is currently only based on the institutional knowledge of those involved.

Recommendation

The City should formally document change control processes with its financial systems vendor, including roles, ownership, and responsibility for testing and approvals at both the financial system vendor and within the City.

Management's Response and Corrective Action

Recommendation above is largely impossible with regard to the automated accounting system purchased in 1986. The new accounting system will be in place in July 2014. At that time the Finance Department and the Springbrook (chosen vendor) will establish change controls.

Responsible parties for corrective action are Josh Betta - Finance Director and BreaIT.

5. *The City has an inadequate data backup location for financial system*

Best practices for disaster recovery require that a data back-up location not be susceptible to the same types of disasters (flood, fire, terrorist acts, etc.) as the main location. In lieu of a formal evaluation of the recovery site risks, the site should be at least 20 miles away from the main location. This control should ensure that the City's systems and data can be restored in the event of a disaster. If the primary and back-up locations are geographically close, it increases the risk that both locations are unavailable in the event of a disaster.

The financial system is being backed up every night to an internal tape drive and the Finance Department is responsible for changing the tapes. Tapes are stored in a safe in the Finance Department's storage room. By not having a backup location outside of a 20 mile radius from the City, the City is at an increased risk of losing financial data if a disaster event occurs.

Recommendation

The City should implement offsite retention of back-up tapes of the City's financial system.

Management's Response and Corrective Action

The City established contract with Iron Mountain for offsite retention of backup tapes in October 2013.

Responsible parties for corrective action are Josh Betta – Finance Director and BreaIT.

CITY OF BELL, CALIFORNIA
Schedule of Findings and Questioned Costs (Continued)
For the Fiscal Year Ended June 30, 2013

6. *The City's does not manage or review access role for its network or financial system*

Organizations need to understand, define, and document their authorization roles and administrator access, in order to properly segregate duties between individuals. Undefined authorization roles and administrator access put organizations at risk of financial fraud, waste, and abuse.

The City has implemented department shares that are segregated by Access Control Lists (ACLs). The City, however, has no policies or procedures for review of network access or roles, even when employees are terminated.

Recommendation

BreaIT working in conjunction with the City management should develop access roles and policies and procedures to manage these roles, for both the City's network as well as for the City's financial system. The policies and procedures should address hiring and terminations, review of master or super user activity, and annual review of roles.

Management's Response and Corrective Action

The Finance Department published its "Financial Management Policies and Procedures Manual in November 2013, but only after the difficult work of establishing a balanced FY 2013 budget and the completion of economic settlements and a land sale permanently corrected the economic status of the City of Bell organization. The Manual possesses a plethora of IT policies that will be fine-tuned to the new accounting and finance system.

Responsible parties for corrective action are Josh Betta – Finance Director and BreaIT.

7. *The City's financial system server is not physically secured*

Physical security practices require that the City provide and enforce physical access protection for the facility or room where the financial system resides. This prevents unauthorized tampering or abuse of the physical server hardware. The server housing the City's financial system is fully accessible, in the back of the City administration office, with no secured access. This places the City's financial system server at increased risk of physical damage.

Recommendation

The City should investigate either building a secure server room with full physical access and environmental controls, or moving the financial system to an external shared services location with such controls.

Management's Response and Corrective Action

The new finance system will be physically secured. The existing finance system has not been moved to the new server room because the hardware is old, antiquated equipment that is oversized and there is no space for it.

Responsible parties for corrective action are Josh Betta – Finance Director and BreaIT.

8. *Application password standards need to be strengthened*

General computer controls require that access to the IT network and applications be properly controlled. The City, however, does not have a formal policy regarding complex password standards for financial application access. The City allows passwords of any length or complexity for accessing the financial system. Without formal requirements, password configuration standards may change

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based on administrator preference, rather than adherence to standard industry practices. The chance of someone hacking into a financial system increases considerably when strong passwords are not utilized to protect the system.

Recommendation

The City working in conjunction with BreaIT should develop and implement a formal administrative procedure defining the minimum password configuration requirements for the financial system. For example:

Password history:	12 to 24 passwords remembered
Maximum password age:	30 to 90 days
Minimum password age:	1 to 3 days
Minimum password length:	8 to 14 characters
Password must meet complexity requirements:	Enabled
Store password using reversible encryption:	Disabled
Password complexity:	Minimum of eight characters Contains at least two numeric or special characters

Management's Response and Corrective Action

The Finance Department published its "Financial Management Policies and Procedures Manual" in November 2013, but only after the difficult work of establishing a balanced FY 2013 budget and the completion of economic settlements and a land sale permanently corrected the economic status of the City of Bell organization. The Manual possesses a plethora of IT policies that will be fine-tuned to the new accounting and finance system.

Responsible parties for corrective action are Josh Betta – Finance Director and BreaIT.

9. *Lack of disaster recovery plan*

The City recently implemented a new backup system (Barracuda backup appliance), which sends daily offsite backups of the City's data. However, the City does not have a formal disaster recovery plan. Lack of a disaster recovery plan could result in loss of financial data and business interruptions in the event of a disaster.

Recommendation

The City management working in conjunction with BreaIT should develop and implement a disaster recovery plan that will detail how City functions would operate in the event that the City's IT network and applications are unavailable for an extended period of time, or in the event of a disaster. The disaster recovery plan should include detailed disaster recovery procedures that clearly define the roles and responsibilities of personnel in re-establishing the computer network, financial applications and financial data. Once developed, the plan should be periodically tested to ensure viability. Findings from the testing should be incorporated as updates to the plan.

Management's Response and Corrective Action

A disaster recovery plan will be implemented with the City's new IT consultant in FY 2015.

Responsible parties for corrective action are Josh Betta – Finance Director and BreaIT.

CITY OF BELL, CALIFORNIA
Schedule of Findings and Questioned Costs (Continued)
For the Fiscal Year Ended June 30, 2013

10. No documentation for batch processing procedures for payroll

There is no documentation for batch processing procedures of financial information between the City's financial system and the bank for payroll. Batch processing is currently based on the institutional knowledge of those involved.

Recommendation

The process of managing batch jobs to transfer financial information between the City's financial system and the bank for payroll should be reviewed and controls should be implemented to ensure that job scheduling is appropriately controlled and authorized.

Management's Response and Corrective Action

The Finance Department published its "Financial Management Policies and Procedures Manual in November 2013, but only after the difficult work of establishing a balanced FY 2013 budget and the completion of economic settlements and a land sale permanently corrected the economic status of the City of Bell organization. The Manual possesses a plethora of IT policies that will be fine-tuned to the new accounting and finance system.

Responsible parties for corrective action are Josh Betta – Finance Director and BreAIT.

Finding 2013-003: Noncompliance with Laws, Regulations, Contracts, and Grant Agreements

Criteria

Governmental entities are subject to a variety of laws, regulations, contracts and grant agreements that have a direct and material effect on their financial statements. Accordingly, governmental entities should establish a system of internal control over compliance to ensure compliance with laws, regulations, contracts and grant agreements.

Condition, Cause and Effect

As a result of financial conditions at the City and weaknesses in internal control over compliance, we noted the following instances of noncompliance with bond covenants, budget policy, and other applicable laws and regulations, contracts and grant agreements:

- a. The 2007 Taxable Lease Revenue Bonds and the 2009 Promissory Note are in default as of November 2010 and October 2010 and continue to be in default because the City has defaulted on the payment of principal and interest. Subsequent to year-end, the City has reached legal settlements for both of these defaults, which reduced the outstanding liabilities due on the 2007 Taxable Lease Revenue Bonds and the 2009 Promissory Note to \$28.7 million and \$2.5 million, respectively.
- b. In accordance with the Series 2004 and 2007 General Obligation Bonds' Official Statements, the bonds are general obligation bonds of the City payable from ad valorem taxes. The City has the power and is obligated to annually cause to be levied ad valorem taxes upon all property within the City for the payment of the bonds principal and interest. Pledged property tax revenue recognized during the fiscal year ended June 30, 2013, was \$2.0 million against the total debt service payments of \$2.8 million. The City was not in compliance with bond requirements because it did not assess property taxes sufficient to pay the principal and interest on the bonds for the current year.
- c. The City was not in compliance with reporting provisions of the indentures for the 2003 Tax Allocation Bonds and the 2007 Taxable Lease Revenue Bonds for the fiscal year ended June 30, 2013, because the City's audited financial statements were not issued within 180 days of the year-

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- end. Additionally, the City was not in compliance with continuing disclosure requirements under SEC Rule 15c2-12.
- d. In accordance with the former Agency's 2003 Tax Allocation Refunding Bonds Official Statements, the City is required to provide a written Certificate of the former Agency due by 10/1/13 certifying that Tax Revenues Received by the former Agency through the date of the certificate combined with the amount remaining to be paid on all outstanding obligations of the former Agency will not exceed the maximum amount of tax revenues to be divided and allocated to the former Agency pursuant to the former Agency's Redevelopment Plan.
 - e. The City's charter stipulates that actual expenditures may not exceed budgeted appropriations at the department level within the General Fund and at the fund level for other funds without City Council approval. The City's actual General Fund expenditures exceeded the General Fund budget appropriations by a total of \$7.6 million for 12 departments. The City's actual Retirement Special Revenue Fund expenditures exceeded the Retirement Special Revenue Fund budget appropriations by a total of \$1.0 million.
 - f. The City purchased 5 years of Additional Retirement Service Credits (ARSC) on behalf of the former CAO, the former ACAO, 5 former council members and 4 former department heads between 2005 and 2009 using City funds with an approximate cost of \$1,000,000. CalPERS has made a determination that the purchase of ARSC using City funds for one of the former department heads was not lawful under the Public Employee Retirement Law. In January 2013, the former CAO waived the purchased of ARSC. However, the determination on the remaining purchases of ARSC is pending.
 - g. The State Controller's Office (SCO) review of the former Agency for the period July 1, 2000, through June 30, 2011, identified that the former Agency failed to comply with Health and Safety Code requirements in several areas and inappropriately charged the former Agency funds in the amount of \$664,834. This is pending final resolution.
 - h. The SCO's audit of the City's administrative and internal accounting system for the period July 1, 2008, through June 30, 2010, identified that the City improperly increased assessments of the Sanitation and Sewerage Assessment System and business licenses taxes. The SCO estimated the amount of overcharge is \$621,737 and \$2,105,441 for assessment of the Sanitation and Sewerage Assessment System and business licenses taxes, respectively. On a follow-up review by the SCO dated May 22, 2013, the SCO estimated the amount of overcharge is \$822,000 and \$2,355,000 for assessment of the Sanitation and Sewerage Assessment System and business licenses taxes, respectively. This is pending final resolution.

Recommendation

We recommend that the City develop, document, and implement policies and procedures to ensure the City's compliance with applicable laws, regulations, contracts and grant agreements. We also recommend that the City's budget process include a mid-year and year-end comparison of budget and actual amounts to allow City Council an opportunity to take any action deemed necessary to ensure compliance with local laws and regulations governing budget appropriations and related expenditures. In addition, we recommend that the City work with the SCO and CalPERS to resolve pending issues.

Management's Response and Corrective Action

Current management and elected officials are well aware of the criminal acts and improprieties of former management and City Council. The City of Bell's permanent administration, in place since October 2012, is committed to ensuring that there is proper documentation, authority, approvals and adherence to the rules and policies for the future City of Bell.

CITY OF BELL, CALIFORNIA
Schedule of Findings and Questioned Costs (Continued)
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The two-year period following the Bell scandal of 2010 found the Finance Department unable and unequipped to meet the transactional workload of a viable municipal finance department. Key personnel transitioned from the workforce, staffing was reduced, and much of the Department's attention was directed to meeting the requirements of outside audit and investigation and public records requests. The City is quite aware of the existing weaknesses and the new permanent management team, in place since October 2012, is committed to work out all of these issues. Substantial compliance has been achieved in FY 2013 and FY 2014.

Responsible parties for corrective action are the permanently appointed City of Bell executive management team.

Section III – Federal Award Findings and Questioned Costs

None noted.

CITY OF BELL, CALIFORNIA
Schedule of Prior Year Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2013

Finding 2012-01: Internal Control over Significant Accounting Procedures

Condition, Cause and Effect

Due to the lack of formal policies and procedures over the City's accounting processes and functions related to financial reporting, we identified the following material weaknesses in internal controls during our audit:

1. Capital assets:
 - a. The City does not have a formal written capitalization policy for financial reporting or grant compliance. Without a formal capitalization policy, it is possible that capital asset purchases of either individually, or group purchases of similar assets, significant amounts are not being recorded as capital assets.
 - b. The City has not conducted a physical inventory of capital assets. A properly designed system of internal controls should establish guidelines for a periodic physical inventory of capital assets, which reconciles physical counts to accounting records to ensure recorded capital assets exist and to safeguard capital assets.
2. Liabilities and cash disbursements:
 - a. The City does not have formal policies and procedures for determining year-end accruals for accounts payable and other accrued liabilities. Based on our search for unrecorded liabilities through examining subsequent disbursements, we determined that the City under accrued liabilities by \$49 thousand. Subsequently, the City recorded an adjustment to accrue the liabilities. Proper cutoff at year-end is critical for the accuracy of reporting transactions in the proper period. Without proper cutoff, expenditures/expenses and payables may not be accurately stated.
 - b. There is lack of segregation of duties within the Finance Department. The cash disbursement system is accessible via a password; however, the password is shared among the various users of the system. New vendors can be established by any user in the system. The approval process is performed verbally among the City Manager, the Accounting Manager, and the Account Clerk. Lack of documentation over the approval process can cause the City to be at higher risk for inaccurate and unauthorized payments.
 - c. The City lacks adequate internal control over recording wire transfers and checks. We found instances where wire transfers and manual checks were not posted in a timely manner and were not reported in the warrant register. We also noted several gaps in the sequence of wire transfers and check numbers. The gaps occur because the City's wire transfers are not consistently recorded in the list. In addition, the City has no formal process to ensure there are no check numbers skipped when utilizing checks. The lack of a formal process can cause the City to be at a higher risk for inaccurate and unauthorized payments.
 - d. There was no safeguard over the blank check stock or over the check signature plate. These deficiencies cause the City to be at a high risk for unauthorized payments.
 - e. The City does not reconcile the detail list of deposits payable at year-end reported in subledgers to the general ledger account. Accordingly, the balance of deposits payable may not be accurately stated.
 - f. There is no formal process over managing deposits payable. We noted that during FY 2012, the Finance Department reduced deposits payable related to the Police Department's unclaimed money by \$80,447 and recorded it as revenue less than three years after it was found without any verification with the Police Department. The City's action to recognize unclaimed money as revenues is not in accordance with the *Bell Police Department Policy Manual* paragraph 804.7.2 (Manual). The Manual states "If found or seized money is no longer required as evidence and remains unclaimed after 3

CITY OF BELL, CALIFORNIA
Schedule of Prior Year Findings and Questioned Costs (Continued)
For the Fiscal Year Ended June 30, 2013

years, the Department shall cause a notice to publish each week for a period of two consecutive weeks in a local newspaper of general circulation. Such notice shall state the amount of money, the fund in which it is held and that the money will become the property of the agency on a designated date not less than 45 days and not more than 60 days after the first publication." Without a formal process over deposits payable, the City is at risk for incorrectly recognizing deposits payable as revenues.

- g. The City was unable to locate supporting documentation for two accounts payable items selected for testing totaling \$50 thousand. Due to the lack of documentation, we could not determine if these were valid expenditures and accounts payable were properly accrued for FY 2012.

3. **Contracts and procurement:**

The City does not have procurement policies and procedures relating to issuing and entering into contracts with vendors. During our audit, we found instances where the City failed to competitively bid projects, there was no contract on file for the vendor, and/or many of the existing contracts had expired.

4. **Cash handling, cash receipts, receivables, bank reconciliations and investments:**

- a. The cash receipts system for the City is outdated and constrictive. The system requires that the prior month's transactions be completed, approved and posted before the current month's data can be entered. This delays the recording of the current month's transactions and resulted in inaccurate posting of revenues. Utility users taxes and franchise taxes revenues in the amounts of \$134 thousand were not posted to the proper revenue accounts. In addition, the delays resulted in lost or misplaced documentation, which supports the cash receipt transaction and the recording thereof.
- b. Various departments within the City handle the cash receipts process differently. The City does not have policies and procedures for cash handling for all City functions and departments. Such policies and procedures should address segregation of duties and include a thorough review of all receipts and their recording.
- c. The City does not have formal policies and procedures for determining year-end accruals for receivables. As a result, the City adjusted the accounts receivable listing several times during the audit. Proper cutoff at year-end is critical for the accuracy of reporting transactions in the proper period. Without proper cutoff, revenues and receivables may not be accurately stated.
- d. We noted that bank account reconciliations were not performed in a timely manner. The bank account reconciliations for fiscal year 2012 were not completed until June 2013. As a result, the overpayment of \$244 thousand to the California Public Employees' Retirement System (CalPERS) was not discovered until June 2013. In addition, the delays resulted in lost or misplaced documentation that supports the bank reconciliations. Bank reconciliations should be performed on all bank accounts in a timely manner after month-end. Any discrepancies should be investigated and all errors and omissions should be posted to the general ledger.
- e. There is no policy or procedure for accounting for stale dated checks. As a result, there were numerous stale dated checks with total values of approximately \$47 thousand and \$10 thousand carried as outstanding checks in the City's bank account reconciliations and the Bell Successor Agency's bank account reconciliations, respectively.
- f. The Community Services Department used cash received from snack bar sales instead of petty cash to purchase supplies for the snack bar. Lack of control over cash receipts results in increased risk of loss of cash.
- g. In prior years, the City used property management companies to manage operations of the City's rental properties. As part of these operations, these property management companies administered bank accounts on behalf of the City. Beginning with fiscal year 2011, the City manages the rental properties internally. The balance outstanding at June 30, 2012 per the City's general ledger was \$5 thousand. However, since the City did not obtain access to these bank accounts, the accuracy of balance outstanding cannot be determined.

CITY OF BELL, CALIFORNIA
Schedule of Prior Year Findings and Questioned Costs (Continued)
For the Fiscal Year Ended June 30, 2013

5. **Business license revenue:**
The City does not have any monitoring system in place to confirm that the amount of business license fee paid is the correct amount due.
6. **Salaries, employee benefits and compensated absences:**
 - a. Adequate internal controls are not in place to ensure employees did not accrue or take vacation and sick leave in excess of the cap. At year-end, the Finance Department reviews a summary of accrued vacation and sick leave and makes adjustments for those employees who have accrual amounts in excess of the cap. However, this control does not ensure that during the year employees may have accrued additional hours, which exceeded the cap, and took vacation and sick leave in excess of the cap.
 - b. The City does not have policies and procedures for the allocation of direct or indirect payroll expenditures and related benefits to City funds and functions. We found various employee payroll expenditures and the related benefits allocated to various functions and funds based on budget estimates. As a result, expenditures and fund balances reported in the General Fund and nonmajor governmental funds as well as functional expenditures reported in the Statement of Activities may not be accurately stated.
7. **Administrative expenditures:**
The City budgeted and allocated \$305 thousand of the General Fund's administrative expenditures to several nonmajor special revenue funds. These allocations are solely based on budget estimates. As a result, expenditures and fund balances reported in the General Fund and nonmajor governmental funds as well as functional expenses reported in the Statement of Activities may not be accurately stated.
8. **Other post-employment benefits (OPEB):**
The City did not remove terminated employees not eligible to receive benefits from the data sent to the actuary for the OPEB valuation as of July 1, 2012. The inclusion of such terminated employees in the data results in errors in the estimates of the annual required contribution, the OPEB liability, and the funded status of the OPEB plan for FY 2012. The City should implement a process to review participant data utilized by the actuary for OPEB estimates.
9. **Journal entries:**
 - a. The City does not have internal controls in place to ensure journal entries are entered in sequence and not duplicative. Without having proper control over the journal entry process, there is an increased risk that the financial statements may not be accurately stated.
 - b. During our review of journal entries, we noted supporting documentation was not attached to 181 journal entries in the amount of approximately \$11 million.
10. **Year-end close process:**
The City does not have a documented year-end close process. We found that the process was disorganized and fragmented, which resulted in many audit adjustments to record missed transactions or to correct errors. There should be a year-end plan, identifying year-end closing deliverables as well as the responsible individuals, which is consistently followed each year-end.
11. **Pass-through agreements:**
Bell Community Redevelopment Agency (Agency) has several pass-through agreements to distribute incremental property taxes to the County of Los Angeles and other special districts, which are identified on the property tax remittance advices from the County; however, the City was unable to locate or identify current agreements.

CITY OF BELL, CALIFORNIA
Schedule of Prior Year Findings and Questioned Costs (Continued)
For the Fiscal Year Ended June 30, 2013

Recommendation

We recommend that the City review all of its major functions and services and develop, approve and implement formal written policies and procedures to ensure that the City's system of internal control over financial reporting and the safeguarding of assets is suitably designed. We further recommend that the City take immediate action to develop the policies and procedures related to the material weaknesses noted above. The City should perform periodic monitoring reviews to determine that the controls are functioning as intended and that the appropriate controls are in place. The City should also perform periodic risk assessments of the control environment to determine whether changes in policies and procedures are warranted when there are changes in the operating environment.

We further recommend that the City collect and review all contracts and agreements to determine their validity and take corrective action as necessary.

Status of Corrective Action

The corrective action was partially implemented during the 2012-13 fiscal year as the 2011-12 audit was not concluded until after the 2012-13 fiscal year had been completed. See current year Finding 2013-001.

Finding 2012-02: Information Technology (IT) Control Weaknesses

Condition, Cause and Effect

Since the FY 2011 and 2012 financial statement audits were performed concurrently and issued approximately one month apart, many deficiencies noted in the FY 2011 financial statement audit continue to exist in FY 2012.

1. *City lacks central governance of IT strategy and activities*

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) standards requires that the top level of governance establish policies and procedures for its entire organization. Additionally, the COSO framework standards encourage that continual monitoring of these controls exist to ensure that the documented controls are actually being adhered to by staff. Such governance is integral to providing direction and establishing an entity's control environment by issuing enterprise-wide policies and procedures and providing oversight over IT activities. No such IT policies or procedures exist within the City.

The City has hired BreaIT to provide IT Management support. BreaIT also meets with the City regularly and is a member of the City's IT Technology Steering Committee (BITS). However, the City has not established IT policies and procedures.

Recommendation

The BITS committee, working in conjunction with BreaIT and the City management, should develop and implement IT policies and procedures governing all areas of IT controls, including hardware, software, user access, vendor activities, and general and application-specific IT security.

Status of Corrective Action

Not implemented. See current year Finding 2013-002.

CITY OF BELL, CALIFORNIA
Schedule of Prior Year Findings and Questioned Costs (Continued)
For the Fiscal Year Ended June 30, 2013

2. *No contractual agreements for the City's outsourcing of financial system programming and support*

All services performed by outside entities for the City should be performed under contract. The City did not have any contract with DataStream Business Solutions (DataStream), which provides financial programming and support.

Recommendation

The City should 1) determine, via negotiation and forensic documentation analysis as required, ownership of its financial system software and 2) determine desired contractual terms and conditions for IT support vendors. After identifying their IT needs versus the services being provided by their current contractors, the City should evaluate if it should continue with current vendors or issue new Request For Proposals. The City should subsequently document and execute new contracts with its IT service providers.

Status of Corrective Action

Not implemented. See current year Finding 2013-002.

3. *The City does not have an IT Strategic Plan*

Best practices in IT general controls should ensure that strategic IT plans are developed that are aligned with the goals and objectives of the agency as a whole. The City, however, has not developed an IT Strategic Plan. Without a Strategic Plan in place, IT initiatives may not be in alignment with City needs, and the City may find difficulty in justifying required IT expenditures.

Recommendation

The BITS committee working in conjunction with BreaIT and the City management should develop an IT Strategic Plan. This plan should ensure that IT initiatives are aligned with the goals and objectives of the City.

Status of Corrective Action

Not implemented. See current year Finding 2013-002.

4. *A formal policy and procedure for managing changes or development to the financial system has not been established*

Change control is a formal process used to ensure that changes to a product or system are introduced in a controlled and coordinated manner. Today's computer applications and network infrastructure are extremely complex, and require careful control and testing of changes in order not to disrupt an organization's operations. What seems like an innocuous code change can have disastrous impacts on a downstream process or data integrity. The City, however, has no formal control documentation for how the financial system vendor will manage system changes. Change control, including testing, is currently only based on the institutional knowledge of those involved.

Recommendation

The City should formally document change control processes with its financial systems vendor, including roles, ownership, and responsibility for testing and approvals at both the financial system vendor and within the City.

Status of Corrective Action

Not implemented. See current year Finding 2013-002.

CITY OF BELL, CALIFORNIA
Schedule of Prior Year Findings and Questioned Costs (Continued)
For the Fiscal Year Ended June 30, 2013

5. *The City has an inadequate data backup location*

Best practices for disaster recovery require that a data back-up location not be susceptible to the same types of disasters (flood, fire, terrorist acts, etc.) as the main location. In lieu of a formal evaluation of the recovery site risks, the site should be at least 20 miles away from the main location. This control should ensure that the City's systems and data can be restored in the event of a disaster. If the primary and back-up locations are geographically close, it increases the risk that both locations are unavailable in the event of a disaster.

Currently, the City stores the backup tape in the Finance Department's storage room. When performing system upgrades (every one or two years), staff will send a backup copy to DataStream (the vendor supporting the City's financial system). By not having a backup location outside of a 20 mile radius from the City, the City is at an increased risk of losing financial data if a disaster event occurs.

Recommendation

The City should implement offsite retention of back-up tapes of the City's financial system.

Status of Corrective Action

Not implemented. See current year Finding 2013-002.

6. *The City's does not manage or review access role for its network or financial system*

Organizations need to understand, define, and document their authorization roles and administrator access, in order to properly segregate duties between individuals. Undefined authorization roles and administrator access put organizations at risk of financial fraud, waste, and abuse.

The City's data structure is not consolidated and separated according to department. Users have access to all non-financial City data. Users are not assigned proper rights and security policies via group policy. Only accounting employees have access to the financial system.

The financial system does have generic access areas, (General Ledger, Cash Receipts, Accounts Payable, Payroll, Fixed Assets, Business Licensing), and Finance Department employees have access to one or more of these areas. The City, however, has not documented formal roles or role assignments. The City also has no policies or procedures for review of network access or roles, even when employees are terminated.

An employee terminated in November 2010 still has a logon to the City's financial system. We were unable to verify if this previous employee still has access to the City network, as neither City personnel nor the City's network support vendor could provide a list of those individuals with VPN access to the City network. This lack of roles and role enforcement puts the City at greatly increased risk of unauthorized individuals accessing the City network or financial system.

Recommendation

BreaIT working in conjunction with the City management should develop access roles and policies and procedures to manage these roles, for both the City's network as well as for the City's financial system. The policies and procedures should address hiring and terminations, review of master or super user activity, and annual review of roles.

CITY OF BELL, CALIFORNIA
Schedule of Prior Year Findings and Questioned Costs (Continued)
For the Fiscal Year Ended June 30, 2013

Status of Corrective Action

Partially implemented. See current year Finding 2013-002.

7. *The City's financial system server is not physically secured*

Physical security practices require that the City provide and enforce physical access protection for the facility or room where the financial system resides. This prevents unauthorized tampering or abuse of the physical server hardware. The server housing the City's financial system is out in the open, in the back of the City administration office, with no secured access. This places the City's financial system server at increased risk of physical damage.

Recommendation

In the short-term, the City should move the financial server to the telecom room, where it will potentially be behind a locked door. For the long-term, the City should investigate either building a secure server room with full physical access and environmental controls, or moving the financial system to an external shared services location with such controls.

Status of Corrective Action

Not implemented. See current year Finding 2013-002.

8. *Application password standards need to be strengthened*

General computer controls require that access to the IT network and applications be properly controlled. The City, however, does not have a formal policy regarding complex password standards for financial application access. The City allows passwords of any length or complexity for accessing the financial system. Without formal requirements, password configuration standards may change based on administrator preference, rather than adherence to standard industry practices. The chance of someone hacking into a financial system increases considerably when strong passwords are not utilized to protect the system.

Recommendation

The City working in conjunction with Brea IT should develop and implement a formal administrative procedure defining the minimum password configuration requirements for the financial system. For example:

Password history:	12 to 24 passwords remembered
Maximum password age:	30 to 90 days
Minimum password age:	1 to 3 days
Minimum password length:	8 to 14 characters
Password must meet complexity requirements:	Enabled
Store password using reversible encryption:	Disabled
Password complexity:	Minimum of eight characters Contains at least two numeric or special characters

Status of Corrective Action

Not implemented. See current year Finding 2013-002.

CITY OF BELL, CALIFORNIA
Schedule of Prior Year Findings and Questioned Costs (Continued)
For the Fiscal Year Ended June 30, 2013

9. *Lack of disaster recovery plan*

The City does not have a formal disaster recovery plan. Lack of a disaster recovery plan could result in loss of financial data and business interruptions in the event of a disaster.

Recommendation

The City management working in conjunction with BreaIT should develop and implement a disaster recovery plan that will detail how City functions would operate in the event that the City's IT network and applications are unavailable for an extended period of time, or in the event of a disaster. The disaster recovery plan should include detailed disaster recovery procedures that clearly define the roles and responsibilities of personnel in re-establishing the computer network, financial applications and financial data. Once developed, the plan should be periodically tested to ensure viability. Findings from the testing should be incorporated as updates to the plan.

Status of Corrective Action

Not implemented. See current year Finding 2013-002.

10. *No documentation for batch processing procedures for payroll*

There is no documentation for batch processing procedures of financial information between the City's financial system and the bank for payroll. Batch processing is currently based on the institutional knowledge of those involved.

Recommendation

The process of managing batch jobs to transfer financial information between the City's financial system and the bank for payroll should be reviewed and controls should be implemented to ensure that job scheduling is appropriately controlled and authorized.

Status of Corrective Action

Not implemented. See current year Finding 2013-002.

Finding 2012-03: Filing of Single Audit Report

Condition, Cause and Effect

The City did not submit the Single Audit Reporting Package (the City's audited financial statements and single audit reports) for the year ended June 30, 2012 within nine months after the end of audit period or March 31, 2013. Due to highly publicized problems at the City and turnover in financial management, the City was not able to complete the audit of its annual financial statements and federal award programs for the fiscal year ended June 30, 2012 on a timely basis. Failure to submit the required Single Audit Reporting Package timely automatically results in the City not qualifying for low risk auditee status for next year's single audit.

Recommendation

We recommend the City develop, document, and implement policies and procedures for timely submission of the Single Audit Reporting Package.

Status of Corrective Action

Implemented

CITY OF BELL, CALIFORNIA
Schedule of Prior Year Findings and Questioned Costs (Continued)
For the Fiscal Year Ended June 30, 2013

Finding 2012-04: Noncompliance with Laws, Regulations, Contracts, and Grant Agreements

Condition, Cause and Effect

As a result of financial conditions at the City and weaknesses in internal control over compliance, we noted the following instances of noncompliance with bond covenants, budget policy, and other applicable laws and regulations, contracts and grant agreements:

- a. The 2007 Taxable Lease Revenue Bonds and the 2009 Promissory Note are in default as of November 2010 and October 2010 and continue to be in default because the City has defaulted on the payment of principal and interest. The outstanding principal due on the 2007 Taxable Lease Revenue Bonds and the 2009 Promissory Note were \$35.0 million and \$4.4 million, respectively.
- b. In accordance with the Series 2004 and 2007 General Obligation Bonds' Official Statements, the bonds are general obligation bonds of the City payable from ad valorem taxes. The City has the power and is obligated to annually cause to be levied ad valorem taxes upon all property within the City for the payment of the bonds principal and interest. Pledged special assessments revenue recognized during the fiscal year ended June 30, 2012 was \$2.1 million against the total debt service payments of \$2.7 million. The City was not in compliance with bond requirements because it did not assess property taxes sufficient to pay the principal and interest on the bonds for the current year.
- c. The City was not in compliance with reporting provisions of the indentures for all bonds and certificates of participation for the fiscal year ended June 30, 2012 because the City's audited financial statements were not issued within 90 to 240 days of the year-end. Additionally, the City was not in compliance with continuing disclosure requirements under SEC Rule 15c2-12.
- d. In accordance with the Community Redevelopment Agency (Agency) 2003 Tax Allocation Refunding Bonds Official Statement, the City is required to provide a written Certificate of the Agency due by 10/1/12 certifying that Tax Revenues Received by the Agency through the date of the certificate combined with the amount remaining to be paid on all outstanding obligations of the Agency will not exceed the maximum amount of tax revenues to be divided and allocated to the Agency pursuant to the Agency's Redevelopment Plan.
- e. The City's charter stipulates that actual expenditures may not exceed budgeted appropriations at the department level without City Council approval. The City's actual General Fund expenditures exceeded the General Fund budget appropriations by a total of \$1.2 million for 17 departments and 1 non-departmental function. The City's actual Retirement Special Revenue Fund expenditures exceeded the fund's general government budget appropriations by \$60 thousand.
- f. The City purchased five (5) years of Additional Retirement Service Credits (ARSC) on behalf of the former CAO, the former ACAO, five (5) former council members and four (4) former department heads between 2005 and 2009 using City funds with an approximate cost of \$1,000,000. CalPERS has made a determination that the purchase of ARSC using City funds for one of the former department heads was not lawful under the Public Employee Retirement Law. In January 2013, the former CAO waived the purchased of ARSC. On June 19, 2013, the CalPERS Board voted to reverse the administrative law judge's ruling that the former ACAO was entitled to ARSC and to make such decision precedential - meaning it will have binding effect on the remaining 9 appeals. Unless this decision is overturned by the courts, the City will likely receive a credit on the purchase of ARSC. The State Controller's Office (SCO) review of the Agency for the period July 1, 2000 through June 30, 2010 identified that the Agency failed to comply with Health and Safety Code requirements in several areas and inappropriately charged Agency funds in the amount of \$664,834. This is pending final resolution.
- g. The Office of Grants and Local Services of the California Department of Parks and Recreation audit issued on April 22, 2011 identified and requested a return of \$481,716 in grant funds due to

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- alleged violation of the competitive bidding process and conflict of interest. Subsequently, the City repaid \$182,556 to the Office of Grants and Local Services of the California Department of Parks and Recreation in August 2012. The remaining amount is pending final resolution from the Office of Grants and Local Services of the California Department of Parks and Recreation.
- h. The SCO's audit of the City's administrative and internal accounting system for the period July 1, 2008 through June 30, 2010 identified that the City improperly increased assessments of the Sanitation and Sewerage Assessment System and business licenses taxes. The SCO estimated the amount of overcharge is \$621,737 and \$2,105,441 for assessment of the Sanitation and Sewerage Assessment System and business licenses taxes, respectively. On a follow-up review by the SCO dated May 22, 2013, the SCO estimated the amount of overcharge is \$822,000 and \$2,355,000 for assessment of the Sanitation and Sewerage Assessment System and business licenses taxes, respectively. This is pending final resolution.
 - i. Per the City's investment policy for fiscal year 2010-11, "A report will be submitted to City Council not later than thirty (30) days after the end of the quarter, which shows the type of investment, institution, cost, par, market value, interest rate, date of maturity, and source of market value for all investments of more than twelve months." The City did not submit any treasury report for the fiscal year ended June 30, 2012 to the City Council resulting in non-compliance with the City's investment policy.
 - j. The City Council adopted Resolution No. 2010-18 and Resolution 2013-01 approving the investment policy for fiscal years July 1, 2010 to June 30, 2011 and July 1, 2012 to June 30, 2013. However, there was no resolution adopted for the investment policy for fiscal year July 1, 2011 to June 30, 2012. The City followed the investment policy adopted for FY 2011 during FY 2012.

Recommendation

We recommend that the City develop, document, and implement policies and procedures to ensure the City's compliance with applicable laws, regulations, contracts and grant agreements. We also recommend that the City's budget process include a mid-year and year-end comparison of budget and actual amounts to allow City Council an opportunity to take any action deemed necessary to ensure compliance with local laws and regulations governing budget appropriations and related expenditures. In addition, we recommend that the City work with the SCO, CalPERS and the Office of Grants and Local Services of the California Department of Parks and Recreation to resolve pending issues.

Status of Corrective Action

The corrective action was partially implemented during the 2012-13 fiscal year as the 2011-12 audit was not concluded until after the 2012-13 fiscal year had been completed. See current year Finding 2013-003.

Finding 2012-05: Schedule of Expenditures of Federal Awards (SEFA) Preparation

Condition, Cause and Effect

Upon review of the Schedule of Expenditures of Federal Award (SEFA) provided by the City, we noted that the City did not update program identification numbers and report the correct Catalog Federal Domestic Assistance (CFDA) numbers. We also noted federal expenditures were not accurately reported in the SEFA. The City included expenditures not reimbursable or financed by federal grants in the SEFA. Failure to prepare an accurate and complete SEFA resulted in a noncompliance with OMB Circular No. A-133 Subpart C § ___ .300 (a) and (d).

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Recommendation

We recommend the City develop, document, and implement policies and procedures to ensure the SEFA is prepared accurately and completely in accordance with OMB Circular No. A-133 Subpart C Section .300 (a) and (d).

Status of Corrective Action

Implemented

Reference Number:	2012-06
Federal Program Title:	Community Development Block Grant - Entitlement Grants Cluster: Community Development Block Grants/Entitlement Grants (CDBG), Community Development Block Grant ARRA Entitlement Grants (CDBG-R) (Recovery Act Funded)
Federal Catalog Number:	14.218, 14.253
Federal Agency:	Department of Housing and Urban Development
Pass-Through Entity:	Community Development Commission of the County of Los Angeles
Federal Award Number and Year:	D96061-11, D96064-11, D96065-11, 600511-11, D96069-11, D99075-11 – 2012 REC088-09 – 2010
Category of Finding:	Procurement and Suspension and Debarment

Condition

The City is required to conduct a verification check to ensure that they do not contract with listed parties in violation OMB A-102. Upon review of the procurement files, we noted that the documentation of the check against the List of Parties Excluded (EPLS) from Federal Procurement for the selected vendors was not placed in the files when the checks were first performed. The City reperformed the check against the EPLS from Federal Procurement after the contracts were completed to comply with the auditor's recommendation that the files should retain documentation of the check of the vendors against the EPLS from Federal Procurement.

Recommendation

We recommend that the City enforce established policies and procedures over the retention of procurement records to ensure that procurement procedures are in accordance with OMB A-102 and the grant requirements.

Status of Corrective Action

Implemented

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Reference Number: 2012-07
Federal Program Title: Community Development Block Grants – Entitlement Grants Cluster: Community Development Block Grants/Entitlement Grants (CDBG)
Federal Catalog Number: 14.218
Federal Agency: Department of Housing and Urban Development
Pass-Through Entity: Community Development Commission of the County of Los Angeles
Federal Award Number and Year: D96061-11, D96064-11, D96065-11, 600511-11, D96069-11, D99075-11 - 2012
Category of Finding: Allowable Costs/Cost Principles - Lack of Supporting Documents and Payroll Expenditures Not Allowable

Condition

Our examination of payroll records identified payroll costs that were incorrectly charged to the CDBG program.

Recommendation

To ensure that the City is in compliance with the OMB A-87 and A-133§__.300(b), we recommend that the City develop and implement policies and procedures to ensure:

- Vacation or sick time is allocated to the CDGB program based on hours worked per timesheets.
- Payroll costs charged to the CDBG program are properly supported by timesheets and approved pay rates per personnel files.

Status of Corrective Action

Implemented

Reference Number: 2012-08
Federal Program Title: Community Development Block Grants – Entitlement Grants Cluster: Community Development Block Grants/Entitlement Grants (CDBG)
Federal Catalog Number: 14.218
Pass-Through Entity: Community Development Commission of the County of Los Angeles
Federal Award Number and Year: D96061-11, D96064-11, D96065-11, 600511-11, D96069-11, D99075-11 -2012
Category of Finding: Allowable Costs/Cost Principles – No Support for Allocation of Expenditures

Condition

Our examination of nonpayroll expenditures identified that the City was not consistent in the allocation of vehicle maintenance and computer support services expenditures to the CDBG program throughout the year.

Recommendation

To ensure that the City is in compliance with OMB A-87 and A-133§__.300(b), we recommend that the City develop and implement policies and procedures to ensure that vehicle maintenance and computer

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support services expenditures charged to the CDBG program are properly allocated between the CDBG program and the City's other programs that utilize the vehicles and computer support services.

Status of Corrective Action

Implemented

Finding 2011-01: Internal Control over Significant Accounting Procedures

Condition, Cause and Effect

Due to the lack of formal policies and procedures over the City's accounting processes and functions related to financial reporting, we identified the following material weaknesses in internal controls during our audit:

1. Capital assets:
 - a. Construction in progress (CIP) included the costs of abandoned projects at fiscal year-end. As a result, the CIP was overstated by \$645 thousand. Subsequently, the City recorded an adjustment to the CIP.
 - b. The City does not have a formal written capitalization policy for financial reporting or grant compliance. Without a formal capitalization policy, it is possible that capital asset purchases of either individually, or group purchases of similar assets, significant amounts are not being recorded as capital assets.
 - c. The City has not conducted physical inventory of capital assets. A properly designed system of internal controls should establish guidelines for a periodic physical inventory of capital assets, which reconciles physical counts to accounting records to ensure recorded capital assets exist and to safeguard capital assets.
 - d. Some of additions to the CIP subjected to our testing did not have proper supporting documentation.
2. Liabilities and cash disbursements:
 - a. The City does not have formal policies and procedures for determining year-end accruals for accounts payable and other accrued liabilities. Based on our search for unrecorded liabilities through examining subsequent disbursements, we determined that the City under accrued liabilities by \$231 thousand. Subsequently, the City recorded an adjustment to accrue the liabilities. Proper cutoff at year-end is critical for the accuracy of reporting transactions in the proper period. Without proper cutoff, expenditures/expenses and payables may not be accurately stated.
 - b. There is lack of segregation of duties within the Finance Department. The cash disbursement system is accessible via a password; however, the password is shared among the various users of the system. New vendors can be established by any user in the system. The approval process is performed verbally. Lack of documentation over the approval process can cause the City to be at higher risk for inaccurate and unauthorized payments.
 - c. There is no formal procedure for preparing and approving cash disbursement journal entries. We found instances where wire transfers and manual checks were not posted in a timely manner and were not reported in the warrant register.
 - d. There was no safeguard over the blank check stock or over the check signature plate. These deficiencies cause the City to be at a high risk for unauthorized payments.
 - e. The City does not reconcile the detail list of deposits payable at year-end reported in subledgers to the general ledger account. Accordingly, the balance of deposits payable may not be accurately stated.
3. Contracts and procurement:
 - a. The City does not have procurement policies and procedures relating to issuing and entering into contracts with vendors. During our audit, we found instances where the City failed to competitively

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- bid projects, there was no contract on file for the vendor, and/or many of the existing contracts had expired.
- b. The retention amount on all construction related contracts was not recorded properly in the general ledger. The retention amount was withheld during the life of the contract; however, the liability related to the retention amount was not recorded until the completion of the project. This resulted in liabilities being understated by the amount of the cumulative retention payable of \$26 thousand at fiscal year-end. Subsequently, the City recorded an adjustment to accrue the retention payable. The lack of policies and procedures for recording retentions has created an inconsistency in the handling of retentions from vendor to vendor.
4. Short-term interfund receivables/payables between funds:
The City has not properly recorded short-term interfund receivables or payables among the funds. During our audit, we determined that short-term interfund receivables or payables in the amount of \$245 thousand should have been recorded as long-term advances between the funds because repayments were not expected within one year. Subsequently, the City recorded an adjustment to reclassify short-term interfund receivables or payables to long-term advances.
5. Cash handling, cash receipts, receivables, bank reconciliations and investments:
- a. The cash receipts system for the City is outdated and constrictive. The system requires that the prior month's transactions be completed, approved and posted before the current month's data can be entered. This delays the recording of the current month's transactions. In addition, the delays resulted in lost or misplaced documentation, which supports the cash receipt transaction and the recording thereof.
 - b. Various departments within the City handle the cash receipts process differently. The City does not have policies and procedures for cash handling for all City functions and departments. Such policies and procedures should address segregation of duties and include a thorough review of all receipts and their recording.
 - c. The City does not have formal policies and procedures for determining year-end accruals for receivables. Utility users taxes received within 60 days after year-end were not properly accrued resulting in under accrued receivables by approximately \$54 thousand. Subsequently, the City recorded an adjustment to accrue the receivables. Proper cutoff at year-end is critical for the accuracy of reporting transactions in the proper period. Without proper cutoff, revenues and receivables may not be accurately stated.
 - d. We noted that bank account reconciliations were not performed in a timely manner. The bank account reconciliations for fiscal year 2011 were not completed until April 2013. Bank reconciliations should be performed on all bank accounts in a timely manner after month-end. Any discrepancies should be investigated and all errors and omissions should be posted to the general ledger.
 - e. There is no policy or procedure for accounting for stale dated checks. As a result, there were numerous stale dated checks (with a total value of approximately \$35 thousand) carried as outstanding checks in the City's bank account reconciliations.
 - f. The Community Services Department used cash received from snack bar sales instead of petty cash to purchase supplies for the snack bar. Lack of control over cash receipts results in increased risk of loss of cash.
 - g. In a prior year, the City used property management companies to manage operations of the City's rental properties. As part of these operations, these property management companies administered bank accounts on behalf of the City. Beginning with fiscal year 2011, the City manages the rental properties internally. Balance outstanding at June 30, 2011 per the City's general ledger was \$5 thousand. However, since the City did not obtain access to these bank accounts, the accuracy of balance outstanding cannot be determined.

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Schedule of Prior Year Findings and Questioned Costs (Continued)
For the Fiscal Year Ended June 30, 2013

6. Business license revenue:
The City does not have any monitoring system in place to confirm that the amount of business license fee paid is the correct amount due.

7. Salaries, employee benefits and compensated absences:
 - a. The City did not follow their policy and procedure for City Council's approval of employee salaries or pay rates. This resulted in payments to employees that were not approved by the City Council.
 - b. The City had an informal employee loan program that was not approved by the City Council and there were no policies or procedures in place for the program. This resulted in incomplete loan records. Employee loans were not handled consistently and, in some cases, the repayment schedules were either missing or incomplete. In addition to the employees, some members of the City Council also received loans.
 - c. Loan repayments for employee loan program were calculated using unapproved pay rates. As a result, outstanding loan balances may not be accurately stated. In addition, loan repayments were originally recorded as a reduction to expenditures instead of a reduction to receivables.
 - d. There were no internal controls in place to ensure employees did not accrue vacation and sick leave in excess of the cap. As a result, one employee was able to use an additional 72 hours in excess of the available vacation leave hours.
 - e. The City does not have any naming conventions for recording employees in the employee master file. During our review of payroll, we identified four employees were duplicated in the employee master file. However, this did not have an impact to the financial statements since the employees did not receive duplicate payments.

8. Other post-employment benefits (OPEB):
Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, requires an actuarial valuation at least biennially for OPEB plans with a total membership (including employees in active service, terminated employees who have accumulated benefits but are not yet receiving them, and retired employees and beneficiaries currently receiving benefits) of 200 or more, or at least triennially for plans with a total membership of fewer than 200. The City has more than 200 participants in its OPEB plan and as such is required to have an actuarial valuation at least biennially. The City has an actuarial valuation for its OPEB plan performed as of July 1, 2008 and as of July 1, 2012. As a result, the City is not in compliance with GASB Statement No. 45 and the annual required contribution, the OPEB liability as well as the funded status of the OPEB plan as of June 30, 2011 may not be accurately stated.

9. Journal entries:
The City does not have internal controls in place to ensure journal entries are entered in sequence and not duplicative. Without having proper control over the journal entry process, there is an increased risk that the financial statements may not be accurately stated.

10. Year-end close process:
The City does not have a documented year-end close process. We found that the process was disorganized and fragmented, which resulted in many audit adjustments to record missed transactions or to correct errors. There should be a year-end workplan identifying year-end closing deliverables and responsible individuals, which is consistently followed each year-end.

CITY OF BELL, CALIFORNIA
Schedule of Prior Year Findings and Questioned Costs (Continued)
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11. Pass-through agreements:

Bell Community Redevelopment Agency (Agency) has several pass-through agreements to distribute incremental property taxes to the County of Los Angeles and other special districts, which are identified on the property tax remittance advices from the County; however, the City was unable to locate or identify current agreements.

Recommendation

We recommend that the City review all of its major functions and services and develop, approve and implement formal written policies and procedures to ensure that the City's system of internal control over financial reporting and the safeguarding of assets is suitably designed. We further recommend that the City take immediate action to develop the policies and procedures related to the material weaknesses noted above. The City should perform periodic monitoring reviews to determine that the controls are functioning as intended and that the appropriate controls are in place. The City should also perform periodic risk assessments of the control environment to determine whether changes in policies and procedures are warranted when there are changes in the operating environment.

We further recommend that the City collect and review all contracts and agreements to determine their validity and take corrective action as necessary.

Status of Corrective Action

The corrective action was partially implemented during the 2012-13 fiscal year as the 2010-11 audit was not concluded until after the 2012-13 fiscal year had been completed. See current year Finding 2013-001.

Finding 2011-02: Management Override of Internal Controls

Condition, Cause and Effect

Due to the lack of an internal control system with formal policies and procedures and the lack of oversight by the City Council, we identified areas where there appeared to be management override of internal controls as follows:

1. Salaries, employee benefits and compensated absences:
 - a. We found several employees who were compensated through employee agreements outside the Memorandums of Understanding for various employee groups at the City that had not been approved or authorized by the City Council. These agreements had been signed and approved by the former Chief Administrative Officer (CAO); however, we found no evidence to support that authority.
 - b. The City does not have policies and procedures for the allocation of direct or indirect payroll expenditures and related benefits to City funds and functions. We found various employee payroll expenditures and the related benefits allocated to various functions and funds based on budget estimates. These allocations were directed by either the former CAO or the former Assistant Chief Administrative Officer (CAAO).
2. We found evidence of management override of procurement and payment controls because work was performed and vendors were paid without valid authorized contracts.

CITY OF BELL, CALIFORNIA
Schedule of Prior Year Findings and Questioned Costs (Continued)
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Recommendation

We recommend that when the City designs its policies and procedures related to its system of internal control over financial reporting and the safeguarding of assets as set forth in our recommendation in finding 2011-01, such controls should specifically identify segregation of duties in the various functions of government and should reduce the risk of management override of such controls through City Council oversight.

Status of Corrective Action

The corrective action was partially implemented during the 2012-13 fiscal year as the 2010-11 audit was not concluded until after the 2012-13 fiscal year had been completed. See current year Finding 2013-001.

Finding 2011-03: Information Technology (IT) Control Weaknesses

Condition, Cause and Effect

Due to a time constraints, many deficiencies noted in the prior year continue to exist as follows:

1. City lacks central governance of IT strategy and activities

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) standards require that the top level of governance establish policies and procedures for its entire organization. Additionally, the COSO framework standards encourage that continual monitoring of these controls exist to ensure that the documented controls are actually being adhered to by staff. Such governance is integral to providing direction and establishing an entity's control environment by issuing enterprise-wide policies and procedures and providing oversight over IT activities. No such IT policies or procedures exist within the City.

The City has hired BreaIT to provide IT Management support. BreaIT also meets with the City regularly and is a member of the City's IT Technology Steering Committee (BITS). However, the City has not established IT policies and procedures.

Recommendation

The BITS committee, working in conjunction with BreaIT and the City management, should develop and implement IT policies and procedures governing all areas of IT controls, including hardware, software, user access, vendor activities, and general and application-specific IT security.

Status of Corrective Action

Not implemented. See current year Finding 2013-002.

2. No contractual agreements for the City's outsourcing of financial system programming and support

All services performed by outside entities for the City should be performed under contract. The City did not have any contract with DataStream Business Solutions (DataStream), which provides financial programming and support.

Recommendation

The City should 1) determine, via negotiation and forensic documentation analysis as required, ownership of its financial system software and 2) determine desired contractual terms and conditions for IT support vendors. After identifying their IT needs versus the services being provided by their current contractors, the City should evaluate if it should continue with current vendors or issue new Request For Proposals. The City should subsequently document and execute new contracts with its IT service providers.

CITY OF BELL, CALIFORNIA
Schedule of Prior Year Findings and Questioned Costs (Continued)
For the Fiscal Year Ended June 30, 2013

Status of Corrective Action

Not implemented. See current year Finding 2013-002.

3. *The City does not have an IT Strategic Plan*

Best practices in IT general controls should ensure that strategic IT plans are developed that are aligned with the goals and objectives of the agency as a whole. The City, however, has not developed an IT Strategic Plan. Without a Strategic Plan in place, IT initiatives may not be in alignment with City needs, and the City may find difficulty in justifying required IT expenditures.

Recommendation

The BITS committee working in conjunction with BreAIT and the City management should develop an IT Strategic Plan. This plan should ensure that IT initiatives are aligned with the goals and objectives of the City.

Status of Corrective Action

Not implemented. See current year Finding 2013-002.

4. *A formal policy and procedure for managing changes or development to the financial system has not been established*

Change control is a formal process used to ensure that changes to a product or system are introduced in a controlled and coordinated manner. Today's computer applications and network infrastructure are extremely complex, and require careful control and testing of changes in order not to disrupt an organization's operations. What seems like an innocuous code change can have disastrous impacts on a downstream process or data integrity. The City, however, has no formal control documentation for how the financial system vendor will manage system changes. Change control, including testing, is currently only based on the institutional knowledge of those involved.

Recommendation

The City should formally document change control processes with its financial systems vendor, including roles, ownership, and responsibility for testing and approvals at both the financial system vendor and within the City.

Status of Corrective Action

Not implemented. See current year Finding 2013-002.

5. *The City has an inadequate data backup location*

Best practices for disaster recovery require that a data back-up location not be susceptible to the same types of disasters (flood, fire, terrorist acts, etc.) as the main location. In lieu of a formal evaluation of the recovery site risks, the site should be at least 20 miles away from the main location. This control should ensure that the City's systems and data can be restored in the event of a disaster. If the primary and back-up locations are geographically close, it increases the risk that both locations are unavailable in the event of a disaster.

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Currently, the City stores the backup tape in the Finance Department's storage room. When performing system upgrades (every one or two years), staff will send a backup copy to DataStream (the vendor supporting the City's financial system). By not having a backup location outside of a 20 mile radius from the City, the City is at an increased risk of losing financial data if a disaster event occurs.

Recommendation

The City should implement offsite retention of back-up tapes of the City's financial system.

Status of Corrective Action

Not implemented. See current year Finding 2013-002.

6. *The City's does not manage or review access role for its network or financial system*

Organizations need to understand, define, and document their authorization roles and administrator access, in order to properly segregate duties between individuals. Undefined authorization roles and administrator access put organizations at risk of financial fraud, waste, and abuse.

The City's data structure is not consolidated and separated according to department. Users have access to all non-financial City data. Users are not assigned proper rights and security policies via group policy. Only accounting employees have access to the financial system.

The financial system does have generic access areas, (General Ledger, Cash Receipts, Accounts Payable, Payroll, Fixed Assets, Business Licensing), and Finance Department employees have access to one or more of these areas. The City, however, has not documented formal roles or role assignments. The City also has no policies or procedures for review of network access or roles, even when employees are terminated.

An employee terminated in November 2010 still has a logon to the City's financial system. We were unable to verify if this previous employee still has access to the City network, as neither City personnel nor the City's network support vendor could provide a list of those individuals with VPN access to the City network. This lack of roles and role enforcement puts the City at greatly increased risk of unauthorized individuals accessing the City network or financial system.

Recommendation

BreaIT working in conjunction with the City management should develop access roles and policies and procedures to manage these roles, for both the City's network as well as for the City's financial system. The policies and procedures should address hiring and terminations, review of master or super user activity, and annual review of roles.

Status of Corrective Action

Partially implemented. See current year Finding 2013-002.

7. *The City's financial system server is not physically secured*

Physical security practices require that the City provide and enforce physical access protection for the facility or room where the financial system resides. This prevents unauthorized tampering or abuse of the physical server hardware. The server housing the City's financial system is out in the open, in the back of the City administration office, with no secured access. This places the City's financial system server at increased risk of physical damage.

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Schedule of Prior Year Findings and Questioned Costs (Continued)
For the Fiscal Year Ended June 30, 2013

Recommendation

In the short-term, the City should move the financial server to the telecom room, where it will potentially be behind a locked door. For the long-term, the City should investigate either building a secure server room with full physical access and environmental controls, or moving the financial system to an external shared services location with such controls.

Status of Corrective Action

Not implemented. See current year Finding 2013-002.

8. *Application password standards need to be strengthened*

General computer controls require that access to the IT network and applications be properly controlled. The City, however, does not have a formal policy regarding complex password standards for financial application access. The City allows passwords of any length or complexity for accessing the financial system. Without formal requirements, password configuration standards may change based on administrator preference, rather than adherence to standard industry practices. The chance of someone hacking into a financial system increases considerably when strong passwords are not used.

Recommendation

The City working in conjunction with Brea IT should develop and implement a formal administrative procedure defining the minimum password configuration requirements for the financial system. For example:

Password history:	12 to 24 passwords remembered
Maximum password age:	30 to 90 days
Minimum password age:	1 to 3 days
Minimum password length:	8 to 14 characters
Password must meet complexity requirements:	Enabled
Store password using reversible encryption:	Disabled
Password complexity:	Minimum of eight characters Contains at least two numeric or special characters

Status of Corrective Action

Not implemented. See current year Finding 2013-002.

9. *Lack of disaster recovery plan*

The City does not have a formal disaster recovery plan. Lack of a disaster recovery plan could result in loss of financial data and business interruptions in the event of a disaster.

Recommendation

The City management working in conjunction with Brea IT should develop and implement a disaster recovery plan that will detail how City functions would operate in the event that the City's IT network and applications are unavailable for an extended period of time, or in the event of a disaster. The disaster recovery plan should include detailed disaster recovery procedures that clearly define the roles and responsibilities of personnel in re-establishing the computer network, financial applications and financial data. Once developed, the plan should be periodically tested to ensure viability. Findings from the testing should be incorporated as updates to the plan.

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For the Fiscal Year Ended June 30, 2013

Status of Corrective Action

Not implemented. See current year Finding 2013-002.

10. *No documentation for batch processing procedures for payroll*

There is no documentation for batch processing procedures of financial information between the City's financial system and the bank for payroll. Batch processing is currently based on the institutional knowledge of those involved.

Recommendation

The process of managing batch jobs to transfer financial information between the City's financial system and the bank for payroll should be reviewed and controls should be implemented to ensure that job scheduling is appropriately controlled and authorized.

Status of Corrective Action

Not implemented. See current year Finding 2013-002.

Finding 2011-04: Filing of Single Audit Report

Condition, Cause and Effect

The City did not submit the Single Audit Reporting Package (the City's audited financial statements and single audit reports) for the year ended June 30, 2011 within nine months after the end of audit period or March 31, 2012. Due to highly publicized problems at the City and turnover in financial management, the City was not able to complete the audit of its annual financial statements and federal award programs for the year ended June 30, 2011 on a timely basis. Failure to submit the required Single Audit Reporting Package timely automatically results in the City not qualifying for low risk auditee status for next year's single audit

Recommendation

We recommend the City develop, document, and implement policies and procedures for timely submission of the Single Audit Reporting Package.

Status of Corrective Action

Implemented

Finding 2011-05: Noncompliance with Laws, Regulations, Contracts, and Grant Agreements

Condition, Cause and Effect

As a result of financial conditions at the City and weaknesses in internal control over compliance, we noted the following instances of noncompliance with bond covenants, budget policy, and other applicable laws and regulations, contracts and grant agreements:

- a. The 2007 Taxable Lease Revenue Bonds and the 2009 Promissory Note are in default as of November 2010 and October 2010 and continue to be in default because the City has defaulted on the payment of principal and interest. The outstanding principal due on the 2007 Taxable Lease Revenue Bonds and the 2009 Promissory Note were \$35.0 million and \$4.4 million, respectively.
- b. In accordance with the Series 2004 and 2007 General Obligation Bonds' Official Statements, the bonds are general obligation bonds of the City payable from ad valorem taxes. The City has the power and is obligated to annually cause to be levied ad valorem taxes upon all property within the City for the payment of the bonds principal and interest. Pledged property tax revenue

CITY OF BELL, CALIFORNIA
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recognized during the fiscal year ended June 30, 2011 was \$1.7 million against the total debt service payments of \$2.7 million. The City was not in compliance with bond requirements because it did not assess property taxes sufficient to pay the principal and interest on the bonds for the current year.

- c. The City was not in compliance with reporting provisions of the indentures for all bonds and certificates of participation for the fiscal year ended June 30, 2011 because the City's audited financial statements were not issued within 90 to 240 days of the year-end. Additionally, the City was not in compliance with continuing disclosure requirements under SEC Rule 15c2-12.
- d. The City's charter stipulates that actual expenditures may not exceed budgeted appropriations at the department level without City Council approval. The City's actual General Fund expenditures exceeded the General Fund budget appropriations by a total of \$2.9 million for nine departments and the debt service function.
- e. The City purchased five (5) years of Additional Retirement Service Credits (ARSC) on behalf of the former CAO, the former ACAO, five (5) former council members and four (4) former department heads between 2005 and 2009 using City funds with an approximate cost of \$1,000,000. CalPERS has made a determination that the purchase of ARSC using City funds for one of the former department heads was not lawful under the Public Employee Retirement Law. In January 2013, the former CAO waived the purchased of ARSC. However, the determination on the remaining purchases of ARSC is pending.
- f. The State Controller's Office (SCO) review of the Agency for the period July 1, 2000 through June 30, 2010 identified that the Agency failed to comply with Health and Safety Code requirements in several areas and inappropriately charged Agency funds in the amount of \$664,834. This is pending final resolution.
- g. The Office of Grants and Local Services of the California Department of Parks and Recreation audit issued on April 22, 2011 identified and requested a return of \$481,716 in grant funds due to alleged violation of the competitive bidding process and conflict of interest. Subsequently, the City repaid \$182,556 to the Office of Grants and Local Services of the California Department of Parks and Recreation in August 2012. The remaining amount is pending final resolution from the Office of Grants and Local Services of the California Department of Parks and Recreation.
- h. The SCO's audit of the City's administrative and internal accounting system for the period July 1, 2008 through June 30, 2010 identified that the City improperly increased assessments of the Sanitation and Sewerage Assessment System and business licenses taxes. The SCO estimated the amount of overcharge is \$621,737 and \$2,105,441 for assessment of the Sanitation and Sewerage Assessment System and business licenses taxes, respectively. On a follow-up review by the SCO dated May 22, 2013, the SCO estimated the amount of overcharge is \$822,000 and \$2,355,000 for assessment of the Sanitation and Sewerage Assessment System and business licenses taxes, respectively. This is pending final resolution.
- i. Per California Government Code Section 53646 (b) (1), "The treasurer or chief fiscal officer may render a quarterly report to the chief executive officer, the internal auditor, and the legislative body of the local agency. The quarterly report shall be submitted within 30 days following the end of the quarter covered by the report." Also, per the City's investment policy for fiscal year 2010-11, "A report will be submitted to City Council not later than thirty (30) days after the end of the quarter, which shows the type of investment, institution, cost, par, market value, interest rate, date of maturity, and source of market value for all investments of more than twelve months." The City did not submit any treasury report for the fiscal year ended June 30, 2011 to the City Council resulting in non-compliance with the California Government Code Section 53646 (b) (1) and the City's investment policy.

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Recommendation

We recommend that the City develop, document, and implement policies and procedures to ensure the City's compliance with applicable laws, regulations, contracts and grant agreements. We also recommend that the City's budget process include a mid-year and year-end comparison of budget and actual amounts to allow City Council an opportunity to take any action deemed necessary to ensure compliance with local laws and regulations governing budget appropriations and related expenditures. In addition, we recommend that the City work with the SCO, CalPERS and the Office of Grants and Local Services of the California Department of Parks and Recreation to resolve pending issues.

Status of Corrective Action

The corrective action was partially implemented during the 2012-13 fiscal year as the 2010-11 audit was not concluded until after the 2012-13 fiscal year had been completed. See current year Finding 2013-003.

Reference Number:	2011-06
Federal Program Title:	Community Development Block Grant - Entitlement Grants Cluster: Community Development Block Grants/Entitlement Grants (CDBG), Community Development Block Grant ARRA Entitlement Grants (CDBG-R) (Recovery Act Funded)
Federal Catalog Number:	14.218, 14.253
Federal Agency:	Department of Housing and Urban Development
Pass-Through Entity:	Community Development Commission of the County of Los Angeles
Federal Award Number and Year:	D96061-10, D96064-10, D96065-10, 600511-10, D96069-10, D99075-10 – 2011 REC088-09, REC040-09 – 2010
Category of Finding:	Procurement and Suspension and Debarment

Condition

The City is required to conduct a verification check to ensure that they do not contract with listed parties in violation OMB A-102. Upon review of the procurement files, we noted five of the selected vendors for the CDBG and CDBG-R programs had no documentation in the file to indicate that they were checked against the List of Parties Excluded (EPLS) from Federal Procurement.

Recommendation

We recommend that the City enforce established policies and procedures over the retention of procurement records to ensure that procurement procedures are in accordance with OMB A-102 and the grant requirements.

Status of Corrective Action

Implemented

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For the Fiscal Year Ended June 30, 2013

Reference Number: 2011-07
Federal Program Title: Community Development Block Grants – Entitlement Grants Cluster: Community Development Block Grants/Entitlement Grants (CDBG)
Federal Catalog Number: 14.218
Federal Agency: Department of Housing and Urban Development
Pass-Through Entity: Community Development Commission of the County of Los Angeles
Federal Award Number and Year: D96061-10, D96064-10, D96065-10, 600511-10, D96069-10, D99075-10 - 2011
Category of Finding: Allowable Costs/Cost Principles - Lack of Supporting Documents and Expenditures Not Allowable

Condition

Our examination of payroll records identified payroll costs that were incorrectly charged to the CDBG program. Such costs were not properly supported by timesheets.

Recommendation

To ensure that the City is in compliance with OMB A-87 and A-133§__.300(b), we recommend that the City develop and implement policies and procedures to ensure that payroll costs charged to the CDBG program are properly supported by timesheets.

Status of Corrective Action

Implemented

Reference Number: 2011-08
Federal Program Title: Community Development Block Grants – Entitlement Grants Cluster: Community Development Block Grants/Entitlement Grants (CDBG)
Federal Catalog Number: 14.218
Pass-Through Entity: Community Development Commission of the County of Los Angeles
Federal Award Number and Year: D96061-10, D96064-10, D96065-10, 600511-10, D96069-10, D99075-10 -2011
Category of Finding: Cash Management – Funding Requests

Condition

Each participating city is required to submit monthly funding requests to the Community Development Commission of the County of Los Angeles on a minimum of a bi-monthly basis, in which the amount requested should be supported by expenditures incurred per the City's accounting records. Based on review of 12 monthly funding requests, 2 monthly funding requests were not properly supported by expenditures incurred per the City's accounting records.

Recommendation

To ensure that the City is in compliance with the County of Los Angeles Community Development Block Grant Program Reimbursable Contract With Participating City Contract Number 70714 and OMB Circular A-133§__.300(b), we recommend that the City establish formal policies and procedures to

CITY OF BELL, CALIFORNIA
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ensure the monthly funding requests are properly supported by expenditures incurred per the City's accounting records.

Status of Corrective Action
Implemented

Finding 2010-01: Internal Control over Significant Accounting Procedures

Condition, Cause and Effect

Due to the lack of formal policies and procedures over the City's accounting processes and functions related to financial reporting, we identified the following material weaknesses in internal controls during our audit:

1. Capital assets:
 - a. The capital assets subsidiary ledger was not complete or current. Disposed assets were included on the capital assets subsidiary ledger. Without a current subsidiary ledger of all capital assets held by the City, the safeguarding of assets may be compromised, the account balances for capital assets may not be accurate, and obsolete items may go unnoticed.
 - b. Construction in progress (CIP) was not properly classified. Costs of \$2.4 million were improperly classified as CIP but should have been classified as land. In addition, \$900 thousand of expenses related to maintenance of capital assets not owned by the City were improperly recorded as CIP. As result, CIP was overstated by \$900 thousand.
 - c. Land acquisitions in the amounts of \$1.5 million were not properly capitalized in prior years, resulting in the understatement of capital assets.
 - d. The City informally capitalizes capital assets greater than \$5,000. However, the City does not have a formal written capitalization policy for financial reporting or grant compliance. Without a formal capitalization policy, it is possible that capital asset purchases of either individually, or group purchases of similar assets, significant amounts are not being recorded as such and are not on the schedule of capital assets.
 - e. It is unknown when the last physical inventory of capital assets was conducted by the City. A properly designed system of internal controls should establish guidelines for a periodic physical inventory of capital assets, which reconciles physical counts to accounting records to ensure recorded capital assets exist and to safeguard capital assets.
2. Liabilities and cash disbursements:
 - a. The City does not have formal policies and procedures for determining year-end accruals for accounts payable and other accrued liabilities. Based on our search for unrecorded liabilities through examining subsequent disbursements, we determined that the City under accrued liabilities by \$360 thousand. Proper cutoffs at year-end are critical for the accuracy of reporting transactions in the proper period. Without proper cutoffs, expenditures/expenses and payables may not be accurately stated.
 - b. Some of the cash disbursements subjected to our testing did not have proper supporting documentation or the warrant package was incomplete.
 - c. There is lack of segregation of duties within the Finance Department. The cash disbursement system is accessible via a password; however, the password is shared among the various users of the system. New vendors can be established by any user in the system. The approval process is performed verbally. Lack of documentation over the approval process can cause the City to be at higher risk for inaccurate and unauthorized payments.
 - d. There is no formal procedure for preparing and approving cash disbursement journal entries. We found instances where wire transfers and manual checks were not posted in a timely manner and were

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- not reported in the warrant register.
- e. There was no safeguard over the blank check stock or over the check signing signature plate. These deficiencies cause the City to be at a high risk for unauthorized payments.
3. **Contracts and procurement:**
- a. The City does not have procurement policies and procedures relating to issuing and entering into contracts with vendors. During our audit, we found instances where the City failed to competitively bid projects, there was no contract on file for the vendor, and/or that many of the existing contracts had expired.
- b. The retention amount on all construction related contracts was not recorded properly in the general ledger. The retention amount was withheld during the life of the contract; however, the liability related to the retention amount was not recorded until the completion of the project. This resulted in liabilities being understated by the amount of the cumulative retention payable of \$126,530 at fiscal year-end. The lack of policies and procedures for handling retentions has created an inconsistency for the handling of retentions from vendor to vendor.
4. **Long-term advances between funds:**
The City has not established a repayment schedule for various long-term advances among the funds. During our audit, we determined that advances of \$4.3 million should have been recorded as transfers between the funds because repayment was not expected within a reasonable period of time as set forth in generally accepted accounting principles (GAAP). The lack of policies and procedures over the proper recording of interfund transactions can lead to improper financial reporting and inconsistencies in recording similar transactions.
5. **Cash handling, cash receipts, bank reconciliations and investments:**
- a. The cash receipts system for the City is outdated and constrictive. The system requires that the prior month's transactions be completed, approved and posted before the current month's data can be entered. This delays the recording of the current month's transactions. In addition, the delays resulted in lost or misplaced documentation, which supports the cash receipt transaction and the recording thereof. During our review of cash receipts, we noted that there were over \$2 million of cash receipts, which had not been posted to the general ledger.
- b. Various departments within the City handle the cash receipts process differently. The City does not have policies and procedures for cash handling for all City functions and departments. Such policies and procedures should address segregation of duties and include a thorough review of all receipts and their recording.
- c. We noted that bank account reconciliations were not performed in a timely manner. The bank account reconciliation for the City's general checking account was not performed until May 31, 2011. Bank reconciliations should be performed on all bank accounts in a timely manner after month-end. The bank reconciliations should be formally approved. Any discrepancies should be investigated and all errors and omissions should be posted to the general ledger.
- d. There is no policy or procedure for accounting for stale dated checks. As a result, there were numerous stale dated checks carried as outstanding checks in the City's bank account reconciliations.
6. **Business license revenue:**
- a. The City does not have a policy and procedure to formally approve a schedule of business license fees. The absence of a policy or approved schedule has resulted in motels being charged varying amounts without a rationale for the differences.
- b. The City has used the 1997 Municipal Code adjusted for inflation to calculate the business license

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- fees for commercial businesses and for apartments; however, we were unable to recalculate the rates.
- c. The City does not have a control procedure to verify that the amount of business license fee paid is the correct amount due.
7. Salaries, employee benefits and compensated absences:
- a. The City did not follow their policy and procedure for City Council's approval of employee salaries or pay rates. This resulted in payments to employees that were not approved by the City Council.
 - b. The City had an informal employee loan program that was not approved by the City Council and there were no policies or procedures in place for the program. This resulted in incomplete loan records and loans that were not properly recorded in the general ledger. Employee loans were not handled consistently and, in some cases, the repayment schedules were either missing or incomplete. In addition to the employees, some members of the City Council also received loans. Subsequently, the City reported the outstanding loans to members of the City Council, City officials, and City employees in the amount of \$530,521 and \$462,425 as of June 30, 2010 and June 30, 2009, respectively.
8. Year-end close process:
- a. The City does not have a documented year-end close process. We found that the process was disorganized and fragmented, which resulted in many audit adjustments to record missed transactions or to correct errors. There should be a year-end workplan identifying year-end closing deliverables and responsible individuals, which are consistently followed each year-end.
 - b. There was a misunderstanding between the roles and responsibilities of the City for financial reporting and the auditors in performing the audit.
9. Pass-through agreements:
Bell Community Redevelopment Agency (Agency) has several pass-through agreements to distribute incremental property taxes to the County of Los Angeles and other special districts, which are identified on the property tax remittance advices from the County; however, the City was unable to locate or identify current agreements.

Recommendation

We recommend that the City review all of its major functions and services and develop, approve and implement formal written policies and procedures to ensure that the City's system of internal control over financial reporting and the safeguarding of assets is suitably designed. We further recommend that the City take immediate action to develop the policies and procedures related to the material weaknesses noted above. The City should perform periodic monitoring reviews to determine that the controls are functioning as intended and that the correct controls are in place. The City should also perform periodic risk assessments of the control environment to determine whether changes in policies and procedures are warranted when there are changes in the operating environment.

We further recommend that the City collect and review all contracts and agreements to determine their validity and take corrective action as necessary.

Status of Corrective Action

The corrective action was partially implemented during the 2012-13 fiscal year as the 2009-10 audit was concluded during the 2012-13 fiscal year. See current year Finding 2013-001.

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Finding 2010-03: Management Override of Internal Controls

Condition, Cause and Effect

Due to the lack of an internal control system with formal policies and procedures and the lack of oversight by the City Council, we identified areas where there appeared to be management override of internal controls as follows:

1. Salaries, employee benefits and compensated absences:
 - a. Although there were Memorandums of Understanding (MOU) for the various employee groups at the City, we found that not all employees were compensated in accordance with the applicable MOU. In addition, the accrual for vacation and sick leave for some of the employees we tested was not in accordance with the MOU. We also found several employees who were compensated through employee agreements outside the MOUs that had not been approved or authorized by the City Council. These agreements had been signed and approved by the former Chief Administrative Officer (CAO); however, we found no evidence to support that authority.
 - b. The City does not have policies and procedures for the allocation of direct or indirect payroll expenses and related benefits to City funds and functions. We found various employee payroll expenses and the related benefits allocated to various functions and funds based on budget estimates. These allocations were directed by either the former CAO or the former Assistant Chief Administrative Officer (ACAO).
2. We found evidence of management override of procurement and payment controls because work was performed and vendors were paid without valid authorized contracts.
3. The City management and/or employees “paid” their loans by cashing out their unused sick and vacation balance. These loan reductions should be included in the accounting records and be included in the reportable wages on the W-2. However, we found that the CAO had loan reductions in prior years of approximately \$184,000 that were not included on his W-2 under reportable wages nor were these reductions recorded in the City’s general ledger.

Recommendation

We recommend that when the City designs its policies and procedures related to its system of internal control over financial reporting and the safeguarding of assets as set forth in our recommendation in finding 2010-01, such controls should specifically identify segregation of duties in the various functions of government and should reduce the risk of management override of such controls through City Council oversight.

Status of Corrective Action

The corrective action was partially implemented during the 2012-13 fiscal year as the 2009-10 audit was concluded during the 2012-13 fiscal year. See current year Finding 2013-001.

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Finding 2010-04: Information Technology (IT) Control Weaknesses

Condition, Cause and Effect

Due to a lack of personnel who are responsible for IT related functions, we noted the following deficiencies in IT controls during our audit:

1. *City lacks central governance of IT strategy and activities*

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) standards require that the top level of governance establish policies and procedures for its entire organization. Additionally, the COSO framework standards encourage that continual monitoring of these controls exist to ensure that the documented controls are actually being adhered to by staff. Such governance is integral to providing direction and establishing an entity's control environment by issuing enterprise-wide policies and procedures and providing oversight over IT activities. No such IT policies or procedures, however, exist within the City.

As a result of the lack of governance, the City has negligible IT controls. For example, the City has no IT policies and procedures in place that specify the control environment, password standards, or what IT-related activities are permissible in the workplace.

Recommendation

The City should designate or hire an IT Manager. This individual should work directly with the Chief Administrative Officer and Department heads, and outside expertise as necessary, to identify and implement IT policies and procedures governing all areas of IT controls, including hardware, software, user access, vendor activities, and general and application-specific IT security.

Status of Corrective Action

Partially implemented. See current year Finding 2013-002.

2. *No contractual agreements for the City's outsourcing of network administration and financial system programming and support*

All services performed by outside entities for the City should be performed under contract. The most recent City contract with Relia-Tech, which provides network administration, expired June 30, 2011. The City also did not have any contract with DataStream Business Solutions (DataStream), which provides financial programming and support. Neither City finance personnel nor DataStream personnel could locate any contracts executed between the two parties. The last services change was an hourly rate change communicated by letter from DataStream to the City on August 28, 2007.

Contracts, which specify clear deliverables, performance criteria, ownership of assets, consideration, and delineation of liability, are critical to assuring that the City 1) is clearly specifying required services, and receiving those services, 2) understands and agrees to ownership of IT assets such as the financial system source code, and 3) is limiting its liability for unforeseen events.

Recommendation

The Chief Administrative Officer should 1) determine specific required services, including IT control-oriented services, 2) determine, via negotiation and forensic documentation analysis as required, ownership of its financial system software, and 3) determine desired contractual terms and conditions for IT support vendors. After identifying their IT needs versus the services being provided by their current contractors, the City should evaluate if it should continue with current vendors or

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issue new RFPs. The City should subsequently document and execute new contracts with its information technology service providers.

Status of Corrective Action

Partially implemented. See current year Finding 2013-002.

3. *The City does not have an IT Strategic Plan*

Best practices in IT general controls should ensure that strategic IT plans are developed that are aligned with the goals and objectives of the agency as a whole. The City, however, has not developed an IT Strategic Plan. Without a Strategic Plan in place, IT initiatives may not be in alignment with City needs, and the City may find difficulty in justifying required IT expenditures.

Recommendation

Once the City hires an IT Manager, the IT Manager should work with the Chief Administrative Officer and all City departments to develop an IT Strategic Plan. This plan should ensure that IT initiatives are aligned with the goals and objectives of the City.

Status of Corrective Action

Not implemented. See current year Finding 2013-002.

4. *A formal policy and procedure for managing changes or development to the financial system has not been established*

Change control is a formal process used to ensure that changes to a product or system are introduced in a controlled and coordinated manner. Today's computer applications and network infrastructure are extremely complex, and require careful control and testing of changes in order not to disrupt an organization's operations. What seems like an innocuous code change can have disastrous impacts on a downstream process or data integrity. The City, however, has no formal control documentation for how the financial system vendor will manage system changes. Change control, including testing, is currently only based on the institutional knowledge of those involved.

Recommendation

The City should formally document change control processes with its financial systems vendor, including roles, ownership, and responsibility for testing and approvals at both the financial system vendor and within the City.

Status of Corrective Action

Not implemented. See current year Finding 2013-002.

5. *The City has an inadequate data backup location*

Best practices for disaster recovery require that a data back-up location not be susceptible to the same types of disasters (flood, fire, terrorist acts, etc.) as the main location. In lieu of a formal evaluation of the recovery site risks, the site should be at least 20 miles away from the main location. This control should ensure that the City's systems and data can be restored in the event of a disaster. If the primary and back-up locations are geographically close, it increases the risk that both locations are unavailable in the event of a disaster.

Currently, the City stores the backup tape on top of the financial system server until the tape is full (~100 backups), then places the backup tape in an unlocked vault in the next room. When performing

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system upgrades (every one or two years), staff will send a backup copy to DataStream (the vendor supporting the City's financial system). By not having a backup location outside of a 20 mile radius from the City, the City is at an increased risk of losing financial data if a disaster event occurs.

Recommendation

The City should research back-up locations outside of the 20 mile radius of the main location. Once back-up location options are determined, budgetary resources should be approved to fund the establishment of a back-up location that aligns with best practices and assures the City's back-up financial information and data are secured.

Responsible parties for corrective action are Ana Gutierrez- Management Analyst and BreaIT.

Status of Corrective Action

Partially implemented. See current year Finding 2013-002.

6. *The City does not manage or review access roles for its network or financial system*

Organizations need to understand, define, and document their authorization roles and administrator access, in order to properly segregate duties between individuals. Undefined authorization roles and administrator access put organizations at risk of financial fraud, waste, and abuse.

The City's data structure is not consolidated and separated according to department. Users have access to all non-financial City data. Users are not assigned proper rights and security policies via group policy. Only accounting employees have access to the financial system.

The financial system does have generic access areas, (General Ledger, Cash Receipts, Accounts Payable, Payroll, Fixed Assets, Business Licensing), and Finance employees have access to one or more of these areas. The City, however, has not documented formal roles or role assignments. The City also has no policies or procedures for review of network access or roles, even when employees are terminated.

An employee terminated in November 2010 still has a logon to the City's financial system. We were unable to verify if this previous employee still has access to the City network, as neither City personnel nor the City's network support vendor could provide a list of those individuals with VPN access to the City network. This lack of roles and role enforcement puts the City at greatly increased risk of unauthorized individuals accessing the City network or financial system.

Recommendation

The Chief Administrative Officer, working with the to-be-hired IT Manager, should develop access roles, and policies and procedures to manage these roles, for both the City network as well as for the City financial system. The policies and procedures should address hiring and terminations, review of master or super user activity, and annual review of roles.

Status of Corrective Action

Partially implemented. See current year Finding 2013-002.

7. *The City's financial system server is not physically secured*

Physical security practices require that the City provide and enforce physical access protection for the facility or room where the financial system resides. This prevents unauthorized tampering or abuse of the physical server hardware. The server housing the City's financial system is out in the open, in the

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back of the City administration office, with no secured access. This places the City's financial system server at increased risk of physical damage.

Recommendation

In the short-term, the City should move the financial server to the telecom room, where it will potentially be behind a locked door. For the long-term, the City should investigate either building a secure server room with full physical access and environmental controls, or moving the financial system to an external shared services location with such controls.

Status of Corrective Action

Not implemented. See current year Finding 2013-002.

8. *Application password standards need to be strengthened*

General computer controls require that access to the IT network and applications be properly controlled. The City, however, does not have a formal policy regarding complex password standards for financial application access. The City allows passwords of any length or complexity for accessing the financial system. Without formal requirements, password configuration standards may change based on administrator preference, rather than adherence to standard industry practices. Additionally, the chance of someone hacking into a financial system increases considerably when strong passwords are not used.

Recommendation

The Chief Administrative Officer should develop and implement a formal administrative procedure defining the minimum password configuration requirements for the financial system. For example:

Password history:	12 to 24 passwords remembered
Maximum password age:	30 to 90 days
Minimum password age:	1 to 3 days
Minimum password length:	8 to 14 characters
Password must meet complexity requirements:	Enabled
Store password using reversible encryption:	Disabled
Password complexity:	Minimum of eight characters Contains at least two numeric or special characters

Status of Corrective Action

Not implemented. See current year Finding 2013-002.

9. *Lack of disaster recovery plan*

The City does not have a formal disaster recovery plan. Lack of a disaster recovery plan could result in loss of financial data and business interruptions in the event of a disaster.

Recommendation

The Chief Administrative Officer, working with the to-be-hired IT Manager should develop and implement a disaster recovery plan that will detail how City functions would operate in the event that the City's IT network and applications are unavailable for an extended period of time, or in the event of a disaster. The disaster recovery plan should include detailed disaster recovery procedures that clearly define the roles and responsibilities of personnel in re-establishing the computer network,

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financial applications and financial data. Once developed, the plan should be periodically tested to ensure viability. Findings from the testing should be incorporated as updates to the plan.

Status of Corrective Action

Not implemented. See current year Finding 2013-002.

10. *No documentation for batch processing procedures for payroll*

There is no documentation for batch processing procedures of financial information between the City's financial system and the bank for payroll. Batch processing is currently based on the institutional knowledge of those involved.

Recommendation

The process of managing batch jobs to transfer financial information between the City's financial system and the bank for payroll should be reviewed and controls should be implemented to ensure that job scheduling is appropriately controlled and authorized.

Status of Corrective Action

Not implemented. See current year Finding 2013-002.

Finding 2010-05: Filing of Single Audit Report

Condition, Cause and Effect

The City did not submit the Single Audit Reporting Package (the City's audited financial statements and single audit reports) for the year ended June 30, 2010 within nine months after the end of audit period or March 31, 2011. Due to highly publicized problems at the City and turnover in financial management, the City was not able to complete the audit of its annual financial statements and federal award programs for the year ended June 30, 2010 on a timely basis. Failure to submit the required Single Audit Reporting Package timely automatically results in the City not qualifying for low risk auditee status for next year's single audit.

Recommendation

We recommend the City develop, document, and implement policies and procedures for timely submission of the Single Audit Reporting Package.

Status of Corrective Action

Implemented

Finding 2010-06: Noncompliance with Laws, Regulations, Contracts, and Grant Agreements

Condition, Cause and Effect

As a result of financial conditions at the City and weaknesses in internal control over compliance, we noted the following instances of noncompliance with bond covenants, budget policy, and other applicable laws and regulations, contracts and grant agreements:

- a. The 2007 Taxable Lease Revenue Bonds and the 2009 Promissory Note are in default as of November 2010 and October 2010 and continue to be in default because the City has defaulted on the payment of principal and interest. The outstanding principal due on the 2007 Taxable Lease Revenue Bonds and the 2009 Promissory Note were \$35 million and \$4.4 million, respectively.

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- b. In accordance with the Series 2004 and 2007 General Obligation Bonds' Official Statements, the bonds are general obligation bonds of the City payable from ad valorem taxes. The City has the power and is obligated to annually cause to be levied ad valorem taxes upon all property within the City for the payment of the bonds principal and interest. Pledged property tax revenue recognized during the fiscal year ended June 30, 2011 was \$997,367 against the total debt service payments of \$2.7 million. The City was not in compliance with bond requirements because it did not assess property taxes sufficient to pay the principal and interest on the bonds for the current year.
- c. The City was not in compliance with reporting provisions of the indentures for all bonds and certificates of participation for the year ended June 30, 2010 because the City's audited financial statements were not issued within 90 to 240 days of the year-end. Additionally, the City was not in compliance with continuing disclosure requirements under SEC 15c2-12.
- d. The City's current Investment Policy is in accordance with the California Government Code. However, the Investment Policy has not been updated and approved by City Council since June 30, 2006. The California Government Code requires that the policy be approved by the governing board on an annual basis. Subsequently, the City Council has adopted Resolution No. 2010-18 approving the investment policy for fiscal year July 1, 2010 to June 30, 2011.
- e. The City's charter stipulates that actual expenditures may not exceed budgeted appropriations at the department level without City Council approval. The City's actual General Fund expenditures exceeded the General Fund budget appropriations by \$6.8 million.
- f. The City adopted Resolution No. 2007-42 to increase the tax levy related to the payment of the City's pension obligation from 0.187554% in FY 2006-07 to 0.237554% in FY 2007-08, 0.257554% in FY 2008-09, and 0.277554% in FY 2009-10—an increase of approximately 48% over a three-year period. The increase in tax levy was unallowable under Revenue and Taxation Code Section 96.31(b). Under this section, the City had no authority to levy a property tax rate greater than the rate imposed in FY 1982-83 or FY 1983-84. Subsequently, the City refunded \$2,934,144 to the taxpayers in November 2010.
- g. The City purchased five (5) years of Additional Retirement Service Credits (ARSC) on behalf of the CAO, the ACAO, five (5) council members and four (4) department heads between 2005 and 2009 using City funds with an approximate cost of \$1,000,000. CalPERS has made a determination that the purchase of ARSC using City funds for one of the department heads was not lawful under the Public Employee Retirement Law. The determination on the remaining purchases of ASRC is pending.
- h. The SCO's audit of the City's Gas Tax Fund for the period of July 1, 2007 through June 30, 2011 identified that the City understated the fund balance in the Gas Tax Fund by \$521,086 because of unsupported costs. Subsequently, the City made adjustments and reallocated unsupported costs charged to the City's Gas Tax Fund to the General Fund.
- i. The SCO review of the Agency for the period July 1, 2000 through June 30, 2010 identified that the Agency failed to comply with Health and Safety Code requirements in several areas and inappropriately charged Agency funds in the amount of \$664,834. This is pending final resolution from the SCO.
- j. The Office of Grants and Local Services of the California Department of Parks and Recreation audit issued on April 22, 2011 identified and requested a return of \$481,716 in grant funds due to alleged violation of the competitive bidding process and conflict of interest. This is pending final resolution from the Office of Grants and Local Services of the California Department of Parks and Recreation.
- k. The SCO's audit of the City's administrative and internal accounting system for the period July 1, 2008 through June 30, 2010 identified that the City improperly increased assessments of the

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Sanitation and Sewerage Assessment System and business licenses taxes. The SCO estimated the amount of overcharge is \$621,737 and \$2,105,441 for assessment of the Sanitation and Sewerage Assessment System and business licenses taxes, respectively. This is pending final resolution from the SCO.

Recommendation

We recommend that the City develop, document, and implement policies and procedures to ensure the City's compliance with applicable laws, regulations, contracts and grant agreements. We also recommend that the City's budget process include a mid-year and year-end comparison of budget and actual amounts to allow City Council an opportunity to take any action deemed necessary to ensure compliance with local laws and regulations governing budget appropriations and related expenditures. In addition, we recommend that the City work with the SCO, CalPERS and the Office of Grants and Local Services of the California Department of Parks and Recreation to resolve pending issues.

Status of Corrective Action

The corrective action was partially implemented during the 2012-13 fiscal year as the 2009-10 audit was concluded during the 2012-13 fiscal year. See current year Finding 2013-003.

Reference Number:	2010-07
Federal Program Title:	Community Development Block Grants - Entitlement Cluster: Community Development Block Grants/Entitlement Grants (CDBG), Community Development Block Grant ARRA Entitlement Grants (CDBG-R) (Recovery Act Funded)
Federal Catalog Number:	14.218, 14.253
Federal Agency:	Department of Housing and Urban Development
Pass-through Entity:	Community Development Commission of the County of Los Angeles
Federal Award Number and Year:	D96061-09, D96064-09, D96065-09, 600511-09, D96069-09, D99075-09, REC088-09, REC040-09 – 2010
Category of Finding:	Allowable Costs/Cost Principles - Lack of Supporting Documents and Expenditures Not Allowable

Condition

Our examination of payroll identified payroll costs that were incorrectly charged to the CDBG and CDBG-R programs. Such costs were not properly supported and/or properly reviewed and approved by a supervisor.

Recommendation

To ensure that the City is in compliance with OMB A-87 and OMB A-133§ __.300(b), we recommend that the City develop and implement policies and procedures to ensure that payroll costs charged to the CDBG programs are properly supported by timesheets. In addition, internal controls should be designed and operated to properly review and approve payroll charges to federal award programs.

Status of Corrective Action

Implemented

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Reference Number: 2010-09
Federal Program Title: Community Development Block Grant ARRA Entitlement Grants (CDBG-R) (Recovery Act Funded)
Federal Catalog Number: 14.253
Federal Agency: Department of Housing and Urban Development
Pass-through Entity: Community Development Commission of the County of Los Angeles
Federal Award Number and Year: REC088-09, REC040-09 – 2010
Category of Finding: Procurement and Suspension and Debarment

Condition

The City is required to conduct a verification check to ensure that they do not contract with listed parties in violation OMB A-102. Upon review of the procurement files, we noted one of the selected vendors for Community Development Block Grant ARRA Entitlement Grants (CDBG-R) (Recovery Act Funded) program was not checked against the List of Parties Excluded (EPLS) from Federal Procurement.

Recommendation

We recommend that the City enforce established policies and procedures over the retention of procurement records to ensure that procurement procedures are in accordance with OMB A-102 and the grant requirements.

Status of Corrective Action

Implemented