

**CITY OF BELL, CALIFORNIA**

**SINGLE AUDIT REPORT**

**JUNE 30, 2015**

CITY OF BELL, CALIFORNIA

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

To the Honorable Mayor and Members of the City Council  
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, (the City) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated January 19, 2016.

#### **Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies to be material weaknesses, which are identified in the findings of questions costs as 2015-001.

#### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed the following instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.





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

**Noncompliance- Report not filed to HCD:** We identified an instance of noncompliance related to non-submittal of the Housing and Community Development (HCD) annual report. Section 65400 of the Government Code states if the Housing Successor is a City or County it will provide by April 1 of each year an Annual Progress Report to the legislative body, the Office of Planning and Research, and the Department of Housing and Community Development (HCD). This must also be published on the City website. The annual report is to provide: 1) the status of the General plan and progress in its implementation, 2) the progress in meeting its share of regional housing needs determined pursuant to Section 65584 and local efforts to remove governmental constraints to the maintenance, improvement, and development of housing pursuant to paragraph (3) of subdivision (c) of Section 65583, and 3) the degree to which its approved general plan complies with the guidelines developed and adopted pursuant to Section 65040.2 and the date of the last revision to the general plan. The City of Bell failed to submit the HCD report due April 1, 2015. To date, the City has not submitted the HCD report.

**Management's Response**

Upon the permanent position of Community Development Director on board for the fiscal year 2015-16, the Housing and Community Development will follow HSC Section 65400 and comply to meet requirement.

**Noncompliance- Annual Report not filed timely:** The City of Bell's Housing Successor is required to produce an annual report and present it on a timely basis, to its legislative body, within six months of the end of the Housing Successor's fiscal year. The annual report is to be posted on the Internet Website as required by Subdivision (f) of Section 34176.1 of the HSC. The report is to provide the financial statements of the Housing Successor governmental fund in the City along with the excess surplus calculation and description of expenditures, transfers, interests in real property and activity in the Housing Successor Fund. The City of Bell failed to submit within six months after the end of the Housing Successor's fiscal year, deadline of December 31, 2014. The report was issued on January 5, 2015, which was five days after the deadline.

**Management's Response**

Due to system conversion of City and Agency financial system in fiscal year 2014-15 we had delay in issuance of the CAFR but we will be able to meet deadlines for future years.

**City's Response to Findings**

The City's response to the findings identified above and in the schedule of findings and questions costs was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.



CPAs AND ADVISORS

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

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City'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 City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Lance, Soll & Lughard, LLP*

Brea, California  
January 19, 2016



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND  
ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES  
OF FEDERAL AWARDS REQUIRED BY OMB CIRCULAR A-133,

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

**Report on Compliance for Each Major Federal Program**

We have audited the City of Bell, California (the City)'s 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 programs for the year ended June 30, 2015. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with 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 each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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 each major federal program. However, our audit does not provide a legal determination of the City's compliance.

***Opinion on Each Major Federal Program***

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.



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

### **Report on Internal Control over Compliance**

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with 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 the City's internal control over compliance.

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

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

The City's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

### **Report on the 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 of Bell, California, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated January 19, 2016, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for the 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 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



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

accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

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.

*Lance, Solt & Lughard, LLP*

Brea, California

February 23, 2016 (except for the Schedule of Expenditures of Federal Awards which is as of January 19, 2016)

CITY OF BELL

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
<u>U.S. Department of Housing and Urban Development</u>			
Passed through the Community Development Commission of the County of Los Angeles			
Community Development Block Grants/Entitlement Grants*	14.218	D96061-14	\$ 174,387
		D96065-14	69,143
		600511-14	8,882
		D96069-14	131,050
		D99075-14	117,890
		601586-12	4,670
		601666-13	393,352
<b>Total U.S. Department of Housing and Urban Development</b>			<b>899,374</b>
<u>U.S. Department of Treasury</u>			
Direct Program:			
Federal Asset Forfeitures	21.000	CA0190700	244,836
<b>Total U.S. Department of Transportation</b>			<b>244,836</b>
<u>U.S. Department of Homeland Security</u>			
Passed through the County of Los Angeles:			
Homeland Security Grant Program	97.067	2011-0077	76,165
<b>Total U.S. Department of Homeland Security</b>			<b>76,165</b>
<b>Total Federal Expenditures</b>			<b>\$ 1,220,375</b>

\* Major Program

Note a: Refer to Note 1 to the schedule of expenditures of federal awards for a description of significant accounting policies used in preparing this schedule.

Note b: There was no federal awards expended in the form of noncash assistance and insurance in effect during the year.

Note c: Total amount provided to subrecipients during the year was \$0.

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2015**

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**Note 1: Summary of Significant Accounting Policies Applicable to the Schedule of Expenditures of Federal Awards**

**a. Scope of Presentation**

The accompanying schedule presents only the expenditures incurred by the City of Bell, California, that are reimbursable under federal programs of federal financial assistance. For the purposes of this schedule, federal awards include both federal financial assistance received directly from a federal agency, as well as federal funds received indirectly by the City from a non-federal agency or other organization. Only the portion of program expenditures reimbursable with such federal funds is reported in the accompanying schedule. Program expenditures in excess of the maximum federal reimbursement authorized or the portion of the program expenditures that were funded with state, local or other non-federal funds are excluded from the accompanying schedule.

**b. Basis of Accounting**

The expenditures included in the accompanying schedule were reported on the modified accrual basis of accounting. Under the modified accrual basis of accounting, expenditures are incurred when the City becomes obligated for payment as a result of the receipt of the related goods and services. Expenditures reported included any property or equipment acquisitions incurred under the federal program.

**c. Relationship to City 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.

**d. 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 balances with continuing compliance requirements is \$314,393.



**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2015**

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**SECTION II - FINANCIAL STATEMENT FINDINGS**

**2015-001: Material Journal Entries**

*Criteria*

An organization should have a system of internal controls, which are suitable designed to allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements of the City's financial statement on a timely basis. Formal written policies and procedures are an 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 amongst 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*

In performing our audit procedures, there were adjusting entries recorded by the auditing staff to report account balances accurately. A material journal entry was recommended and adjustments were made relating to depreciation of the City's capital assets.

*Recommendation*

We recommend quarterly and annually reconciliations of complex accounting areas, such as capital assets, insurance reserves and grant reporting to the supporting documentation and general ledger prior to the audit. In addition, we recommend the City to perform periodic monitoring reviews to determine that the controls are functioning as intended. 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.

*Management Response and Corrective Action*

The City will modify existing procedures to expand the reconciliation of complex accounting areas to supporting documentation and to the general ledger quarterly and annually prior to the audit.

*Expected Completion Date and Contact Information*

The City plans on being in complete compliance with all controls weaknesses by at least FY 2016.

Responsible parties for corrective action are:

- a. Hector Vazquez, Accounting Manager

**CITY OF BELL**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2015**

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**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

No matters were reported.

**SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2014**

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**SECTION II – 2014 FINANCIAL STATEMENT FINDINGS**

2014-001 Internal Controls over Significant Accounting Procedures

*Criteria*

An organization should have a system of internal controls, which are suitable designed to allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements of the City's financial statement on a timely basis. Formal written policies and procedures are an 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 amongst 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*

We have identified the following material weaknesses in internal controls during our audit:

1. Liabilities and Cash Disbursements:
  - a. There is a lack of segregation of duties within the Finance Department. The cash disbursement system is accessible via a password; however, the password is shared with 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.
2. 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.
3. Loans Receivable and Deposits Payable:
  - a. The City is not monitoring the terms of loans receivable in the Low and Moderate Housing Fund, and deposits payable resulting from rental agreements. They are not aware of payment terms, interest earned, or amounts collected and payable to renters. As a result, loan receivable and deposits payable balances may not accurately reflect City assets and obligations, respectively, as of June 30, 2014.

**SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2014**

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**SECTION II – 2014 FINANCIAL STATEMENT FINDINGS (CONTINUED)**

4. Salaries, Employee Benefits and Compensated Absences:
- a. The City is allocating employee salaries, wages and related benefits expenditures to governmental funds based on budgetary amounts and not actual costs incurred. Pursuant to government accounting standards, costs allocated to funds should be based on actual costs.
  - b. The City did not maintain personnel files for some retirees. As a result, census information for those retirees could not be verified as it relates to retiree pension calculations.

*Recommendation*

We recommend that the City take immediate action to implement the policies and procedures that the Finance Department developed to address the material weaknesses noted above. In addition, we recommend the City to perform periodic monitoring reviews to determine that the controls are functioning as intended. 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.

*Management Response and Corrective Action*

The City implemented a new accounting ERP system in July of 2014, at the beginning of Fiscal Year 2015, replacing technology purchased in 1986. Given this timing of implementation, the material weaknesses concerning liabilities and cash disbursements, cash handling and allocation of personnel costs during the 2014 audit year in question could not be corrected. They have been corrected in Fiscal Year 2015. With regard to loans receivable in the Low and Moderate Housing Fund, the City is in possession of promissory notes and other documents pertaining to outstanding loans. The City's commitment to correcting this area of weakness is addressed in part by the addition of a housing manager position to its table of organization in Fiscal Year 2015. The housing manager will assist Finance Department staff in creating loan monitoring procedures during FY 2015.

*Expected Completion Date and Contact Information*

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

Responsible parties for corrective action are:

- b. Josh Betta, Finance Director
- c. Hector Vazquez, Accounting Manager

*Status*

The above mentioned item has been corrected as of June 30, 2015.

**SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2014**

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**SECTION II – 2014 FINANCIAL STATEMENT FINDINGS (CONTINUED)**

**COMPLIANCE AND OTHER MATTERS**

**Finding 2014-002: 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:

1. Pursuant to HSC section 34177, the City of Bell, acting as the Successor Agency to the Former Redevelopment Agency, must submit a *Recognized Obligation Payments Schedule (ROPS)* every six months for the succeeding six months of legal obligations that must be paid using RPTTF monies. The City, acting as the Successor Agency to the Former Redevelopment Agency, must pay those obligations in a manner prescribed in the ROPS, pursuant to HSC section 34177. During our audit, we noted that the City deposited RPTTF monies received from the State of California in January 2013, and deposited such monies into the City's General Checking Account and not the dedicated account of the Successor Agency. The City eventually repaid the Successor Agency in February 2014.

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.

2. The City did not comply with reporting provisions of the indentures for the 2003 Tax Allocation Bonds and the 2007 Taxable Revenue Bonds for the fiscal year ended June 30, 2014. These bond covenants require that the City's audited financial statements be issued within 180 days after the fiscal year end. In addition, 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.
3. 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

**SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2014**

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**SECTION II – 2014 FINANCIAL STATEMENT FINDINGS (CONTINUED)**

the purchased of ARSC. However, the determination on the remaining purchases of ARSC is pending.

4. 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*

Management is working with legal counsel on the non-compliance litigations noted above. The outcome is unknown at this time. The bond covenant compliance finding is known by management and each audit year is getting closer and closer to be reported timely. Management is expecting the CAFR to be filed timely in fiscal year 2015. The information technology matter is known by management and has been addressed. On July 14, 2014, the Finance Department implemented a new financial software system that will provide the securities, controls, and financial batch processing needed. A new consultant was obtained for the computer monitoring and processes and contractual relationship has been implemented in Fiscal Year 2015. As such, this matter has been addressed in the new fiscal year.

*Status*

No such items were noted as of June 30, 2015.

CITY OF BELL

SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2014

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SECTION II – 2014 FINANCIAL STATEMENT FINDINGS (CONTINUED)

SIGNIFICANT DEFICIENCY

**Finding 2014-003: Fund Balance Restatements**

*Criteria*

Financial statement closing procedures should be designed and followed in a manner that allows the Finance Department to accurately identify financial statement misstatements in a timely manner. The financial statement closing process should include such procedures that allows the Finance Department to accurately reconcile the general ledger balances to sub-ledger information. This includes, not limited to, capital asset sub-ledger information verified through taking a physical inventory of those assets on a periodic basis.

*Condition, Cause and Effect*

During the fiscal year ended June 30, 2014, the City restated the Governmental Activities net position to correct the carrying amounts of Construction in Progress and Storm Drain capital accounts. These restatements were done to correct errors in accounting policies and practices identified by management.

*Recommendation*

We recommend that the Finance Department, as part of their closing procedures, ensure that all asset and liability balances are fully reconciled from sub-ledger information to the accounting general ledger. This will include ensuring a periodic physical inventory is performed to verify the existence of capital assets depicted on the City's capital asset sub-ledgers.

*Management's Response and Corrective Action Plan*

Management agrees with this audit finding and will continue to improve the City's accounting policies and procedures.

*Status*

No such items were noted as of June 30, 2015.

**CITY OF BELL**

**SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2014**

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**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

**US Department of Housing and Urban Development**

Program Name: Community Development Bloch Grant (CDBG)

CFDA # 14.218

Grant No. D96061-13, D96065-13, D96069-13, 601556-12

**Finding 2014-004 – Labor Hours**

**SIGNIFICANT DEFICIENCY**

*Allowable Cost/Cost Principals*

*Criteria*

Pursuant to OMB Circular A-87 and A-112, allowable costs must be appropriately documented and supported in order for the City to request reimbursement of those costs from federal funding sources.

*Condition, cause and effect*

The City did not implement reconciliation and monitoring procedures to ensure that hours being charged to programs accurately agree to timecards. As a result, several employees with payroll charged to the Community Development Block Grant programs had hours recorded on their timesheets that do not agree to the labor analysis reports reported to the Los Angeles County Community Development Commission. Even though the funding source approved the costs, the City did not update and reconcile its supporting information.

*Questioned Costs*

None

*Recommendation*

We recommend that the City implement procedures to ensure that all costs being charged to federal grants are properly reviewed and reconciled to supporting documentation prior to request for reimbursement.

*Corrective Action Plan and Responsible Person(s)*

The City's former computerized accounting system, originally purchased in 1986 and unmodified thereafter, did not allow one computing module to communicate with the general ledger of accounts. In this manner, hours of work represented on employee timecards, when paid through the payroll module, were accumulated in a payroll suspension account until distribution was created to line item accounts via journal entry. This system of distribution was premised on employee allocation documented on personnel action forms, but, by its nature, was effectuated by estimate of time worked, not actual hours worked. Deviations in terms of hours worked could not be recognized as a result.

In July 2014, the City implemented a new automated accounting system, replacing the antiquated technology described above. Hours worked as reflected on employee timecards are now reflected accurately on labor distributions and within the general ledger of accounts. In addition, contractual support for CDBG compliance within the City of Bell has been transitioned during FY 2015 to a more highly-qualified contractor, and supervision of this function has been transferred from the City's Community Services Department to the Community Development Department. Said contractor, Community Development Department representatives and Finance Department representatives have collaborated to develop reconciliation and monitoring procedures that will allow for accurate updating and reconciliation of information going forward.

**CITY OF BELL**

**SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2014**

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**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)**

Responsible parties for corrective action are:

- a. Josh Betta, Finance Director
- b. Hector Vazquez, Accounting Manager

*Status*

The above item has been corrected as of June 30, 2015.