

**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, 2014, 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 20, 2015.

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. We consider the following deficiencies to be material weaknesses:

Internal Controls over Significant Accounting Procedures

Liabilities and cash disbursements

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.



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Cash handling, cash receipts, receivables, bank reconciliations and investments

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.

Loans receivable and deposits payable

The City is not monitoring the terms of loans receivable in the Low and Moderate Housing Fund and deposits payable balances. The payment terms, interest earned, or amounts collected and repayments of deposited should be tracked individually on a monthly basis. As a result, loan receivable and deposits payable balances may not accurately reflect City assets and obligations, respectively, as of June 30, 2014.

Salaries, employee benefits and compensated absences

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.

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.

Management's Response: The City implemented a new accounting ERP system in July of 2014, at the beginning of Fiscal Year 2015. 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.

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 following deficiencies to be significant deficiencies:

Fund Balance Restatements

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.

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



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Compliance and Other Matters

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

Compliance

Health and Safety Code (HSC)

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.

Bond Covenant Arrangements

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.

Public Employee Retirement Law

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.

California State Business License Tax

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



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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.

Other Matters

Information Technology

During the audit of fiscal year ended June 30, 2014, it was noted that the City lacked the proper Information Technology Controls that a critical for ensuring the integrity of information systems. The City lacked the following controls:

- Formal policies and procedures for managing changes or development to the financial system,
- Physical security of network and server hardware,
- General and Application Access Controls such as separate, unique and complex access passwords, and
- Batching and interface capabilities

Management's response:

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. The Finance Department has purchased 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. This matter has been addressed in the new fiscal year.

City's Response to Findings

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Brea, California
January 20, 2015